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Notice to Hong Kong investors: *The Issuer and the Guarantor (each as defined below) confirm that the Bonds (as defined below) are intended for purchase by professional investors only (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as defined below)) and have been listed on the Hong Kong Stock Exchange on that basis. Accordingly, each the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*

Fine Perfection Investment Limited

(incorporated in the British Virgin Islands with limited liability)

(the "Issuer")

U.S.$230,000,000 Zero Coupon Guaranteed Exchangeable Bonds due 2022

(the "Bonds")

(Stock Code: 40647)

unconditionally and irrevocably guaranteed by

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED

(incorporated in Hong Kong with limited liability)

(the "Guarantor")

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 7 April 2021 (the "**Offering Circular**") appended hereto in relation to the Bonds. As disclosed in the Offering Circular, the Bonds are intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and have been listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

20 April 2021

As at the date of this announcement, the Sole Director of the Issuer is Mr. Lin Changsen; the Directors of the Guarantor are Dr. Hu Jianhua, Mr. Wang Cuijun, Dr. Wang Hong, Mr. Deng Renjie, Ms. Duan Xianghui, Mr. Zhou Song, Mr. Li Baian, Mr. Hong Xiaoyuan, Mr. Chu Zongsheng, and Mr. Li Yadong.

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IMPORTANT: You must read the following before continuing. The following applies to the offering circular (the "**Offering Circular**") following this page, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from the Issuer and the Guarantor (each as defined in the Offering Circular) as a result of such access.

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Confirmation of Your Representation: The Offering Circular is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Circular, you shall be deemed to represent to the Issuer, the Guarantor and the Joint Lead Managers (each as defined in the Offering Circular) that (1) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (2) you consent to delivery of the attached Offering Circular and any amendments or supplements thereto by electronic transmission.

You are reminded that the Offering Circular has been delivered to you on the basis that you are a person into whose possession the Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Offering Circular to any other person.

The materials relating to any offering of securities described in the Offering Circular do not constitute, and may not be used in connection with, an offer or solicitation by or on behalf of any of the Issuer, the Guarantor and the Joint Lead Managers (as defined in the Offering Circular) in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers are licensed brokers or dealers in that jurisdiction, the offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

The Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee (as defined in the terms and conditions of the bonds in the Offering Circular) or the Agents (as defined in the terms and conditions of the bonds in the Offering Circular or any director, officer, employee, affiliate, representative, adviser or agent of any of them or any person who controls each of them accepts any liability or responsibility whatsoever in respect of any difference between the Offering Circular distributed to you in electronic format and the hardcopy version available to you on request from the Joint Lead Managers.

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Fine Perfection Investment Limited

(incorporated under the laws of the British Virgin Islands with limited liability)

(as Issuer)

U.S.$230,000,000 Zero Coupon Guaranteed Exchangeable Bonds due 2022

unconditionally and irrevocably guaranteed by

China Merchants Holdings (Hong Kong) Company Limited

(incorporated in Hong Kong with limited liability)

(as Guarantor)

Issue Price: 100.00 per cent.

The U.S.$230,000,000 Zero Coupon Guaranteed Exchangeable Bonds due 2022 (the "**Bonds**") will be issued by Fine Perfection Investment Limited (the "**Issuer**") and unconditionally and irrevocably guaranteed (the "**Guarantee**") by China Merchants Holdings (Hong Kong) Company Limited (the "**Guarantor**"). The Issuer is a wholly-owned subsidiary of the Guarantor.

The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the terms and conditions of the Bonds (the "**Terms and Conditions of the Bonds**")) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. The Bonds will be issued in the specified denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Bonds do not bear interest. However, if the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under the Terms and Conditions of the Bonds, interest shall accrue on the overdue sum at the rate of 2 per cent. per annum from the due date until the earlier of (a) the day on which all sums due in respect of such Bonds up to but excluding that day are received by or on behalf of the relevant Bondholder and (b) the day falling seven days after the Trustee (as defined in the Terms and Conditions of the Bonds) or the Principal Paying Agent (as defined in the Terms and Conditions of the Bonds) has notified the relevant Bondholders of receipt of all sums due in respect of all of such Bonds up to but excluding that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under the Terms and Conditions of the Bonds). All payments of principal, premium (if any) and any default interest under Condition 5 (*Zero Coupon, Default Interest*) of the Terms and Conditions of the Bonds by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the British Virgin Islands (in the case of a payment by the Issuer), or Hong Kong (as defined in the Terms and Conditions of the Bonds) or the PRC (as defined in the Terms and Conditions of the Bonds) (in the case of a payment by the Guarantor) or, in any such case, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law to the extent described in Condition 10 (*Taxation*) of the Terms and Conditions of the Bonds.

Each Bondholder has the right, subject to any applicable laws and regulations and in the manner as described in the Terms and Conditions of the Bonds, to exchange a Bond at any time during the Exchange Period (as defined in the Terms and Conditions of the Bonds) for a *pro rata* share of the Exchange Property (as defined in the Terms and Conditions of the Bonds) as at the relevant Exchange Date (as defined in the Terms and Conditions of the Bonds). The right of a Bondholder to exchange a relevant Bond for Exchange Property is referred to herein and in the Terms and Conditions of the Bonds as the Exchange Right. The Exchange Property shall initially comprise 103,488,035 ordinary H-shares of par value of RMB1.00 each of China International Marine Containers (Group) Co., Ltd. ("**CIMC**") (Stock code: 2039) (the "**Shares**"), and shall include all Relevant Securities (as defined in the Terms and Conditions of the Bonds) and other property arising out of or derived or resulting therefrom and such other property, as may be deemed or required to comprise all or part of the Exchange Property pursuant to the Terms and Conditions of the Bonds, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property. On the exercise of Exchange Rights, Bondholders will initially be entitled to receive 89,989.5954 Shares for each U.S.$200,000 in principal amount of the Bonds (subject to adjustment pursuant to the Terms and Conditions of the Bonds). The Shares are listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Unless previously redeemed, exchanged or purchased and cancelled, the Issuer will redeem the Bonds at 100.00 per cent. of their principal amount on 17 April 2022. The Bonds will be subject to redemption, in whole but not in part, at their principal amount, at the option of the Issuer at any time in the event of certain changes affecting taxes of the British Virgin Islands, Hong Kong or the PRC or, in any such case, any political subdivision or any authority thereof or therein having power to tax. The holder of any Bond will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some only, of such Bondholder's Bonds on the Relevant Redemption Event Put Date (as defined in the Terms and Conditions of the Bonds) at 101 per cent. of their principal amount following the occurrence of a Relevant Redemption Event (as defined in the Terms and Conditions of the Bonds).

For a more detailed description of the Bonds, see "*Terms and Conditions of the Bonds*".

Investing in the Bonds involves risks, including but not limited to risks associated with the exchangeable features of the Bonds, and there are various other risks relating to the Bonds, the Exchange Property, the Group, their business and their jurisdictions of operations which investors should familiarise themselves with before making an investment in the Bonds. See "*Risk Factors*" beginning on page 15 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

The Bonds, the Guarantee and the Shares to be delivered upon exchange of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds and the Shares to be delivered upon exchange of the Bonds are being offered and sold only outside the United States in reliance on Regulation S under the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds, the Shares to be delivered upon exchange of the Bonds and the distribution of this Offering Circular, see "*Subscription and Sale*".

Application will be made to the Hong Kong Stock Exchange for the listing of the Bonds by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) ("**Professional Investors**") only. This document is for distribution to Professional Investors only.

Notice to Hong Kong investors: The Issuer and the Guarantor confirm that the Bonds are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer and the Guarantor confirm that the Bonds are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.

The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Bonds on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Bonds or the Issuer or Guarantor, where applicable or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

UK PRIIPs REGULATION/PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**"); (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore SFA Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore) (the "**SFA**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

The Bonds will be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about 19 April 2021 (the "**Issue Date**") with, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). Beneficial interests in the Global Certificate will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the Global Certificate, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

UBS **Huatai International**

Joint Lead Managers and Joint Bookrunners

China Merchants Securities (HK)

Offering Circular dated 7 April 2021

IMPORTANT NOTICE

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange for the purpose of giving information with regard to the Issuer and the Guarantor. Each of the Issuer and the Guarantor accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular.

Each of the Issuer and the Guarantor, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Guarantor and its subsidiaries taken as a whole (the "**Group**"), the Guarantee, the Bonds and the Exchange Property which is material in the context of the issue and offering of the Bonds (including all information required by applicable laws and the information which, according to the particular nature of the Issuer, the Guarantor, the Bonds, the Guarantee and the Exchange Property, is necessary to enable investors and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Issuer and the Group and the rights attaching to the Guarantee and the Bonds); (ii) the statements of fact contained in this Offering Circular relating to the Issuer, the Guarantor and the Group, are true and accurate in all material respects and not misleading as of the date thereof; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer, the Guarantor and the Group are honestly and reasonably held, have been reached after reasonable consideration of all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Guarantor, the Group, the Bonds, the Guarantee or the Exchange Property the omission of which would, in the context of the issue and offering of the Bonds, make any statement, opinions or intentions expressed in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer and the Guarantor to ascertain such facts and to verify the accuracy of all such information and statements in this Offering Circular.

The Issuer and the Guarantor have prepared this Offering Circular solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of UBS AG Hong Kong Branch, Huatai Financial Holdings (Hong Kong) Limited and China Merchants Securities (HK) Co., Limited (the "**Joint Lead Managers**"), the Issuer or the Guarantor to subscribe for or purchase any of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the distribution of this Offering Circular in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the EEA, the UK, Hong Kong, PRC, Japan, Singapore and the British Virgin Islands, and to persons connected therewith. For a description of certain further restrictions on offers and sales of the Bonds, and distribution of this Offering Circular, see "*Subscription and Sale*". By purchasing the Bonds, investors represent and agree to all of those provisions contained in that section of this Offering Circular. This Offering Circular is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire Bonds. Distribution of this Offering Circular to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing and to make no photocopies of this Offering Circular or any documents referred to in this Offering Circular.

The information included in this Offering Circular regarding CIMC is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. The Issuer and the Guarantor have taken reasonable care in the compilation and reproduction of the information. However, none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee (as defined in the Terms and Conditions of the Bonds) or the Agents (as defined in the Terms and Conditions of the Bonds) or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them has independently verified such information. No representation or warranty, express or implied, is made or given by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be relied upon.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Guarantor, the Group, the Bonds and the Guarantee other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them. Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Guarantor, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them to subscribe for or purchase the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

None of the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them has independently verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made or given and no responsibility or liability is accepted, by the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them, as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular or any other information supplied in connection with the Bonds and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them that any recipient of this Offering Circular should purchase the Bonds. Each person receiving this Offering Circular acknowledges that such person has not relied on the Joint Lead Managers, the Trustee, the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them in connection with its investigation of the accuracy of such information or its investment decision, and each such person must rely on its own examination of the Issuer, the Guarantor and the Group and the merits and risks involved in investing in the Bonds. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in the Bonds. The risks and investment considerations identified in this Offering Circular are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of the Bonds and should possess the appropriate resources to analyse such investment and the suitability of such investment in their particular circumstances.

To the fullest extent permitted by law, none of the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them accepts any responsibility for the contents of this Offering Circular or for any statement made or purported to be made by any of them or on their behalf in connection with the Issuer, the Guarantor, the Group or the Bonds. Each of the Joint Lead Managers, the Trustee and the Agents and each of their respective directors, officers, employees, affiliates, representatives, advisers and agents and each person who controls any of them accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them undertakes to review the results of operations, financial condition or affairs of the Issuer, the Guarantor or the Group during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Bonds of any information coming to the attention of the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them.

IN CONNECTION WITH THE ISSUE OF THE BONDS, UBS AG HONG KONG BRANCH (THE "STABILISATION MANAGER") (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY OVER-ALLOT BONDS OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISATION MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATIION MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS. ANY STABILISATION ACTION OR OVER-ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISATION MANAGER (OR ANY PERSON ACTING ON BEHALF OF THE STABILISATION MANAGER) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

In connection with the offering of the Bonds, the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor may act as investors and place orders, receive allocations and trade the Bonds for their own account and such orders, allocations or trading of the Bonds may be material. These entities may hold or sell such Bonds or purchase further Bonds for their own account in the secondary market or deal in any other securities of the Issuer or the Guarantor, and therefore, they may offer or sell the Bonds or other securities otherwise than in connection with the offering of the Bonds. Accordingly, references herein to the offering of the Bonds should be read as including any offering of the Bonds to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer or the Guarantor as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Bonds may be impacted.

Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisers as needed to make its investment decision and determine whether it is legally able to purchase the Bonds under applicable laws or regulations.

PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; and (ii) a customer within the meaning of Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently, no key information document required by the PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPS Regulation.

UK PRIIPs REGULATION/PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Singapore SFA Product Classification – Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Bonds are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

Except as otherwise indicated in this Offering Circular, all non-company specific statistics and data relating to the industries in which the Group operates in and the economic development of certain regions within the PRC have been extracted or derived from publicly available information and industry publications. The information has not been independently verified by the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls of them, and none of the Issuer, the Guarantor, the Joint Lead Managers, the Trustee or the Agents or any of their respective directors, officers, employees, affiliates, representatives, advisers or agents or any person who controls any of them make any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to "**U.S.$**" and to "**U.S. dollars**" are to United States dollars; all references to "**HK$**" and "**Hong Kong dollars**" are to Hong Kong dollars; all references to "**Renminbi**", "**CNY**" and "**RMB**" are to the currency of the PRC; all references to "**United States**" or "**U.S.**" are to the United States of America; references to "**China**", "**Mainland China**" and the "**PRC**" in this Offering Circular are to the People's Republic of China and for geographical reference only (unless otherwise stated) exclude Taiwan, Macau and Hong Kong; references to "**PRC Government**" are to the government of the PRC; references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China; references to "**Macau**" are to the Macau Special Administrative Region of the People's Republic of China; and all references to the "**United Kingdom**" are to the United Kingdom of Great Britain and Northern Ireland.

In this Offering Circular, "**DWTs**" means deadweight tonnes, being the maximum weight of cargo and supplies that can be carried by a ship, expressed in metric tonnes (1,000 kg) and "**TEUs**" means twenty-foot equivalent units.

The contents of this Offering Circular have not been reviewed by any regulatory authority in Hong Kong. Investors are advised to exercise caution in relation to the offer. If any investor is in any doubt about any of the contents of this Offering Circular, that investor should obtain independent professional advice.

FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*Description of the Group*" and elsewhere in this Offering Circular constitute "*forward-looking statements*". The words including "*believe*", "*expect*", "*plan*", "*anticipate*", "*schedule*", "*estimate*" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategies, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Issuer and the Guarantor expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's, the Guarantor's or the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's or the Guarantor's expectations. All subsequent written and forward-looking statements attributable to the Issuer or the Guarantor or persons acting on behalf of the Issuer or the Guarantor are expressly qualified in their entirety by such cautionary statements.

PRESENTATION OF FINANCIAL INFORMATION

As at the date of this Offering Circular, the Issuer has not made publicly available and does not propose to make publicly available, any financial statements. This Offering Circular contains audited consolidated financial statements of the Guarantor as at and for the years ended 31 December 2018 (the "**2018 Consolidated Financial Statements**") and 2019 (the "**2019 Consolidated Financial Statements**"). See "*Index to Financial Statements of the Guarantor*". These financial statements of the Guarantor were prepared and presented in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants. See "*General Information*" for a description of the financial statements currently published by the Guarantor.

The Guarantor has applied certain new standards and amendments made to HKFRS in the 2019 Consolidated Financial Statements as detailed in the "*Notes to the Consolidated Financial Statements for the year ended December 31, 2019 – 2. Application of New and Amendments to Hong Kong Financial Reporting Standards*" in the notes accompanying the 2019 Consolidated Financial Statements on pages F- 17 to F-25. The Guarantor has applied certain new standards and amendments made to HKFRS in the 2018 Consolidated Financial Statements as detailed in the "*Notes to the Consolidated Financial Statements for the year ended December 31, 2018 – 2. Application of New and Revised Hong Kong Financial Reporting Standards*" in the notes accompanying the 2018 Consolidated Financial Statements on pages F-190 to F-203. The Guarantor has also restated certain line items in the Guarantor's consolidated financial statements as at and for the year ended 31 December 2017 included in the 2018 Consolidated Financial Statements as a result of a business combination involving entities under common control as detailed in the "*Notes to the Consolidated Financial Statements for the year ended December 31, 2018 – 3. Basis of Preparation and Significant Accounting Policies – Restatement of the consolidated financial statements due to a business combination involving entities under common control*" in the notes accompanying the 2018 Consolidated Financial Statements on pages F-204 to F-208.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.

Overview

China Merchants Holdings (Hong Kong) Company Limited (the "**Guarantor**") is a wholly owned subsidiary of CMG and the primary overseas platform of CMG for executing CMG's business strategy.

CMG is one of the PRC's key state-owned enterprises ("**SOE**") under the direct supervision of the State owned Assets Supervision and Administration Commission of the State Council of the PRC ("**SASAC**"). Established in 1872, CMG is the first national enterprise in China's modern history and the forerunner of China's national industry and commerce. CMG is currently one of the four major PRC SOEs headquartered in Hong Kong, and one of the key enterprises directly supervised by the central government of the PRC. CMG has been rated an "A-grade SOE" by SASAC consistently since the establishment of SASAC and, including the financial results of CM Bank, was the most profitable SOE in 2019, ranking first in terms of total assets among all the SOEs in 2019. CMG has been one of the eight "Level-A" state-owned enterprises for 16 consecutive years and a "High Performance Enterprise" for five consecutive years. CMG's core operations include transportation, port operation and management, roads, energy transport, logistics, ship repair, marine engineering, financial investment and management and property development and management in the PRC, Hong Kong, Southeast Asia and other emerging markets.

On 14 July 2016, SASAC named CMG as one of seven state-owned enterprises which will pilot reforms in ownership, management and supervision. The objective is to make SASAC a stakeholder, rather than a manager of a state-owned enterprise so as to increase managerial and operational efficiency, so that SASAC can focus on asset management rather than direct management of these enterprises.

The Guarantor was established in 1987 in order to consolidate CMG's overseas subsidiaries and has been an integral part of CMG's transformation and expansion since the commencement of its operations. Over the years, its assets and businesses have continued to grow through reorganisations, capital injections and acquisitions. The Guarantor accounted for approximately 51.5 per cent. of CMG's total consolidated assets as at 31 December 2019 and 18.7 per cent. of CMG's consolidated revenue for the year ended 31 December 2019.

The Guarantor is a holding company for a portfolio of high quality and well established businesses that benefit from the economic growth of the PRC. Its key business segments are: ports and related services, financial services business, shipping and related services, logistics and related services and property rental and related management services.

- *Ports and related services*: The Guarantor's key subsidiary, CMPort is a leading port operator in the PRC and overseas markets. CMPort manages an extensive network of ports and is experienced in creating synergy with the use of information technology, advanced engineering management and comprehensive marine logistic support. CMPort's port network is strategically located in gateway hubs within the PRC that are closely aligned with the PRC's economic needs, and has also expanded overseas.

- *Financial services:* The Group provides a broad range of financial services in the PRC and Hong Kong primarily through CM Securities which was one of the top ten securities companies in China by net profit as at 30 September 2020. CM Securities originated as part of CM Bank, managing CM Bank's securities businesses. CM Securities was separately incorporated in August 1993. As at

31 December 2019, CMG, through China Merchants Steam Navigation Co., Ltd. ("**CM Steam Navigation**"), which holds 100 per cent. of the shares of the Guarantor, indirectly held a 44.09 per cent. interest in CM Securities.

- *Shipping and related services, logistics and related services and property rental and related management services:* These business segments consist of unlisted and mostly wholly owned subsidiaries which complement the Group's core businesses.

  The Group's substantial investments in these business segments are:

  - Ship repair: The Group's wholly owned subsidiary China Merchants Industry Holdings Co., Ltd. ("**CM Industry**") is one of the largest repairers of offshore oil rigs, oil tankers and container ships in the PRC and Hong Kong. It owns the "Yiu Lian Shipyard" brand and "China Merchants Heavy Industry" brand. Yiu Lian Shipyard possesses the largest ship repair operation and the second largest tugboats fleet in Hong Kong, providing 24 hours a day non-stop service in harbour towage for all vessels anchored in Hong Kong;

  - Marine engineering: The Group, primarily through CM Industry, undertakes heavy industry marine engineering and specialty ship building (including drilling, repair and other specialty platforms). As at 31 December 2019, CM Industry is wholly owned by the Guarantor; and

  - Maritime products trading: The Group imports and exports and supplies vessel and port-related machinery and parts, communications and navigation equipment and accessories and other materials for shipowners, shipyards and ports in the PRC.

Key Competitive Strengths of the Group

The Group believes that it has the following competitive strengths:

- A top-tier government owned enterprise;
- Legacy and trusted recognition of the "China Merchants" brand;
- High-quality and well-established businesses with leading market positions;
- Complementary businesses with resilient cash flow generation;
- Multi-channel and sustainable funding sources, prudent and efficient financial and risk management with healthy balance sheet; and,
- Experienced and respected management team.

Strategies of the Group

The overall goal of the Guarantor is to continue to enhance the Group's leadership position in its existing core businesses and increase its global competitiveness. As an integral part of achieving this overall goal, the Guarantor aims to achieve significant growth in each of its core business segments by employing the following strategies:

- Continue to enhance the Group's market positions;
- Improve cost control, enhance operating efficiency and simplify the Group's corporate structure;
- Continue to strengthen talent pool and foster a culture of innovation; and,
- Strengthen corporate governance and risk management across all businesses.

SUMMARY FINANCIAL INFORMATION OF THE GUARANTOR

The summary financial information set forth below has been extracted from, or prepared based on, the Guarantor's 2018 Consolidated Financial Statements and 2019 Consolidated Financial Statements, which have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants. The information set forth below should be read in conjunction with, and is qualified in its entirety by reference to, the relevant consolidated financial statements of the Guarantor, including the notes thereto, included elsewhere in this Offering Circular. The Guarantor's consolidated financial statements are prepared and presented in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants.

The Guarantor has applied certain new standards and amendments made to HKFRS in the 2019 Consolidated Financial Statements as detailed in the "Notes to the Consolidated Financial Statements for the year ended 31 December 2019 – 2. Application of New and Amendments to Hong Kong Financial Reporting Standards" in the notes accompanying the 2019 Consolidated Financial Statements on pages F-17 to F- 25. The Guarantor has applied certain new standards and amendments made to HKFRS in the 2018 Consolidated Financial Statements as detailed in the "Notes to the Consolidated Financial Statements for the year ended 31 December 2018 – 2. Application of New and Revised Hong Kong Financial Reporting Standards" in the notes accompanying the 2018 Consolidated Financial Statements on pages F-190 to F-203. The Guarantor has also restated certain line items in the Guarantor's consolidated financial statements as at and for the year ended 31 December 2017 included in the 2018 Consolidated Financial Statements as a result of a business combination involving entities under common control as detailed in the "Notes to the Consolidated Financial Statements for the year ended 31 December 2018 – 3. Basis of Preparation and Significant Accounting Policies – Restatement of the consolidated financial statements due to a business combination involving entities under common control" in the notes accompanying the 2018 Consolidated Financial Statements on pages F-204 to F-208.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the year ended 31 December		
	2019	**2018**	**2017**
	RMB'000	*RMB'000*	*RMB'000 (restated)*
Revenue			
– Goods and services	40,913,759	31,626,570	44,403,122
– Lease income	2,179,587	1,436,310	675,039
– Interest income	9,324,761	8,637,554	6,718,349
– Gross insurance written premiums and policy fee	10,762,757	3,329,752	628,284
	63,180,864	45,030,186	52,424,794
Direct costs	(45,343,897)	(30,322,735)	(37,876,715)
Gross profit	17,836,967	14,707,451	14,548,079
Distribution and selling expenses	(4,793,620)	(4,708,502)	(4,245,453)
General and administrative expenses	(9,275,251)	(5,940,660)	(5,097,935)
Finance costs, net	(4,769,541)	(4,139,148)	(2,118,025)
Share of results of:			
– associates	17,404,309	15,831,416	10,643,381
– joint ventures	1,215,157	1,022,154	572,550
Gain on deemed disposal of an available-for-sale investment	–	–	44,565,513
Net income, gains and losses from other investments	10,649,760	4,058,236	6,322,711
Other gains and losses, net	3,142,637	(685,746)	(5,977,595)
Impairment losses, under expected credit loss model, net of reversal	(2,339,869)	(3,620,894)	(503,709)
Profit before tax	29,070,549	16,524,307	58,709,517
Income tax expense	(5,327,238)	(2,577,156)	(2,300,174)
Profit for the year	**23,743,311**	**13,947,151**	**56,409,343**

	For the year ended 31 December		
	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000 (restated)*
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures	(1,034,254)	(411,360)	(189,334)
Debt instruments classified as fair value through other comprehensive income:			
– Fair value changes during the year, net of deferred taxation	21,293	564,024	–
– Reclassification adjustment upon disposal, net of deferred taxation	–	16,847	–
Available-for-sale investments:			
– Fair value changes during the year, net of deferred taxation	–	–	18,210,645
– Reclassification adjustment upon deemed disposal, net of deferred taxation	–	–	(33,943,294)
– Reclassification adjustment upon disposal, net of deferred taxation	–	–	316,257
Cash flow hedges:			
– Fair value changes on effective hedging instruments arising during the year, net of deferred taxation	–	–	15,438
Associates and joint ventures:			
– Share of other comprehensive income of associates and joint ventures	208,202	1,313,801	90,477
Items that will not be reclassified subsequently to profit or loss:			
Equity instruments classified as fair value through other comprehensive income:			
– Fair value changes during the year, net of deferred taxation	(274,430)	(856,101)	–
Associates and joint ventures:			
– Share of other comprehensive income (expense) of associates and joint ventures	135,152	(97,355)	–
Net actuarial (loss) gain on defined benefit plans of subsidiaries	(21,511)	(20,137)	23,085
Other comprehensive (expense) income for the year, net of tax	**(965,548)**	**509,719**	**(15,476,726)**
Total comprehensive income for the year	**22,777,763**	**14,456,870**	**40,932,617**
Profit for the year attributable to:			
Owners of the Guarantor	14,817,684	9,691,960	49,388,557
Holders of Mandatory Convertible Securities ("**MCS**") issued by a subsidiary	–	–	132,112
Holders of Perpetual Capital Securities ("**PCS**") issued by a subsidiary	67,744	66,793	71,137
Holders of perpetual bonds issued by subsidiaries	834,199	802,090	592,196
Other non-controlling interests	8,023,684	3,386,308	6,225,341
	23,743,311	**13,947,151**	**56,409,343**
Total comprehensive income for the year attributable to:			
Owners of the Guarantor	14,701,879	10,119,730	33,394,181
Holders of MCS issued by a subsidiary	–	–	132,112
Holders of PCS issued by a subsidiary	67,744	66,793	71,137
Holders of perpetual bonds issued by subsidiaries	834,199	802,090	592,196
Other non-controlling interests	7,173,941	3,468,257	6,742,991
	22,777,763	**14,456,870**	**40,932,617**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	For the year ended 31 December		
	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000 (restated)*
NON-CURRENT ASSETS			
Investment properties	7,928,239	6,295,335	6,445,116
Property, plant and equipment	156,355,489	41,315,955	36,162,495
Right-of-use assets	46,345,567	–	–
Land use rights	–	12,356,225	12,034,730
Goodwill	9,444,034	7,948,009	3,853,094
Intangible assets	9,288,795	9,828,364	4,972,665
Interests in associates	184,333,168	160,508,075	146,983,775
Interests in joint ventures	14,010,121	12,887,152	9,178,855
Financial assets at fair value through profit or loss	25,452,522	23,952,474	–
Equity instruments at fair value through other comprehensive income	11,616,222	8,042,140	–
Debt instruments at fair value through other comprehensive income	108,281	94,181	–
Debt instruments at amortised cost	15,486,731	5,583,520	–
Available-for-sale investments	–	–	34,188,775
Financial assets held under resale agreements	2,421,261	5,277,749	9,298,958
Finance lease receivables	18,186,695	13,389,726	11,802,197
Other non-current assets	27,318,962	29,124,984	5,006,887
Deferred tax assets	1,684,173	1,191,237	1,128,257
	529,980,260	337,795,126	281,055,804
CURRENT ASSETS			
Inventories	16,963,892	3,819,433	16,182,100
Dividend receivables	888,654	439,695	393,041
Trade, bills and other receivables	22,013,480	13,134,227	17,328,237
Contract assets	7,983,048	9,284,822	–
Financial assets at fair value through profit or loss	150,732,317	104,941,794	73,346,509
Debt instruments at fair value through other comprehensive income	49,460,133	43,638,152	–
Debt instruments at amortised cost	94,601	47,587	–
Derivative financial instruments	1,807,060	1,153,275	1,024,979
Available-for-sale investments	–	–	18,512,117
Other current assets	765,783	152,517	104,776
Loans and advances to customers of securities dealing business	55,224,619	42,976,430	59,235,426
Deposits for securities dealing business	4,780,890	1,431,420	1,224,478
Financial assets held under resale agreements	33,574,599	28,488,738	28,361,801
Finance lease receivables	7,329,672	4,152,148	2,613,239
Bank balances held on behalf of customers	53,040,323	40,144,484	42,526,062
Bank deposits, bank balances and cash	64,158,036	39,448,515	41,137,413
	468,817,107	333,253,237	301,990,178
Non-current assets held for sale	188,404	115,356	–
	469,005,511	333,368,593	301,990,178
CURRENT LIABILITIES			
Trade, bills and other payables	88,922,311	71,496,523	59,720,464
Accounts payable to brokerage clients of securities dealing business	61,724,220	48,911,748	51,095,335
Placements from banks and other financial institutions	7,013,199	3,519,000	1,470,000
Financial assets sold under repurchase agreements	100,556,577	61,897,016	33,382,970
Borrowings – due within one year	131,102,952	92,782,065	107,947,675
Financial liabilities at fair value through profit or loss	9,332,079	7,804,967	5,492,509
Lease liabilities	2,945,029	–	–
Contract liabilities	365,147	281,347	–
Derivative financial instruments	2,223,010	1,308,309	1,588,990
	404,184,524	288,000,975	260,697,943
NET CURRENT ASSETS	**64,820,987**	**45,367,618**	**41,292,235**
TOTAL ASSETS LESS CURRENT LIABILITIES	**594,801,247**	**383,162,744**	**322,348,039**
NON-CURRENT LIABILITIES			
Borrowings – due after one year	186,154,378	117,010,581	86,874,111
Financial liabilities at fair value through profit or loss	2,157,877	2,404,123	–
Lease liabilities	7,238,818	–	–
Other non-current liabilities	38,867,496	21,780,531	13,163,620
Deferred tax liabilities	13,452,699	4,227,531	2,761,081
	247,871,268	145,422,766	102,798,812
NET ASSETS	**346,929,979**	**237,739,978**	**219,549,227**

	For the year ended 31 December		
	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000 (restated)*
CAPITAL AND RESERVES			
Share capital	15,467,445	15,467,445	5,467,445
Reserves	127,489,418	113,008,500	107,985,068
Equity attributable to owners of the Guarantor	142,956,863	128,475,945	113,452,513
Non-controlling interests	203,973,116	109,264,033	106,096,714
TOTAL EQUITY	**346,929,979**	**237,739,978**	**219,549,227**

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended 31 December		
	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000 (restated)*
OPERATING ACTIVITIES			
Profit before taxation	29,070,549	16,524,307	58,709,517
Adjustments for:			
Depreciation and amortisation	5,701,592	2,825,184	2,100,599
Net interest expenses	4,865,210	3,487,530	1,890,945
Dividend and interest income from investments	(5,423,834)	(3,999,782)	(6,219,323)
Net (gain) loss on disposal of:			
– AFS investments	–	–	(421,676)
– property, plant and equipment	53,828	17,076	(4,252)
– associates	–	(1,956,653)	(783)
– joint ventures	(3,921)	–	–
– debt instruments at amortised cost	25,306	–	–
– debt instruments at FVTOCI	(186,727)	22,463	–
– subsidiaries	(272,587)	6,004	–
Gain on deemed disposal of an AFS investment	–	–	(44,565,513)
Net gain on remeasurement of previously held interests upon acquisition of a subsidiary	(532,335)	–	–
Share of results of:			
– associates	(17,404,309)	(15,831,416)	(10,643,381)
– joint ventures	(1,215,157)	(1,022,154)	(572,550)
Fair value changes of:			
– financial assets and liabilities at FVTPL	(4,703,575)	1,907,978	426,129
– derivative financial instruments	432,631	(38,426)	(104,560)
Gain on deemed disposal of interest in an associate	–	–	(2,203)
Gain on deregistration of subsidiaries	–	–	(295)
Net impairment loss recognised (reversed) in respect of:			
– interest in an associate	–	–	640,586
– trade, bills and other receivables	286,518	243,968	410,271
– contract assets	196,371	3,197,471	–
– intangible assets	3,556	2,296	–
– debt instruments at FVTOCI	4,120	3,198	–
– debt instruments at amortised cost	(542)	7,096	–
– financial assets held under resale agreements	128,427	60,270	56,531
– finance lease receivables	187,707	49,853	45,897
– AFS investments	–	–	18,927
– loans and advances to customers of securities dealing business	(50,440)	59,038	(27,917)
– other non-current assets	1,587,708	–	–
– goodwill	2,911,158	–	–
– allowances for inventories	140,181	795,443	5,513,035
Operating cash flows before movements in working capital	15,801,435	6,360,744	7,249,984
Increase in financial assets at FVTPL	(39,693,508)	(35,698,194)	(24,275,286)
Increase in trade, bills and other receivables	(3,339,128)	(4,329,929)	(1,911,476)
Increase in finance lease receivables and related deposits	(7,793,043)	(2,789,395)	(14,819,187)
Increase (decrease) in accounts payable to brokerage clients of securities dealing business	12,812,472	(2,183,587)	(16,486,385)
Decrease (increase) in contract assets	1,164,116	(2,127,615)	–
(Increase) decrease in other non-current assets	(761,413)	(837,366)	207,026
Increase in derivative financial instruments	(171,715)	(363,395)	(59,778)
Increase in inventories	(3,524,087)	(438,535)	(999,464)
Increase in deposits for securities dealing business	(3,349,470)	(206,942)	(684,036)
Decrease in contract liabilities	(286,986)	(55,870)	–
Increase in restricted bank deposits for insurance business	(28,871)	(25,043)	(1,006,621)
(Increase) decrease in loans and advances to customers of securities dealing business	(12,197,749)	16,199,958	(5,855,971)
(Increase) decrease in financial assets held under resale agreements entered into by subsidiaries engaged in securities dealing business	(2,357,800)	3,834,002	(18,039,229)
(Increase) decrease in bank balances held on behalf of customers	(12,895,839)	2,381,578	7,800,924
Increase in financial liabilities at FVTPL	399,062	4,437,423	1,083,416
(Decrease) increase in trade, bills and other payables	(7,516,555)	5,460,380	1,152,233
Increase in financial assets sold under repurchase agreements entered into by subsidiaries engaged in securities dealing business	38,659,561	28,514,046	13,983,982
Decrease (increase) in placements from banks and other financial institutions	3,494,199	2,049,000	(30,000)

	For the year ended 31 December		
	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000 (restated)*
Decrease (increase) in restricted deposits placed with securities brokers	62,002	680,317	(548,385)
Decrease in clearing settlement funds held with clearing house for clients	1,757,796	143,640	7,441,876
Decrease in amounts due from customers for contract works	–	–	1,335,857
Net cash (used in) from operations	(19,765,521)	21,005,217	(44,460,520)
Taxation paid	(2,946,491)	(1,696,681)	(1,876,597)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(22,712,012)**	**19,308,536**	**(46,337,117)**
INVESTING ACTIVITIES			
Acquisition of debt instruments at FVTOCI	(41,527,444)	(50,780,481)	–
Deposit paid for acquisition of Liaoning Port	–	(20,000,000)	–
Investments in associates and joint ventures	(10,736,719)	(5,453,579)	(4,130,204)
Acquisition of subsidiaries (net of bank deposits, bank balances and cash acquired)	6,734,372	(4,571,949)	(1,969,843)
Consideration paid for acquisition of a subsidiary	–	(4,473,273)	–
Acquisition of property, plant and equipment	(20,418,466)	(2,923,436)	(2,375,048)
Acquisition of debt instruments at amortised cost	(6,649,759)	(2,913,756)	–
(Placement of) withdrawal from other restricted bank deposits	(1,022,621)	(1,022,072)	21,667
Placement of time deposits	(654,298)	(1,015,649)	(1,920,000)
(Advances to) repayments from joint ventures, net	(1,126,109)	(782,946)	537
Acquisition of land use rights	(169,207)	(685,149)	(699,519)
Acquisition of equity instruments at FVTOCI	(647,783)	(555,250)	–
(Placement of) withdrawal from structured bank deposits	(2,625,327)	(106,646)	153,370
Acquisition of investment properties	(101,737)	(36,008)	(4,021)
Acquisition of intangible assets	(5,270)	(23,156)	(50,370)
Acquisition of assets through acquisition of a subsidiary (net of bank deposits, bank balances and cash acquired)	–	(8,555)	–
Proceeds from disposal of debt instruments at FVTOCI	35,929,007	29,038,268	–
Dividends received from associates	6,065,788	5,044,318	1,724,842
Repayments from ultimate holding company, fellow subsidiaries and other related parties, net	451,166	3,490,996	2,353,891
Dividends received from financial assets at FVTPL	4,481,543	3,342,939	2,339,153
Proceeds from disposal of associates and joint ventures	6,954	3,081,971	82,163
Interest received	9,031,975	2,384,823	212,870
Dividends received from joint ventures	1,784,678	968,232	1,677,437
Dividends received from equity instruments at FVTOCI	503,566	610,189	–
Deposit received for capital injection of the Fund	–	–	653,422
(Advance to) repayment from associates, net	(1,478,131)	437,170	(1,359,362)
Proceeds from disposal of property, plant and equipment	197,631	233,889	66,308
Acquisition of AFS investments	–	–	(35,048,056)
Prepayments for acquisition of non-current assets	–	–	(24,062)
Proceeds from disposal of AFS investments	–	–	17,978,005
Dividends received from AFS investments	–	–	4,365,934
NET CASH USED IN INVESTING ACTIVITIES	**(21,976,191)**	**(46,719,110)**	**(15,950,886)**
FINANCING ACTIVITIES			
Borrowings raised	122,718,195	189,434,547	123,993,110
(Repayment to) advances from ultimate holding company, immediate holding company and fellow subsidiaries, net	(7,931,997)	14,041,080	7,204,094
Proceeds from issuance of shares	–	10,000,000	–
Proceeds from issuance of other perpetual bonds	2,159,937	–	–
Repurchase of share	(663,956)	–	–
Capital contributed by non-controlling interests of subsidiaries	22,132,308	2,419,175	7,011,710
Issue of shares by a subsidiary	2,212,829	–	–
(Repayment to) advances from associates, net	(256,306)	172,521	230,333
Advances from (repayment to) non-controlling shareholders of subsidiaries, net	16,435	18,759	(21,032)
Distributions to MCS holders	–	–	(132,112)
Repayments of borrowings	(66,492,235)	(179,165,566)	(76,013,108)
Interest paid	(2,979,777)	(3,553,843)	(3,073,120)
Consideration paid in respect of changes in interests in subsidiaries without loss of control	–	(4,164,752)	–
Dividends paid to non-controlling interests of subsidiaries	(3,225,267)	(3,557,896)	(3,648,009)
Advance from (repayment to) joint ventures, net	7,535	(51,821)	3,362
Distribution to PCS holders	(67,744)	(66,793)	(71,137)
Distributions to perpetual bonds holders	–	(802,090)	(592,196)
Proceeds from issue of PSB by a subsidiary	–	–	15,000,000

	For the year ended 31 December		
	2019	2018	2017
	RMB'000	*RMB'000*	*RMB'000 (restated)*
Repayment of capital contribution to a non-controlling shareholder	–	–	(12,324)
Repayments of lease liabilities	(523,665)	–	–
NET CASH FROM FINANCING ACTIVITIES	**67,106,292**	**24,723,321**	**69,879,571**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**22,418,089**	**(2,687,253)**	**7,591,568**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**27,298,235**	**29,316,937**	**21,950,081**
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**434,411**	**668,551**	**(224,712)**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**50,150,735**	**27,298,235**	**29,316,937**

THE OFFERING

The following is a brief summary of the terms of the Bonds and is qualified in its entirety by the remainder of this Offering Circular. For a detailed description of the Bonds, see the section entitled "Terms and Conditions of the Bonds". The terms and conditions of the Bonds prevail to the extent of any inconsistency set forth in this section. This summary is not intended to be complete and does not contain all of the information that is important to an investor. Phrases used in this summary and not otherwise defined shall have the meanings given to them in "Terms and Conditions of the Bonds".

Issuer	Fine Perfection Investment Limited
Guarantor	China Merchants Holdings (Hong Kong) Company Limited（招商局集團（香港）有限公司）
Issue	U.S.$230,000,000 Zero Coupon Guaranteed Exchangeable Bonds due 2022 exchangeable into a *pro rata* share of the relevant Exchange Property as at the relevant Exchange Date.
Issue Price	100.00 per cent. of the principal amount of the Bonds.
Form and Denomination .	The Bonds will be issued in registered form in the specified denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.
Interest and Interest Payment Dates	The Bonds will not bear any interest. However, if the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under the Terms and Conditions of the Bonds, interest shall accrue on the overdue sum at the rate of 2 per cent. per annum from the due date until the earlier of (a) the day on which all sums due in respect of such Bonds up to but excluding that day are received by or on behalf of the relevant Bondholder and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under the Terms and Conditions of the Bonds).
Issue Date	19 April 2021.
Maturity Date	17 April 2022.
Status of the Bonds	The Bonds will constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

Status of the Guarantee .	The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*) of the Terms and Conditions of the Bonds, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations. The Guarantor is a holding company, and accordingly, payments under the Guarantee are effectively subordinated to all existing and future liabilities of each of the Guarantor's subsidiaries (other than the Issuer). See "*Risk Factors – Risks relating to the Guarantor*".
Exchange Right	Each Bondholder has the right, subject to any applicable laws and regulations and in the manner described in the Terms and Conditions of the Bonds, to exchange a Bond at any time during the Exchange Period for a *pro rata* share of the Exchange Property as at the relevant Exchange Date. However, in the event of an Offer for any Relevant Securities, the Exchange Rights may be suspended as described in "*Terms and Conditions of the Bonds – General Offers*". In order to exercise Exchange Rights, investors must make the representations, warranties and undertakings, including with respect to certain restrictions on transfer which may apply to the Exchange Property (initially comprising the Shares) received upon exchange and with respect to certain restrictions on depositing any of such Shares in any unrestricted depositary receipt facility for the Shares which is existing or may be created in the United States, contained in the Exchange Notice described under "*Terms and Conditions of the Bonds – Exchange Right*".
Exchange Period	The period beginning on or after 30 May 2021 and up to the close of business (at the place where the Certificate representing the relevant Bond to be exchanged is deposited for exchange) on the date which falls 10 business days prior to the Maturity Date (or, if such date shall not be a business day at the place where the Certificate representing the Bond is to be delivered, the immediately preceding business day at such place) or if such Bond shall have been called for redemption prior to the Maturity Date, then up to the close of business at the place aforesaid on the date which falls 10 business days prior to the date fixed for redemption (or, if such date shall not be a business day at the place where the Certificate representing the Bond is to be delivered, the immediately preceding business day at such place).
Exchange Property.	The Exchange Property shall initially comprise 103,488,035 Shares of par value of RMB1.00 each and shall include all Relevant Securities and other property arising out of or derived or resulting therefrom and such other property, in each case as may be deemed or required to comprise all or part of the Exchange Property pursuant to the Terms and Conditions of the Bonds, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property pursuant to the Terms and Conditions of the Bonds.
Initial Exchange Ratio . .	On the exercise of Exchange Rights, Bondholders will initially be entitled to receive 89,989.5954 Shares for each U.S.$200,000 in principal amount of the Bonds, subject to adjustment pursuant to the Terms and Conditions of the Bonds.

Adjustment to the Exchange Property . . .	The Bonds will contain provisions for the adjustment of the Exchange Property in the event of the occurrence of certain events including, among others, subdivision, consolidation or redenomination, rights issues, bonus issues, capital distributions and reorganisations. The Bonds also contains provisions for the adjustment of the Exchange Property in relation to General Offers, as further described in Condition 7 (*General Offers*) of the Terms and Conditions of the Bonds.
Negative Pledge and Financial Covenants . .	The Bonds will contain a negative pledge provision and other covenants, each as further described in Condition 4 (*Covenants*) of the Terms and Conditions of the Bonds.
Events of Default	The Bonds will contain certain events of default provisions as further described in Condition 11 (*Events of Default*) of the Terms and Conditions of the Bonds.
Final Redemption.	Unless previously redeemed, exchanged or purchased and cancelled, the Bonds will be redeemed at 100.00 per cent. of their principal amount on the Maturity Date of the Bonds.
Redemption at the Option of the Issuer	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, by giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent in writing and to the Bondholders in accordance with Condition 18 *(Notices)* of the Terms and Conditions of the Bonds, at their principal amount: (i) at any time on or after 18 June 2021, provided that the Value of the Exchange Property on each of not less than 20 Trading Days in any period of 30 consecutive Trading Days the last day of which period occurs no more than five Trading Days immediately prior to the date on which the relevant notice of redemption is given by the Issuer to the Bondholders shall have exceeded 130 per cent. of the aggregate principal amount of the Bonds then outstanding; (ii) at any time if prior to the date on which the relevant notice of redemption is given by the Issuer less than 10 per cent. in principal amount of the Bonds originally issued (including any further bonds consolidated and forming a single series with the Bonds at such date) remain outstanding, as further described in Condition 8(b) (*Redemption at the Option of the Issuer*) of the Terms and Conditions of the Bonds.
Redemption for Taxation Reasons	The Bonds may be redeemed at the option of the Issuer in whole, but not in part, by giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent in writing and to the Bondholders in accordance with Condition 18 *(Notices)* of the Terms and Conditions of the Bonds, at their principal amount in the event of certain changes affecting taxes of the British Virgin Islands, the PRC or Hong Kong, as further described in Condition 8(c) (*Redemption for Taxation Reasons*) of the Terms and Conditions of the Bonds.
Redemption on Relevant Redemption Event . . .	At any time following the occurrence of a Relevant Redemption Event, the holder of any Bond will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Bonds at 101 per cent. of their principal amount, as further described in Condition 8(d) (*Redemption following the occurrence of a Relevant Redemption Event*) of the Terms and Conditions of the Bonds.

Taxation	All payments of principal, premium (if any) and any default interest under Condition 5 (*Zero Coupon, Default Interest*) of the Terms and Conditions of the Bonds by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the British Virgin Islands (in the case of a payment by the Issuer), or Hong Kong or the PRC (in the case of a payment by the Guarantor) or, in any such case, any political subdivision or authority therein or thereof having power to tax, unless such withholding or deduction is required by law, as further described in Condition 10 (*Taxation*) of the Terms and Conditions of the Bonds. In such event, the Issuer or, as the case may be, the Guarantor shall, subject to the limited exceptions specified in the Terms and Conditions of the Bonds, pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required.
Stamp Duty	The transfer of the Shares upon exchange are subject to stamp duty in Hong Kong. See also "*Risk Factors – The transfer of the Shares upon exchange is subject to stamp duty in Hong Kong.*"
Clearing Systems	The Bonds will be represented initially by a Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with, a common depositary for Euroclear and Clearstream. Beneficial interests in the relevant Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described in the Global Certificate, definitive certificates for the Bonds will not be issued in exchange for beneficial interests in the Global Certificate.
ISIN of the Bonds	XS2307591896.
Common Code of the Bonds	230759189.
Governing Law	The Bonds, the Guarantee, the Trust Deed and the agency agreement in relation to the Bonds (the "**Agency Agreement**") will be governed by and will be construed in accordance with the English law.
Trustee	The Bank of New York Mellon, London Branch.
Principal Paying Agent and Exchange Agent . .	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent.	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Listing	Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds by way of debt issues to Professional Investors only.

Further Issues	The Issuer may from time to time, without the consent of the Bondholders, create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date) so as to form a single series with the Bonds, as further described in Condition 17 (*Further Issues*) of the Terms and Conditions of the Bonds.
Use of Proceeds	See the section entitled "*Use of Proceeds*".

RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information contained in this Offering Circular, including the risks and uncertainties described below. The businesses, financial condition or results of operations of the Group could be materially and adversely affected by any of these risks. The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Bonds and the Guarantee. Additional considerations and uncertainties not presently known to the Issuer or the Guarantor, or which the Issuer or the Guarantor currently deems immaterial, may also have an adverse effect on an investment in the Bonds. All of these factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with an investment in the Bonds are also described below. The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Bonds, but the inability of the Issuer (failing whom, the Guarantor) to repay principal, pay interest or other amounts or fulfil other obligations on or in connection with the Bonds may occur for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding the Bonds are exhaustive.

RISKS RELATING TO THE ISSUER

The Issuer is a special purpose company with no business activities of its own and will be dependent on funds from the Guarantor to make payments under the Bonds

The Issuer, being a wholly owned subsidiary of the Guarantor, has been incorporated specifically for the purpose of issuing the Bonds and will use the net proceeds from the issue of the Bonds for the purposes as specified in this Offering Circular. The Issuer does not and will not have any material assets or any business activities other than amounts due to it from the Guarantor and/or its subsidiaries in respect of such on-lending, and its ability to make payments under the Bonds will depend on its receipt of timely repayments by the Guarantor and/or its subsidiaries in respect of such on-lending.

RISKS RELATING TO THE GROUP

Continued uncertainty and instability in global market conditions could adversely affect the Group's businesses, financial condition and results of operations

Since the 2008 financial downturn, in response to the adverse conditions in the financial markets and the global economy, many countries, including the PRC, implemented fiscal measures and other stimulus packages targeted at reducing the adverse impact of the global economic crisis and reviving their economies. The global macroeconomic environment and recovery from the downturn continues to be challenging and unstable. There has been continued volatility in the global credit markets. The Eurozone debt crisis still remains as a concern to the health of the global financial system. The transition period for the exit of the United Kingdom from the European Union ("**Brexit**") officially commenced on 31 January 2020 and ended on 31 December 2020. The potential impact of Brexit on the economic conditions in the United Kingdom, the European Union and global markets remains unclear. Since July 2018, the U.S. imposed certain duties on certain Chinese goods, which was in turn met with retaliatory tariffs on U.S. goods imposed by the PRC. As recently as October 2020, both countries continued to impose further tariffs and other export restrictions and an agreement between them on trade appears increasingly remote. Global markets have reacted adversely as a result of these recent developments, and in the longer term, there is also no certainty as to how such developments could affect PRC consumer confidence, Chinese investment overseas or the wider PRC economy.

Other disruptions such as continued volatility in the geopolitical environment of many parts of the world may also continue to put pressure on global economic conditions.

In addition, there has been significant volatility in the PRC stock markets since 2016 and the PRC Government has taken unprecedented steps to support the markets. The market volatility may also negatively affect PRC consumer confidence and have an adverse impact on the wider PRC and Hong Kong economies, which may materially and adversely affect the value of the Group's investments and businesses. There has also been a slowdown of China's economy. According to the National Bureau of Statistics of China, China's GDP growth rate was 6.1 per cent. in 2019, and concerns about its future growth may have an adverse impact on financial markets, currency exchange rates and other economies. There can be no assurance that the PRC economy will grow in the future. The securities and brokerage businesses of the Group are affected by external factors such as general economic conditions, macroeconomic and monetary policies, market conditions and fluctuations in interest rates, all of which are beyond its control. If an economic downturn occurs in the PRC in the future, the businesses, results of operations and financial condition of the Group could be materially and adversely affected. If economic conditions in the Group's key markets remain uncertain or deteriorate further, the Group may experience a material impact on its businesses, operating results and financial condition.

The Group may be unsuccessful in completing and managing future investments and/or acquisitions

As part of its expansion plans, the Group considers investment and acquisition opportunities that will complement its core business portfolio and capabilities, and assist in expanding the market share of its core business operations. The ability of the Group's operations to grow by investment in and/or acquisition of its target businesses is dependent upon, and may be limited by, the availability of attractive projects, its ability to agree commercial, technical and financing terms to the satisfaction of the Group and to obtain required approvals from relevant regulatory authorities.

Such acquisitions and/or investments may expose the Group to potential difficulties that could prevent it from achieving the strategic objectives for the acquisitions and/or investments or the anticipated levels of profitability from the acquisitions and/or investments. These difficulties include:

- diversion of management's attention from the Group's existing businesses;
- increases in the Group's expenses and working capital requirements, which reduce its return on invested capital;
- difficulty in expanding into markets in different geographic locations;
- increases in debt, which increase the Group's finance costs as a result of higher interest payments;
- exposure to unanticipated contingent liabilities of acquired businesses; and
- difficulties in integrating acquired businesses or investments into the Group's existing operations, which may prevent it from achieving, or may reduce, the anticipated synergies.

In addition, when the Group invests in joint ventures where it does not have management control over its investments, there can be no assurance that such joint ventures will operate smoothly or successfully, if at all. There is no assurance that joint venture partners will act in ways which are consistent with the interest of the Group and be able and willing to fulfil their obligations under the relevant joint venture or other agreements.

There can be no assurance that the Group will be able to identify suitable investment and acquisition targets, complete the investments and acquisitions on satisfactory terms or, if any such investments and acquisitions are consummated, satisfactorily integrate the acquired businesses. Any failure of the Group to implement its expansion plans through investments and acquisitions could have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

Some of the Group's businesses require substantial financing to support capital investment and expansion plans

The Group has historically required, and expects that in the future it will continue to require, substantial external financing to fund its capital expenditures, to support the future growth of its core businesses and/or to refinance existing debt obligations. China Merchants Group Limited ("**CMG**"), the Group's parent company, is not obliged to provide financial support to the Issuer, the Guarantor or any other member of the Group and there can be no assurance that it will do so.

The Group's ability to arrange for external financing and the cost of such financing are dependent on numerous factors, including general economic and capital market conditions, interest rates, credit availability from banks or other lenders, investor confidence in the Group, the success of the Group's businesses, the provisions of tax and securities laws that may be applicable to the Group's efforts to raise capital and political and economic conditions in Hong Kong and the PRC generally. There can be no assurance that The People's Bank of China (the "**PBOC**") will not take any measure which may increase the Group's financing cost or that additional financing, either on a short-term or a long-term basis, will be made available or, if available, that such financing will be obtained on terms favourable to the Group.

In addition, increasing the Group's external financings could have important consequences, such as:

- affecting the Group's corporate credit rating which in turn could, notwithstanding that it is not a rating of the Bonds, adversely affect the market price and the liquidity of the Bonds;

- increasing the Group's vulnerability to adverse general economic and industry conditions and limit the Group's flexibility in planning for or reacting to changes in its businesses and the industries in which it operates; and

- requiring the Group to dedicate a substantial portion of its cash flow from operations to service and repay its indebtedness, thereby reducing the availability of its cash flow to fund working capital, capital expenditure and other general corporate purposes,

each of which events could have a material adverse effect on the Group's businesses, financial condition and operating results as well as the Group's future prospects.

The Group operates in highly competitive industries

Many of the Group's activities are carried on in highly competitive industries and the Group's operations face competition from both international and local operators based on numerous factors specific to each of its core businesses. The Group also competes with both local and international companies in capturing new business opportunities. Some of the Group's competitors may have significant financial resources, marketing and other capabilities, more extensive local knowledge and business relationships and longer operational track records in the relevant local markets than the Group. The proliferation of registered securities firms in the PRC and intense price competition has led China Merchants Securities Company Limited ("**CM Securities**") to reduce its fee and commission rates for securities brokerage in recent years. Further, in April 2015, China Securities Depository and Clearing Corporation Limited lifted the long-standing "one investor, one account" restriction for PRC investors and allowed an individual to open up to 20 securities accounts with different PRC securities firms, although on 14 October 2016, it reduced the number of A-listed securities account to up to three accounts for each investor. This policy has posed a significant challenge for CM Securities to retain existing customers and attract new customers. International competitors may also be able to capitalise on their overseas experience to compete in the PRC. As a result, there can be no assurance that the Group will be able to compete successfully in the future against its existing or potential competitors. Any failure of the Group to compete successfully will have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The Group may not successfully manage its growth

The Group is comprised of a large number of companies operating in a variety of industries. As the Group continues to grow, its operations will become more widespread and complex. It might become increasingly challenging for the Group to direct and monitor the day-to-day operations of its different business segments, to prevent and detect fraud and to protect its assets. To meet this challenge, the Group must continue to improve its managerial, technical, operational and other resources, and to implement an effective management and internal control system that emphasises proper authorisations, reliability and accountability of financial reporting, imposes financial and internal control disciplines on subsidiaries and associate companies, and creates value-focused incentives for the management. In addition, in order to fund the Group's ongoing operations and its future growth, the Group needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. For example, in the port and related services business, there can be no assurance that the Group will not experience issues such as capacity and capital constraints, construction delays, operational difficulties at new facilities or difficulties in upgrading or expanding existing facilities and training an increasing number of personnel to manage and operate those facilities. In particular, failure of the Group to implement its expansion plans in a timely manner could adversely affect its ability to maintain, expand and diversify its revenue base and to maintain the profitability of the Group. There can be no assurance that such expansion plans will not adversely affect the Group's existing operations and thereby create a material adverse effect on its business, financial condition, operating results and future prospects.

The Group's international operations could subject it to various business, economic, political, regulatory and legal risks

The Group's current strategies include expansion into overseas markets. The implementation of this strategy could result in the Group being affected by, among other things, economic and political conditions in foreign countries, including the imposition of government controls, political and economic instability, trade restrictions, changes in tariffs, laws and policies affecting trade and investment, the lack of development of local infrastructure, labour unrest and difficulties in staffing, coordinating communications among and managing international operations, fluctuations in currency exchange rates and earnings, expatriation restrictions, difficulties in obtaining export licences, and misappropriation of intellectual property.

Such expansion may place a significant strain on the Group's management and operational and financial resources. There can be no assurance that the Group's existing or future management, operational and financial resources, procedures and controls will be adequate to support its future operations or that the Group will be able to recruit, retain and motivate its personnel or to establish or develop business relationships beneficial to its future operations. If the Group cannot successfully manage the risks and challenges generally associated with multinational operations, it may have to dedicate resources to resolving issues arising from its future international operations at the expense of its current operations, which could have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

Certain countries may also have particular risks, such as slow or negative growth, high inflation, significant currency devaluations or limited availability of foreign exchange. Furthermore, in countries such as the PRC, governmental authorities exercise significant influence over many aspects of the economy and their actions could have a significant effect on the Group's international operations.

The Group's operations could be disrupted by natural disasters, industrial actions, terrorist attacks or other events beyond its control

Similar to many other businesses, the Group's operations are at risk of disruption as a consequence of industrial action, civil unrest, natural disasters (such as earthquakes, floods, snow, fires, typhoons or other natural disasters or other force majeure events), cyber or other forms of terrorist attacks, or other

events occurring in the regions where it carries out its businesses. The Group's business operations rely on complex operations and communications networks, which are vulnerable to damage or disturbance from a variety of sources. Regardless of the Group's protection measures, essentially all IT systems and communications networks are susceptible to disruption due to failure, vandalism, computer viruses, security breaches, power outages and other events.

While the Group maintains adequate insurance policies covering both its assets and employees in line with general industry practices in the PRC and Hong Kong, certain types of risks (such as wars, acts of terrorism or acts of God, business interruptions, property risks and third-party (public) liability) are either uninsurable or cost-prohibitive. Any one or more of these events could have a material adverse effect on the Group's businesses, financial condition and operating results as well as the Group's future prospects.

RISKS RELATING TO THE GROUP'S PORTS, SHIPPING, SHIP REPAIR, OFFSHORE ENGINEERING AND OTHER BUSINESSES

Ports and ports-related businesses are susceptible to economic slowdown

The ownership, operation and management of ports and the provision of ports-related services comprise a major aspect of the Group's business portfolio. The global port industry has been cyclical and is subject to seasonal fluctuations. The industry experiences volatility in revenues, profitability and asset values resulting from changes in the supply of and demand for ports and ports-related services. The demand for ports and ports-related services is influenced by global and regional economic conditions, developments in international trade, changes in seaborne and other transportation patterns, weather patterns, armed conflicts, canal closures, foreign exchange fluctuations, embargoes and strikes, among other factors. Throughput and tariffs at container terminals and general and bulk cargo terminals fluctuate in response to the volume of containerised and general and bulk cargo trade, which is influenced by many factors, including the demand for containerised and general and bulk cargo trade, general economic conditions, developments in the major world economies that influence trade patterns and competition from alternative modes of transportation. In particular, the U.S.-Sino trade war may hinder international trade and affect the volume of shipments. Any such volatility or external factors may materially and adversely affect the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The growth of the Group's ports and ports-related businesses is largely dependent upon the continuation of economic development and growth in the PRC, which the Guarantor expects will, in turn, increase demand for its ports and ports-related services. Although the PRC has experienced rapid economic development over the past 30 years, the rate of the PRC's GDP growth has decreased in recent years. A sustained period of slower economic growth in the PRC generally or in the particular areas in which the Group's operations and investments are located could have a material adverse effect on the financial condition and operating results of the Group as well as on its prospects to identify, invest in and develop new projects and businesses. The future performance of the PRC's economy is not only affected by the economic and monetary policies of the PRC government, but it is also exposed to material changes in global economic and political environments as well as the performance of certain major developed economies in the world, such as the United States and the European Union. In recent years, there have been heightened trade and geopolitical tensions among the United States and other nations, including the PRC. More recently, trade tensions between the United States and the PRC escalated, where both countries have increased the tariff on certain products in their bilateral trade. The PRC's economic growth may also slow down due to weakened exports as a result of tariffs and trade tensions and by January 2020, the U.S. has imposed tariffs on more than U.S.$360 billion of Chinese products, and China has retaliated with tariffs on more than U.S.$110 billion of U.S. products. This has created substantial uncertainties and volatilities to global markets. On 15 January 2020, the U.S. and Chinese governments signed the U.S.-China Economic and Trade Agreement (the "**Phase I Agreement**"). Under the Phase I Agreement, the United States agreed to cancel a portion of tariffs imposed on Chinese products and China promised additional purchases of U.S. goods and services, and both parties

expressed a commitment to further improving various trade issues. Despite this reprieve, it remains to be seen whether the Phase I Agreement will be abided by both governments and successfully reduce trade tensions. If either government violates the Phase I Agreement, it is likely that enforcement actions will be taken and trade tensions will escalate. The roadmap to the resolution of trade disputes between the U.S. and China remains unclear, and the lasting impact the trade war may have on China's economy and the shipping industry remains uncertain. The Group's revenue generated from its ports and ports-related businesses is particularly affected by the outlook for the global shipping industry, as any slowdown in imports and exports and reduction in shipping routes may affect the number of visits to the ports operated by the Group, which could have an adverse effect on the Group's business, financial condition and operating results.

Such political uncertainty and any resulting prolonged economic downturn could weaken global trade, hamper trade relations with the PRC, and result in another global recession which may, in turn, result in a decrease in container throughput at the Group's ports and a reduced demand for the Group's bonded logistics services. The decrease in imports and exports caused by any of these circumstances may also adversely affect the Group due to a negative impact on the ability of the customers of the Group to pay the Group, thus reducing the Group's cash flow. There can be no assurance that the Group's business, financial position and operating results, as well as its future prospects, will not be materially and adversely affected by such political uncertainty and any resulting prolonged economic downturn.

The global economy is facing significant uncertainties and disruptions caused by the outbreak of the coronavirus in late 2019 ("COVID-19"), which may impact the Group's business, financial condition and results of operations

Since it began in December 2019, COVID-19 has spread globally and there have been increased infection and fatality rates across the world. On 11 March 2020, the World Health Organization declared the COVID- 19 outbreak a pandemic.

The COVID-19 pandemic and policies implemented by governments to deter the spread of the disease have had and may continue to have an adverse effect on consumer confidence and the general economic conditions the Group's business is subject to. Governments of many countries (including the PRC) have declared a state of emergency, closed their borders to international travellers and issued stay-at-home orders with a view to containing the pandemic. There is no assurance that such measures will be effective in ending or deterring the spread of COVID-19. As COVID-19 continues to affect many countries across the world, there is significant uncertainty as to when the pandemic will end, and governments may extend or implement further restrictive measures to contain the pandemic. As a result of these restrictions, the reduced consumption, commercial activities and industrial production have resulted in severe disruption to the global economy and the global supply chain, and is very likely to lead to recessions in many countries in the coming months.

The COVID-19 pandemic has negatively affected the global economy and trade, and the global demand for maritime container shipping significantly declined during the first half of 2020. As a result of the reduced demand for the movement of commodities and the cancellation of international and/or domestic shipping routes, the number of ships calling at the Group's ports have experienced a decline. During the six months ended 30 June 2020, ports of China Merchants Port Holdings Company Limited ("**CMPort**") handled a total container throughput of approximately 54.9 million TEUS, up by 0.6 per cent. compared with the corresponding period in 2019, and bulk cargo volume of 199 million tonnes, down by 10.9 per cent. over the same period in 2019. In addition, CMPort has incurred additional costs in response to the COVID-19 pandemic and related government policies, such as the cost of quarantining CMPort's employees, disinfecting facilities that the Group relies on for its operations and launching various pandemic prevention and containment measures. These increased costs and expenses may not be fully recoverable or adequately covered by insurance.

In response to the COVID-19 pandemic, governments and central banks across the world have introduced fiscal and monetary stimulus measures including tax cuts, direct subsidies, rate cuts, bond repurchase programmes and suspension or relaxation of prudential bank capital requirements to stabilise financial markets and provide liquidity support to companies that are affected by business disruptions. However, as the COVID-19 outbreak is still ongoing, it is difficult to predict whether these measures will be sufficient or effective in containing the economic impact, or whether more measures will be required in the future should the outbreak of COVID-19 continue for a prolonged period. In light of significant uncertainties and headwinds the global economy is facing, the Group cannot guarantee that this will not have a material adverse impact on the Group's business, financial condition and prospects.

The Group's overseas ports operations subject it to various business, economic, political, regulatory and legal risks

Pursuant to CMPort's strategic vision of becoming the "world's leading comprehensive port service provider", the Group has invested, and plans to continue investing, in overseas markets. In recent years, CMPort and its associates, joint ventures and affiliates, as applicable, have expanded its ports operation to overseas markets through its respective acquisitions of various interests, including Tin-Can Island Container Terminal Limited ("**TICT**") in Nigeria, Port de Djibouti S.A. ("**PDSA**") in Djibouti, Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret A.S. ("**Kumport**") in Turkey and Port of Newcastle ("**PON**") in Australia, the South Container Terminal in Colombo, Sri Lanka by Colombo International Container Terminals Limited ("**CICT**"), the Hambantota Port in Hambantota, Sri Lanka by Hambantota International Port Group (Private) Limited ("**HIPG**"), Lomé Container Terminal S.A. ("**LCT**") in Togo, TCP Participações S.A. ("**TCP**") in Brazil and Terminal Link SAS ("**Terminal Link**") in France which newly invested in Odessa Terminal Holdco Ltd ("**Odessa Terminal**") in Ukraine, CMA CGM-PSA Lion Terminal Pte Ltd ("**CMA CGM-PSA**") in Singapore, Kingston Freeport Terminal Limited ("**Kingston Freeport**") in Jamaica, Rotterdam World Gateway B.V. ("**Rotterdam World Gateway**") in the Netherlands, First Logistics Development Company ("**First Logistics**") in Vietnam, Laem Chabang International Terminal Co Ltd ("**Laem Chabang**") in Thailand and CMA CGM Terminals Iraq S.A.S, the Umm Qasr terminal in Iraq ("**Umm Qasr Terminal**"), which together operate, develop and invest in a port network comprising 41 container and bulk cargo terminals in 25 countries and regions across six continents. The implementation of this strategy has subjected the Group to, among other things, economic and political conditions in foreign countries, including the imposition of government controls, political and economic instability, trade restrictions, changes in tariffs, laws and policies affecting trade and investment, the lack of development of local infrastructure, labour unrest and difficulties in staffing, co-ordinating communications among and managing international operations, fluctuations in currency exchange rates and earnings, expatriation restrictions, difficulties in obtaining export licences, misappropriation of intellectual property, tax issues including amendments to taxation laws, cultural and language differences, local banking systems, restrictions on the repatriation of profits or payment of dividends, nationalisation or expropriation of property, crime, strikes, riots, civil disturbances, terrorist attacks or wars, regulations and requirements related to community welfare and social responsibilities.

Individual countries in which the Group may invest and develop projects in the future may also have particular risks. In addition, some countries in which the Group may intend to invest and operate may experience periods of slow or negative growth, high inflation, significant currency devaluations or limited availability of foreign exchange. Furthermore, in countries such as the PRC, governmental authorities exercise significant influence over many aspects of the economy and their actions could have a significant effect on the Group's operations and on the Group's intended overseas operations.

The ordinary operations of port operators could be adversely affected by damage to port facilities caused by weather, natural disasters, pandemics or terrorist attacks, strikes and stoppages or other events beyond their control

Similar to many other businesses, the Group's normal operations could be adversely affected or disrupted, and its port facilities could be damaged, by weather, terrorist attacks, pandemics, natural disasters (such as earthquake, flood, snow, fire, typhoons or other natural disaster or other force majeure events) or other events, including, but not limited to:

- invasion, acts of foreign enemies, rebellion, revolution, insurrection, military or usurped power, war and radioactive contamination;
- riot or commotion;
- denial of the use of any railway, port, airport, shipping service or other means of public transport; and
- strikes, labour disputes or labour unrests, lock-out or other industrial action by workers or employers.

These events would adversely affect the ordinary operations of the shipping industry and international trade, which would, in turn, adversely affect the Group's business and could cause disruption to its operations in part or in whole therefore potentially materially and adversely affecting its financial condition and operating results.

In addition, the recent COVID-19 outbreak, coupled with the measures implemented by relevant government authorities to contain it, such as travel restrictions, border controls and other measures to discourage or prohibit the movement of people, is expected to have a material and adverse impact on the level of economic activity in the PRC. At present, it is difficult to ascertain how long the outbreak of COVID-19 may last and the full impact that COVID-19 may have on the Group's business operations. The occurrence of another outbreak of SARS, the influenza A/H1N1 virus, COVID-19 or of any other highly contagious disease may result in another economic downturn and may have an adverse effect on the overall level of business in the affected areas. It may also disrupt the Group's business operations and consequently have an adverse effect on its business, financial condition and operating results.

Acts of war and terrorist attacks may also cause damage or disruption to the Group, its employees, subcontractors, operations, equipment and facilities, as well as to its markets, any of which could impact its public image and revenue. The potential for wars or terrorist attacks may also create uncertainty and cause its business to suffer in ways that the Group cannot currently predict. Any of these may have a material and adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to project development and approval risks

There are a number of construction, financing, operating and other risks associated with the Group's ports, shipping, ship repair, offshore engineering and other project developments in the PRC, Hong Kong and other regions. Such projects typically require substantial capital expenditures during the construction phase and usually take many months, sometimes years, before they become operational and generate revenue. The time taken and the costs involved in completing construction can be adversely affected by many factors, including but not limited to shortages of materials, equipment and labour, adverse weather conditions, natural disasters, labour disputes, disputes with sub-contractors, accidents, changes in governmental policies, unforeseen mechanical, technical, engineering, design, environmental or geological problems and other circumstances that are beyond the Group's control. Any of these could give rise to delays in the completion of construction and/or cost overruns.

As certain operations of the Group are highly regulated in the jurisdictions where they are carried out, governmental approvals, permits, licences or consents need to be obtained and maintained. Delays in the process of obtaining or maintaining, or a failure to obtain or maintain, the requisite licences, consents, permits or approvals from government agencies or authorities can also increase the cost of or delay in or disrupt the operations of the Group's businesses, which will materially and adversely affect the financial performance of the Group's business operations. Although the majority of the Group's infrastructure projects have been completed on schedule, there can be no assurance that this will remain the same or that future infrastructure projects will be completed on time and generate satisfactory returns, or at all. Finally, the acquisition or transfer of interests in such projects may be subject to governmental approvals, which can impact on the Group's ability to dispose of such projects.

The Group's ship repair and offshore engineering businesses face downward pricing pressure

The Group's ship repair and offshore engineering businesses compete with a number of companies in the PRC and Hong Kong. As a result of the aggressive pricing environment due to competition, the Group's ship repair and offshore engineering businesses have been experiencing downward pricing pressure on its products and services and the Group expects such downward pricing pressure to continue and possibly increase in the future. While the Group seeks to counter such competition and pricing pressure through cost reduction measures, including centralisation of equipment and spare-parts purchase, sourcing products from the PRC and better utilisation of scrap metal and spare-parts, there can be no assurance that such measures will be effective. The failure to counter such pricing pressure could materially and adversely affect the business, results of operations and financial condition of the Group's ship repair and offshore engineering businesses.

The imposition of or increase in the level of trade barriers, restrictions on exports or imports, or trade disputes may adversely affect the businesses of the Group

Some countries may impose tariffs or non-tariff barriers to restrict the flow of imported products into their local markets. Since July 2018, the U.S. imposed certain duties on certain Chinese goods, which was in turn met with retaliatory tariffs on the U.S. imposed by the PRC. As recently as October 2020, both countries continued to impose further tariffs and other export restrictions and an agreement between them on trade appears increasingly remote.

Such trade barriers or any trade dispute may hinder international trades and the volume of shipments, which may in turn adversely affect the businesses of the Group, in particular its ports, shipping and logistics related businesses, which are highly dependent on the volume of import and export trade. Any imposition of trade barriers or other restriction on the import or export of goods into or out of the PRC may have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The Group's operations are subject to environmental laws and regulations

The Group's operations are subject to a variety of environmental laws and regulations promulgated by the jurisdictions where it carries out its businesses. These laws and regulations govern the level of fees payable to governmental entities and prescribe the standards for the use, storage, discharge and disposal of polluting by-products of, and water used in, its operations. Environmental claims or the failure to comply with any such laws and regulations could result in fines or a suspension or cessation of the Group's operations. New laws and regulations could require the Group to acquire costly equipment or to incur other significant expenses. Any failure by the Group to control the use of, or adequately restrict the discharge of, hazardous substances could subject it to future liabilities and may materially and adversely affect the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The Group's terminal business is reliant on concessions and key contracts

Many of the Group's terminal business and projects are reliant on concessions or key contracts granted by the relevant government authorities. Furthermore, many of the Group's subsidiaries, associates, jointly controlled entities and affiliates are subject to regulatory controls. Cancellation of any such concessions or key contracts, or imposition of restrictive regulatory controls, would have a material adverse effect on the financial condition and operating results of certain subsidiaries, associates, jointly controlled entities and/or affiliates of the group and may have a material adverse effect on the financial condition and operating results of the Group.

Sanctions could affect the Group's port-related business' activity and operations

Investing in certain countries and engaging in dealings with or involving certain countries, entities and individuals could result in adverse consequences to the Group's port-related business under existing or future sanctions. Sanctions regimes can also be subject to sudden change and there can be no assurance that any such change to, or expansion of, the current sanctions regimes would not impact or limit the ability of the Group's port-related business to undertake certain operations in the jurisdictions where it currently carries out its operations, including in the Middle East and elsewhere, or otherwise affect the financial performance of the Group's port-related business in such jurisdictions.

RISKS RELATING TO THE GROUP'S FINANCIAL SERVICES BUSINESS

General economic and market conditions could materially and adversely affect the Group's financial services business

The Group's financial services business is highly dependent on economic and market conditions in China, as a substantial majority of its revenue is derived from the PRC securities markets. Like other businesses operating in the same industry, the Group's financial services business is directly affected by the inherent risks associated with the securities markets, such as market volatility, fluctuations in trading volume, and investor confidence. The Group's financial services business is also subject to general economic and political conditions, such as macroeconomic and monetary policies of China, fiscal policies, macro-economic regulation policies, legislation and regulations affecting the financial and securities industries, upward and downward trends in the business and financial sectors, inflation, currency fluctuations, availability and cost of funding, and interest rates.

In the past, the results of operations of PRC securities firms, including the Group, were primarily affected by volatility in the PRC securities markets. For example, CSI300 Index decreased by 32.5 per cent. from 4,389.9 as of 24 January 2018 to 2,964.8 as of 3 January 2019. As a result, CM Securities' total revenues, gains and other income decreased by 6.2 per cent. from RMB19,258.9 million in 2017 to RMB18,069.5 million in 2018. Unfavourable economic and financial conditions globally, such as financial instability in the U.S. and the imposition of new bilateral tariffs between China and the U.S., have also had a material impact on the market conditions in China, which, in turn, may affect the Group's results of operations and financial condition.

The Group's financial services business, and such business' financial condition and results of operations may be adversely affected by general economic and market conditions in many ways, including, among other things:

- The Group's investment banking business may be adversely affected by market conditions. Unfavourable economic and market conditions may negatively impact investor confidence and corporate finance activities, resulting in significant declines in the size and number of investment banking transactions, which may have a material and adverse effect on the revenue and profit of the Group's investment banking business.

- The Group's revenue from principal investment business depends on the performance of its investment subjects, which may be materially and adversely affected by general economic conditions, market fluctuations and volatility.

- The Group's securities brokerage business depends on trading volumes and equity market performance to a certain degree. Unfavourable economic and market conditions can adversely affect investor confidence and trading and investment activities, resulting in reduced brokerage fees and commission income.

- The Group's margin financing and securities lending and securities-backed lending may incur losses under unfavourable economic and market conditions. Client risk can increase significantly during economic downturns and the Group may be forced to liquidate the collaterals at prices below the amount lent, resulting in the Group's losses.

- The Group holds various equity and fixed-income securities as part of its proprietary trading business. As a substantial portion of these financial instruments is marked to market, declines in fair values could directly impact its profit and/or shareholders' equity. Sudden declines and significant volatility in asset values may cause the Group to incur significant losses.

- Market volatility, tightened liquidity and unfavourable market conditions may reduce the Group's assets under management ("**AUM**") and affect the performance of the assets or funds it manages, which could adversely affect its ability to receive management fees or performance fees.

Earnings of the Group's financial services business could be affected by periodic changes in the PRC's securities market

The prosperity of the securities market is influenced by various factors including the speed of domestic economic development, macro-economic policies, interest rates, exchange rates, industry development conditions, investment psychology as well as the global economic and financial environment, and is subject to certain uncertainty and periodicity. The operation and profitability of the Group's financial services business are heavily dependent on the conditions and trend of the securities market. Rising conditions and active transactions of the securities market will increase trading volume, thus driving the growth in revenue of the Group's brokerage business; an active securities market will stimulate the needs of financing and M&A, bringing more investment banking business opportunities to the Group's financial services business; a securities market with sustained growth will also inspire citizens to invest in securities, which is beneficial to the development of the Group's asset management business; in general, the Group's traditional self-operated business will also record higher investment yield as the securities market rises. In addition, a buoyant securities market will prompt securities companies to expand financial renovation activities and new business opportunities. On the contrary, if a securities market is declining with fewer transactions, it will be more difficult for the Group's financial services business to carry out its brokerage, investment banking, asset management and self-operated businesses, and its profitability may also decline.

The PRC securities industry is subject to intensifying competition

According to the statistics from Securities Association of China, as of 31 December 2019, there were a total of 133 members consisting of various securities companies. China's securities industry is currently in a new round of industrial structure upgrading. In recent years, the scale and market share of large securities companies have gradually increased, resources have concentrated to a few securities companies, and the landscape of the industry competition has gradually become clear. But in general, the overall competition of the securities industry is still transforming from a decentralised, low-level position to a concentrated one. There is not much difference among securities companies in terms of capital strength, competition tactics, technology levels, etc. The Group's financial services business is facing severe competition in various business areas.

The opening-up of the securities industry could bring risks of competition

The step-by-step opening-up of the securities industry is a major undertaking made before China joined the WTO. Currently, large-scale international investment banks, such as Goldman Sachs, UBS, Credit Suisse and Deutsche Bank, have entered China's financial market by establishing joint venture securities companies, putting great pressure on domestic securities companies in terms of high-end businesses. Since 2018, the opening-up of China's securities industry has accelerated distinctively. On 28 April 2018, China Securities Regulatory Commission (the "**CSRC**") issued Administrative Measures for Foreign- Invested Securities Companies(《外商投資證券公司管理辦法》), abolishing the restriction that the proportion of shares held by overseas shareholders or the proportion of equity owned by such shareholders in securities companies with foreign shares should not exceed 49 per cent. at the same time, the scope of business of joint venture securities companies will be gradually broadened, allowing newly established joint venture securities companies to apply for securities business in an orderly manner according to its own situation. On 13 March 2020, the CSRC announced that the restriction on the proportion of foreign investment of securities companies shall be lifted from 1 April 2020. Currently, many foreign-funded securities companies have obtained the approval from the CSRC to increase the shareholding to more than 51 per cent.

Compared with the securities companies in China, foreign securities companies have a certain competitive advantage in terms of brand influence, marketing capability, management capability, technology level and capital strength. Moreover, they are more experienced in overseas underwriting and cross-market operations. Given the gradual opening-up of China's financial market, the level of participation of foreign institutions in China's securities market will further increase, which will result in much tougher competition in the securities industry.

With foreign securities companies flooding in China's market due to the opening-up of the securities industry, if the Group's financial services business fails to maintain and enhance its established competitive advantage, improve its service quality and management level and increase its capital strength, the Group's financial services business will face risks of loss of clients and decrease of market shares.

The Group's financial services business faces competitions with other financial institutions and online finance

The rapid development of the financial industry in recent years causes a notable inclination among those institutes to operate in a comprehensive and integrated manner. Commercial banks, insurance companies and other non-banking financial institutions penetrate to traditional business areas of securities companies by innovating their products portfolio and pattern. They have seized the market share the security companies have enjoyed by their relative advantages, i.e. their presence in network distribution, resources in clientele and the capital strength they possessed. Meanwhile, the PRC steadily revises the regulatory system from divisional regulatory compliance into an organic integration between the former and the unified regulatory compliance. The Office of the Financial Stability and Development Committee under the State Council was established in November 2017, followed by the coming of China Banking and Insurance Regulatory Commission in April 2018. As such, a new regulatory pattern involved with 'the Office, the People's Bank and two Commissions' is formed in the country. As the PRC loosens its restrictions on divisional operations and divisional regulatory compliance in finance, those challenges that security companies encounter will be more desperate, and the business volume may be suppressed further.

Apart from that, the development of online financial has reached an unprecedented level, various kind of new financial services offered pose an impact to services on brokerage and asset management provided by security companies, which leave a profound implication to their transitions in the mode of operations. As Internet technologies infiltrate to the financial area further, it could offer more diversified financial products in the market, which would pose an impact on the source of clients, business commencement

and profitability among securities companies. Companies which could not position themselves in the age of online finance and prepare themselves for transitions or upgrading their business may be adversely impacted under the era of online financial or subject to the risk of losing their competitive advantages.

The trend of comprehensive financial operations will change the competition environment of the industry

Nowadays, the demand for comprehensive financial services from customers grows day by day. With their advantages in client resources, network channels and capital wealth, financial institutions including commercial banks, fund management companies, trust companies and insurance companies also enter the traditional business sectors of securities companies, such as asset management, wealth management services and investment banks. Therefore, securities companies are facing growing competition from other financial industries.

The Group's financial services business is subject to policy and legal risks

As the securities industry in China is a part of the national concession industry, the operation of business is regulated by various laws, regulations and regulating documents in China. China has promulgated a series of laws, regulations, department rules and regulating documents, including the Securities Law of the People's Republic of China (《中華人民共和國證券法》), the Regulations on Supervision and Management of Securities Companies (《證券公司監督管理條例》), the Regulations on Risk Handling of Securities Companies (《證券公司風險處置條例》), the Provision on Classified Regulation of Securities Companies (《證券公司分類監管規定》) and the Management Measures on Qualifications of Securities Practitioners (《證券業從業人員資格管理辦法》), to regulate the securities industry. The business operations of securities companies shall be regulated by relevant regulatory authorities and institutions, such as the CSRC. The CSRC has promulgated a series of department rules and regulating documents, including the Measures for Administration of Risk Control Indexes of Securities Companies (《證券公司風險控制指標管理辦法》), the Guidelines on Proprietary Securities Business of Securities Companies (《證券公司證券自營業務指引》), the Administrative Measures for Margin Financing and Securities Lending Business for Securities Companies (《證券公司融資融券業務管理辦法》), the Administrative Measures for Private Asset Management Business of Securities and Futures Operator (《證券期貨經營機構私募資產管理業務管理辦法》) and the Administrative Provisions on the Operation of Private Asset Management Plans of Securities and Futures Operator (《證券期貨經營機構私募資產管理計劃運作管理規定》), which steadily establishing a risk control index and regulatory system for securities companies with a focus on net capital.

The change of laws, regulations, rules and other regulatory documents may affect the operation mode and methods of competition of the securities industry, resulting in the uncertainties in the operation and development of the businesses of the Group's financial services business.

The Group's wealth management services and institutional business comprises a large percentage of its financial services business

Although the Group has been actively exploring and expanding other segments of its financial services business, including asset management and investment banking, revenue generated from CM Securities' wealth management and institutional business remains a key revenue stream for the Group's financial business, accounting for approximately 62.8 per cent. of the revenue of CM Securities for the year ended 31 December 2018 and 46.6 per cent. for the year ended 31 December 2019. Such revenue stream is particularly dependent upon the performance of the financial markets of the PRC and trading volumes of the Group's customers, which are directly affected by, among other things, the economic and social environment, fiscal policies and investment trends, and volatility in the equity and bond markets, both regionally and globally. A downturn in the global or local financial markets may adversely affect market sentiment and result in certain financial exposures, could invite further PRC Government action or requirements for entities engaged in brokerage businesses to undertake further measures, and could have

a material adverse effect on the trading volume of the customers of and pose risks to, the Group's wealth management services and institutional business and hence, the brokerage commission income of the Group's financial services business.

Market competition is another key factor that affects the Group's wealth management services and institutional business. In light of the intensifying competition in the PRC securities market, the Group has lowered both brokerage commission fee rate for brokerage business and interest fee rate for margin financing and securities lending in order to gain market share. In recent years, some of the Group's competitors conducted services by launching online brokerage services, which has resulted in lower average brokerage commission rates. If an increasing number of securities brokers and Internet companies seek to enter and expand the online brokerage business, brokerage fees and commission rates in the industry may further decrease, which could adversely affect the Group's price competitiveness. There can be no assurance that CM Securities will be able to compete successfully in the future against its existing or potential competitors, the failure of which could result in a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The Group's wealth management services and institutional business is subject to the risk of operational errors and settlement defaults

In the course of its wealth management services and institutional business operations, erroneous trades may be entered into by the Group's personnel when processing client orders. Other errors may include input errors of client order information, unauthorised entries and operational errors in depositing or withdrawing client funds. The Group may be required to bear losses arising from potential disputes, claims, legal proceedings or other contingent liabilities resulting from such errors and may be subject to warnings, fines and punishments from the relevant securities regulatory authorities, which in turn could have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

Furthermore, CM Securities may fail to properly settle client orders in a timely manner, or at all, for various reasons, such as failing to maintain sufficient settlement funds with the registration and settlement company. Any settlement default could result in a serious disruption of its brokerage operations and the Group may be required to bear any losses arising from potential disputes, claims, legal proceedings or other contingent liabilities resulting from such errors, which in turn may have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The Group's business, profitability and liquidity may be adversely affected by deterioration in the credit quality of, or defaults by, its debtors, clients and counterparties

The Group's margin financing and securities lending and securities-backed lending businesses are subject to the risk that a client may fail to perform its payment obligations or that the value of collaterals held by the Group to secure the obligations might become inadequate. The Group also faces credit risks in its fixed income trading and its role as a counterparty in derivatives contracts and other OTC transactions. Any material non-payment or non-performance by a client or counterparty could adversely affect the Group's financial position, results of operations and cash flows. Although the Group reviews credit profiles of specific clients or counterparties who may default on payment obligations and specific industries that it believes may present credit concerns, default risks may arise from events or circumstances that are difficult to detect or foresee. The Group may also fail to receive all relevant information with respect to the credit risks of its clients and counterparties.

In the Group's margin financing and securities lending and securities-backed lending businesses, it may enforce the liquidation of collateral if its clients are unable to meet their obligations as scheduled, or if the maintenance margin ratios or collateral coverage ratios are lower than the Group's minimum threshold due to fluctuations in market prices of the collateral, and if there is no additional collateral. In the Group's futures and options brokerage transactions, it requires its clients to maintain a certain balance in accounts for their futures and options trading. The Group conducts automatic valuations for

clients' account balances on each trading day, and, in the event of an insufficient account balance, it requires clients to replenish their account balance or liquidate their positions. Such mandatory liquidation mechanism may trigger disputes between clients and the Group, which may subject it to relevant expenses or litigation risks.

The Group's ability to carry out forced liquidation of client positions is affected by factors such as changes in regulatory policies, market volatilities and limitations on the sale of stocks. If the market price of securities which the Group holds as collateral decreases sharply for an extended period, the value of the collateral may fall below the value of its margin loans, or the Group may not be able to liquidate because of limitations on liquidation, or because the securities it holds as collateral are subject to a judicial freeze. In these cases, the funds the Group obtains by liquidating clients' positions cannot recover the amounts loaned, and thus the Group will incur losses.

In addition, the Group also conducts OTC trading with its clients as a counterparty to provide them with customized products or services. Because there is no exchange or clearing agent for these contracts, the Group will be subject to the credit risk of non- performance of the counterparty.

The Group may be unable to liquidate client positions in its securities-backed lending business in a timely manner or at all

In the Group's securities-backed lending business, its ability to carry out forced liquidation of client positions is affected by regulatory policies. According to the recent PRC regulations and rules governing the dispositions of shares held by a major shareholder (holding over five per cent. of the total share capital of a listed company), director, supervisor or a member of the senior management of a listed company in China, which became effective in May 2017, for any consecutive 90 days, a major shareholder cannot dispose of its shares on the open market in an amount exceeding one per cent. of the total share capital of the company or dispose of its shares by block trades exceeding two per cent. of the total share capital of the company. In addition, a securities firm in China which holds the shares of these relevant persons as collateral for securities-backed lending is required to follow the foregoing disposition quota, among other things.

In the Group's securities-backed lending business, most of its clients are major shareholders of listed companies in China and the Group normally holds its shares as collateral. Due to the recent disposition quota, if these clients are unable to meet their repayment obligations, or if the collateral coverage ratios are lower than the Group's minimum threshold due to fluctuations in market prices of the collateral or otherwise, the Group may be unable to liquidate its stock positions in a timely manner or at all, which may subject the Group to material losses and materially and adversely affect its business, financial condition and results of operations. In addition, fluctuations in the Group's securities-backed lending business may affect the fair value of its financial assets under resale agreements, and may materially and adversely affect its financial condition and results of operations.

The Group's financial services business is highly dependent on the proper functioning and improvement of its information technology systems

The operation of the Group's financial services business, particularly its brokerage, proprietary trading, asset management and fund management businesses, is highly dependent on the proper functioning and continued improvement of the Group's information technology systems.

The Group's information technology systems may be vulnerable to disruptions caused by, among other things, software or hardware failure, data corruption, computer viruses, hackers, insufficient processing power or network failure. Such disruptions may result in loss of data and interruption, delay or cessation in the financial services provided by the Group and/or loss of confidential information. The Group may be required to bear the loss resulting from such disruption and may be subject to warnings, fines and punishments from the relevant securities regulatory authorities, which in turn could have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

A prolonged disruption to, or failure of, the Group's information processing or communications systems would limit its ability to process transactions. This would impair the Group's ability to service its customers and execute trades on behalf of customers and for its own account, which could materially and adversely affect the Group's competitiveness, financial condition and results of operations. The Group has established backup centres in Shenzhen and Shanghai to carry on principal functions in the event of a catastrophe or failure of its systems, including those caused by human errors. However, there can be no assurance that the Group's operations will not be materially disrupted if any of its systems fail.

As a result of the expansion of the Group's financial services business and rapid advances in information technology, the Group will be required to upgrade its computer systems on a timely and cost-effective basis to maintain its competitiveness. Online trading platforms and mobile applications are becoming increasingly popular among the Group's customers due to their convenience and user-friendliness. However, there can be no assurance that the Group would be able to continuously upgrade its computer systems effectively or on a timely basis to cope with increasing demand and advances in technology, or that no disruption will occur in the course of upgrading the Group's computer systems. Disruptions to, or the instability of, the Group's technology or external technology that allows its customers to use the Group's online products and services could harm the Group's business and reputation. As a result, the failure to maintain and upgrade the relevant computer systems may have a material adverse effect on the Group's businesses, financial condition and operating results, as well as the Group's future prospects.

The Group's investment banking business is subject to various risks, which may reduce the Group's underwriting and sponsorship fees, subject it to regulatory penalties, and adversely affect the Group's liquidity

The Group's investment banking business may be materially and adversely affected by the following risks:

- The offering of securities, especially IPOs, and certain types of M&A of listed companies, are subject to the review and approval by various regulatory authorities. The result and timing of these reviews and approvals are beyond the Group's control, and may cause substantial delays to, or the termination of, the securities offerings underwritten by the Group or M&A advised upon by the Group. The Group cannot assure prospective investors that regulatory approvals for securities offerings or M&A will be granted in a timely manner or at all. A significant decline in the approval rate of such transactions could reduce the Group's revenue from investment banking business, as the Group normally receives most of its fees only after the completion of a transaction.

- When acting as sponsors and underwriters in IPOs or financial advisers in M&A transactions, the Group may be subject to domestic or overseas regulatory sanctions, fines, penalties, investor compensation or other disciplinary actions and other legal liabilities if the Group's due diligence or its ongoing supervision is inadequate, or an issuer, its agents, other sponsors and underwriters or the Group's employees commit fraud or misconduct, or there is a misstatement or omission in the disclosure documents, or there is another illegal or improper activity during the course of the sponsorship and underwriting or advisory process. With respect to the Group's bond underwriting business, the Group would also face underwriting risk if the interest rate and maturity design of bonds fail to meet market requirement or the timing of issuance is inappropriate.

- Unfavourable market conditions and capital markets volatility may cause delays to, or the termination of, initial public offerings or other securities offerings underwritten by the Group and M&A advised upon by the Group, or may generally result in fewer financing and M&A activities, which may, in turn, materially and adversely affect revenue from the Group's investment banking business. In addition, if the Group enters into hard underwriting arrangements with its clients, the

Group may be required to purchase the entire unsubscribed portion for the Group's own account, which may materially and adversely affect the Group's liquidity, or cause the Group to incur significant financial losses.

The Group's investment and trading business is subject to market volatility and the Group's investment decisions

A significant portion of the Group's financial services business operations includes investment and trading business, for example, the investment and trading of equity and fixed-income securities and other financial products. The business, financial position and results of operations of the Group's investment and trading business may be materially and adversely affected by the following risks:

- The Group's financial services business conducts trading activities in equity and fixed-income securities and market- making activities for its own account, which are subject to volatility in the securities markets. The results of the Group's trading activities generally correlate with the performance of the PRC securities markets.

- The derivative financial instruments transactions the Group's financial services business enters into include stock options, treasury futures and stock index futures. The Group's financial services business generally uses derivative financial instruments to hedge against the risk of price volatility in its investment portfolio or to adjust the risk exposure of its investment portfolio. However, currently, the types of financial investment products available in the PRC securities market remain limited, which makes it difficult for the Group's financial services business to fully hedge against fluctuations in the value of its investment portfolio, and the derivative financial instruments that the Group's financial services business uses may not be as effective as it expects. In addition, the Group's financial services business is exposed to risks associated with derivatives contracts it enters into, which could result in losses. Since the derivative financial instruments markets in the PRC are developing, the Group's financial services business' experience in managing new products or trading derivative financial products may be inadequate and the Group's financial services business may be subject to losses.

- The performance of the Group's financial services business' proprietary trading is determined by its investment decisions and judgment based on its assessment of existing and future market conditions. If the Group's financial services business makes mistakes in its investment decisions, or the actual changes in market conditions differ from the Group's financial services business' projections, or the concentration risks resulting from the Group's financial services business' investment decisions, including risks from holding particular assets or asset classes, the Group's financial services business' proprietary trading activities may suffer and not achieve its anticipated investment returns.

A significant decline in the Group's financial services business' AUM or poor investment performance may materially and adversely affect its investment management business

The Group's financial services business receives asset management fees based on the asset size of various mutual funds, private equity funds and asset management schemes under its management. In addition, the Group's financial services business may earn pre-determined performance fees for certain asset management schemes. Investment performance affects the Group's financial services business' AUM and is one of the most important factors in retaining its clients and competing for new investment management businesses. Limited investment options and hedging strategies in China, as well as market volatility, could negatively affect the Group's ability to provide stable returns for its clients and cause it to lose clients. Poor investment performance could adversely affect the revenue and growth of the Group's financial services business, because:

- existing clients might withdraw funds from the Group's investment management business, which would result in lower management fees for the Group's financial services business;

- the development of new clients may not be as successful as the Group's financial services business had planned; clients may request that the Group lowers its fees for asset management services, particularly in an intensely competitive industry; and

- the performance fees of the Group's financial services business, which are based on a percentage of investment returns, would decline.

In addition, with the release of Guidance Opinions Concerning Standardization of Asset Management Operations by Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) in April 2018, financial institutions in China are subject to regulatory requirements such as standard leverage ratios and reduction of channel-based asset management services. Under these tightening requirements, the Group's financial services business may face greater regulatory scrutiny and adjust its business structure, which may result in additional downside pressure for its expansion of AUM and asset management business.

The asset management fees or market share of the Group's financial services business may decrease due to increased competition from commercial banks, fund management companies, trust companies, insurance companies and other competitors. Factors such as market volatility, adverse economic conditions or the failure to outperform the competitors of the Group's financial services business may reduce its AUM or affect the performance of the assets or funds it manages, which could adversely affect the amount of management fees or performance fees received by the Group's financial services business. For asset management schemes where the Group's financial services business acts as the investment manager and to which it contributes its own capital, the Group's financial services business may be required to consolidate them onto its balance sheet due to its ability to exercise control over these schemes. As such, the Group's financial services business may also experience investment losses if there is a significant decline in the AUM or poor performance of these schemes. In addition, if the clients of the Group's financial services business incur significant losses from investing in its asset management schemes, the Group's financial services business may be subject to regulatory penalties, client complaints and compensation, litigation or adverse effects on its or the Group's reputation.

The Group's financial services business may fail to realise returns from its private equity fund management, or lose part or all of its investments

The Group's private equity fund management business generally involves investments in private companies and in private equity funds with the Group's financial services business' own funds. The Group's financial services business and its private equity funds aim to earn returns from dividends paid by portfolio companies and the listing or the disposal of portfolio companies.

The Group's financial services business may fail to identify fraudulent, inaccurate or misleading information about a target company in the course of its due diligence, which may cause the Group's financial services business to make unsound investment decisions or overvalue the target company. Material and adverse changes in the target company's industry, business and financial condition after the completion of the investment could negatively affect the investment return of the Group's financial services business. Market volatility may also materially and adversely affect the equity investments made by the private equity funds of the Group's financial services business.

The portfolio companies of the Group's financial services business may take longer than expected to become suitable for a listing or sale. Failure to list or sell the portfolio companies of the Group's financial services business for any reason may adversely affect the value of the investment of the Group's financial services business. If the Group's financial services business cannot exit its private equity investments in the anticipated period or at acceptable prices, the Group's financial services business will not be able to achieve its expected investment returns.

The Group's financial services business and its private equity funds have limited control over their portfolio companies. Those companies may make business, financial or management decisions with which the Group's financial services business does not agree, which may subject the Group's financial

services business to further risks. Furthermore, the portfolio companies of the Group's financial services business may fail to abide by their agreements with the Group's financial services business, for which the Group's financial services business has limited or no recourse. Any of the foregoing incidents could significantly reduce the value of the investments of the Group's financial services business and adversely affect the financial condition and results of operations of the Group's financial services business.

A significant decrease in the liquidity of the Group's financial services could negatively affect its business and reduce customer confidence in it

Maintaining adequate liquidity is crucial to the Group's financial services business operations as it continues to expand its margin financing and securities lending, securities-backed lending, investment and trading, principal investment, and other business activities with substantial cash requirements. The Group's financial services business meets its liquidity needs primarily through cash generated from operating activities and debt financing. A reduction in the liquidity of the Group's financial services business could reduce the confidence of its clients or counterparties in it, which may result in the loss of business and clients.

Meanwhile, the Group's financial services business is required to comply with regulatory indicators with respect to liquidity by regulatory agencies and self-regulatory organisations such as the CSRC and the Securities Association of China (the "**SAC**"). If the Group's financial services business fails to meet regulatory liquidity requirements in China, the CSRC may also impose penalties on it or limit the scope of its business, which could, in turn, have a material and adverse effect on its financial condition and results of operations.

Failure to comply with the liquidity requirements imposed by the SAC may result in disciplinary actions imposed by the SAC. Factors that may adversely affect the liquidity position of the Group's financial services business include significant growth in its margin financing and securities lending and securities-backed lending businesses, increased regulatory capital requirements, substantial investments, loss of market or client confidence or other regulatory changes. In addition, fluctuations in the fair value of the transferred financial assets of the Group's financial services business, principally represented by the underlying assets of its repurchase agreements and securities lent in its securities lending business, may also affect its liquidity position where the Group's financial services business expects to receive timely cash inflows from these assets in the future. The Group's financial services business may incur negative net cash flows from operating activities in the future. When cash generated from its operating activities is not sufficient to meet its liquidity or regulatory capital needs, the Group's financial services business must seek external financing. During periods of disruption in the credit and capital markets, potential sources of external financing could be limited and its borrowing costs could increase. External financing may not be available on commercially acceptable terms or at all in a timely manner due to unfavourable market conditions and disruptions in the credit and capital markets.

The Group's financial services business may be subject to litigation and regulatory investigations and proceedings, and may not always be successful in defending itself against such claims or proceedings

The securities industry faces substantial litigation and regulatory risks, including the risk of lawsuits and other legal actions relating to information disclosure, sales or underwriting practices, product design, fraud and misconduct, as well as protection of personal and confidential information of the Group's customers. The Group's financial services business may be subject to lawsuits and arbitration claims in the ordinary course of its business. The Group's financial services business may also be subject to inquiries, investigations, and proceedings by regulatory and other governmental agencies. Litigation, regulatory investigations and proceedings brought against the Group's financial services business may result in settlements, injunctions, fines, penalties or other results adverse to the Group's financial services business that could harm the Group's financial services business' and the Group's reputation.

Even if the Group's financial services business is successful in defending itself against these actions, the costs of such defense may be significant. In market downturns, the number of legal claims and amount of damages sought in litigation and regulatory proceedings may increase.

From time to time, the Group's financial services business is subject to litigation, regulatory investigations and proceedings arising in the ordinary course of its business. A significant judgment or regulatory action against the Group's financial services business, or a disruption in its business arising from adverse adjudications in proceedings against its directors, officers or employees, would have a material and adverse effect on the liquidity, business, financial condition, results of operations and prospects of the Group's financial services business.

The Group's financial services business may be subject to liability and regulatory action if it is unable to protect the personal data and other confidential information of its clients

Various laws, regulations and rules require the Group's financial services business to protect the personal data and confidential information of its customers. The relevant authorities may issue sanctions or orders against the Group's financial services business if it fails to protect the personal information of its customers, and it may have to provide compensation for economic loss arising from its failure to protect the personal information of its customers in accordance with relevant laws and regulations. Incidents of mishandling the personal information or failure to protect the confidential information of its customers could create a negative public or customer perception of its operations or its brand name, which may materially and adversely affect its reputation and prospects.

The Group's financial services business is subject to extensive and evolving regulatory requirements, non-compliance with which, or changes in which, may affect its business operations and prospects

As a financial institution, the Group's financial services business is subject to extensive regulations in China and overseas. Regulatory authorities regulate the Group's financial services business activities by imposing capital requirements, determining the types of products and services the Group may offer, and limiting the types of securities it may invest in.

The regulatory authorities in the jurisdictions where the Group's financial services business operates, principally China and Hong Kong, conduct periodic inspections, examinations and inquiries with respect to its compliance with relevant regulatory requirements. For example, the CSRC assigns a regulatory rating to each securities firm based on its risk management capabilities, competitiveness and compliance with regulatory requirements. As of 30 June 2020, CM Securities has been granted the "AA" grade under A Class of regulatory rating by the CSRC for 13 consecutive years. However, there is no assurance that the CSRC will not lower the CM Securities' regulatory rating in the future, which may make it unqualified for conducting certain new businesses or obtaining business permits or approvals for its businesses, or cause it to be subject to a higher risk capital reserve ratio or a higher ratio for its securities investor protection fund.

Failure to comply with the applicable regulatory requirements could result in sanctions, fines, penalties or other disciplinary actions, including, among other things, a downgrade of its regulatory rating and limitations or prohibitions on the Group's future business activities, which may limit its ability to conduct pilot programs and launch new products and services, and harm its reputation. Moreover, relevant rules and regulations could be revised from time to time based on the development of the securities markets. New rules and regulations, and changes in the interpretation or enforcement of existing rules and regulations, may directly impact the Group's business strategies and prospects. In addition, changes in the rules and regulations could result in limitations on the Group's business scope, changes to its business practices or additional costs or taxes, which may adversely affect the Group's financial services business's ability to compete effectively with other institutions that are not affected in the same way.

The risk management policies and procedures and internal controls of the Group's financial services business, as well as the risk management tools available to the Group's financial services business, may not fully protect it against various risks inherent in its business

The Group's financial services business has established an internal risk management framework and procedures to manage its risk exposures, primarily including market, credit, liquidity, compliance and operational risks. Certain areas within the risk management policies and internal control systems and procedures of the Group's financial services business may require constant monitoring, maintenance and continual improvement by its senior management and staff. Although the Group's financial services business continues to implement its risk management policies and internal control systems, they may not be adequate or effective in mitigating its risk exposures or protecting it against unidentified or unanticipated risks. In particular, some risk management approaches are based on observations of historical market behaviour and the Group's financial services business' experience in the securities industry. These methods may fail to predict future risk exposures, which could be significantly greater than those indicated by the historical measures of the Group's financial services business. Other risk management methods depend upon an evaluation of available information regarding operating and market conditions and other matters, which may not be accurate, complete, up to date or properly evaluated. In addition, in markets that are rapidly developing, the information, experience and data that the Group's financial services business relies on for its risk management methods may quickly become outdated as markets and regulations continue to evolve. The business and prospects of the Group's financial services business may be materially and adversely affected if its efforts to maintain these policies, systems and procedures are ineffective or inadequate. Deficiencies in the risk management and internal control systems and procedures of the Group's financial services business may adversely affect its ability to identify any reporting errors and compliance with rules and regulations, which may also have a material and adverse effect on the Group's business, financial condition and results of operations.

Fluctuations in financial asset prices may affect the Group's financial condition

The prices of the Group's financial assets are susceptible to fluctuations due to macroeconomic as well as market factors that are beyond the Group's control. The Group's transactional financial assets which the Group invests in comprise mainly of fixed income financial assets, shares and equity. If the debtors under the fixed income financial assets fail to perform their payment obligations, the fair market values of such assets may depreciate. As the Group books its financial assets by reference to their fair market values, any depreciation may result in a corresponding reduction in the Group's total asset value.

In addition, financial assets carry liquidity risk. The Group's available-for-sale financial assets comprise mainly of shares and equity derivatives. Various macroeconomic, market and policy factors may affect the prices of available-for-sale financial assets. In addition, the projected income flow and risk profile of specific financial assets may also contribute to the liquidity risk of such assets. If the prices of available-for-sale financial assets decline significantly, the Group may experience difficulty in recovering its investment through disposal.

RISKS RELATING TO THE GUARANTOR

The Guarantor's obligations under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries, associates and jointly controlled entities

The Guarantor is a holding company and, accordingly, the Guarantor's obligations under the Guarantee are structurally subordinated to all existing and future liabilities and obligations of each of the Guarantor's subsidiaries, associates and jointly controlled entities. The Guarantor's obligations will not be guaranteed by any of its subsidiaries. Claims of creditors of such companies (other than the Issuer) will have priority as to the assets of such companies over the Guarantor and its creditors, including holders of the Bonds seeking to enforce the Bonds and the Guarantee. Moreover, the Guarantor's

interests in its subsidiaries, associates and jointly controlled entities could be reduced in the future. Neither the Bonds nor the Guarantee contain any restriction on the ability of the Guarantor or its subsidiaries, associates or jointly controlled entities to incur additional indebtedness.

The Guarantor may not exercise complete control over dividend or other policies of some of its businesses

The Guarantor is a holding company, and accordingly, its ability to perform its payment obligations pursuant to the Guarantee depends upon the receipt of dividends, distributions, interests or advances from the Group's entities, including its associates and jointly controlled entities. Although the Guarantor historically has had significant control over the dividend policies of most of the Group's entities, some portfolio companies may conclude that it is in the best interest of their shareholders to retain earnings, if any, for use in the operation and expansion of their businesses. The shareholders or the board of directors of a portfolio company (as the case may be) have the power to determine whether to pay dividends based on conditions then existing, including the Guarantor's earnings, financial condition and capital requirements, as well as economic and other conditions the shareholders or the board may deem relevant. In particular, the Guarantor does not maintain complete control over its listed jointly controlled entities or associates in which it might hold a minority interest. There is no assurance that the Guarantor will be able to receive sufficient cash flows from members of the Group to satisfy its obligation under the Guarantee.

Connected party transaction issues

Several of the Guarantor's major subsidiaries or associates are listed on various stock exchanges, for example, CMPort, CM Securities and China Merchants China Direct Investments Limited ("**CM China Direct**") are listed on the SEHK. Consequently, although the relationship between the Guarantor and its various subsidiaries and associates provides the Group with significant business advantages, such relationship results in various related or connected party transactions. Each of the Issuer and the Guarantor is a connected person of CMPort, CM Securities and CM China Direct for the purposes of the HKSE Listing Rules.

Accordingly, any transaction entered into between CMPort, CM Securities and CM China Direct (together the "**Hong Kong Listed Companies**") and the Issuer, the Guarantor and/or their respective associates is a connected transaction which, unless one of the exemptions is available or relevant waivers are applied for and granted, will be subject to the relevant requirements of Chapter 14A of the HKSE Listing Rules. These requirements include the issuance of press notices, the obtaining of independent shareholders' approval at general meetings and disclosure in annual reports and accounts. Furthermore, according to The Rules Governing the Listing of Stocks on Shanghai Stock Exchange, associates and jointly controlled entities of the Guarantor or CMPort may be deemed as a related person of CM Securities under certain circumstances, such as the identical controlling shareholders, special relationship between directors or any other special relationship as determined by the CSRC. Where such connected party transaction occurs, CM Securities may be subject to the relevant obligations, including, without limitation, full disclosure of the details of the relevant transaction, directors' and shareholders' approval and the issuance of a press notice.

Certain directors of the Hong Kong Listed Companies serve as directors or officers of the Guarantor

Certain directors of the Hong Kong Listed Companies serve as directors or officers of the Guarantor. Thus, some of the directors of the Guarantor will not devote themselves exclusively to the businesses of the Group. Although the HKSE Listing Rules require that transactions between connected persons be conducted on an arm's length basis, such directors' positions at the Guarantor may create potential conflicts of interest.

Public information on the Guarantor may be limited

Even though a number of the Guarantor's material subsidiaries and associates are listed in the PRC or Hong Kong, the Guarantor is a private company incorporated under the Companies Ordinance (Cap. 622) of Hong Kong and is not listed on any stock exchange. As a result, there may be less publicly available information regarding the Guarantor than is regularly made available by listed companies in other countries.

RISKS RELATING TO THE PRC

The PRC's economic, political and social conditions, as well as government policies, could affect the Group's businesses

The Group expects to derive substantial revenues from its operations in the PRC. In addition, the Group intends to develop new ports and related services and facilities in the PRC. The Group's financial condition, operating results and prospects will, accordingly, be subject to economic, political and legal developments in the PRC as well as the economies in the surrounding region.

The PRC economy differs from the economies of most developed countries in many respects, including:

- extent of government involvement;
- level of development;
- growth rate;
- economic and political structure;
- control of foreign exchange;
- allocation of resources; and
- regulation of capital reinvestment.

While the PRC economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may have a negative effect on the Group's operations. For example, the Group's financial condition and operating results may be adversely affected by the PRC Government's control over capital investments or any changes in tax or labour regulations or foreign exchange controls that are applicable to it. The PRC has also displayed signs of slowdown as evidenced by a decrease in the growth rate of its GDP in recent years. By 2019, China's economic growth rate had slowed to 6.1 per cent. In May 2017, Moody's lowered its rating of China's Aa3 government bonds from Aa3 to A1, citing the likelihood of a material rise in economy-wide debt while potential growth slows and the burden that will be placed on the PRC Government's finances. In September 2017, S&P Global Ratings lowered China's long-term sovereign credit ratings from "AA-" to "A+", citing China's prolonged period of strong credit growth which increased its economic and financial risks.

A significant portion of the Group's assets is located in the PRC and a significant portion of the Group's revenues is derived from its operations in the PRC. Accordingly, the Group's businesses, financial condition, results of operations and prospects are subject, to a significant extent, to legal, political and economic developments in the PRC.

The Group is exposed to foreign exchange risks

Most of the transactions of the Group are denominated in Renminbi, Hong Kong dollars or U.S. dollars. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditures and expenses that are denominated in a currency other than the functional currency of the relevant company in the Group. The Group considers that its foreign currency exposure mainly arises from the exposure of Renminbi against the Hong Kong dollar and the U.S. dollar. The majority of the Group's operating subsidiaries draws loans in their functional currencies to finance their funding requirements.

As the Hong Kong dollar is pegged to the U.S. dollar, the Group has a limited exposure to transactions denominated in U.S. dollars, which are entered into by the Group companies with the Hong Kong dollar as their functional currency. Since 1983, the Hong Kong dollar has been officially linked to the U.S. dollar at the rate of HK$7.80 to U.S.$1.00 through the operation of a strict currency board system. Since then, the market exchange rates have stayed close to HK$7.80 to U.S.$1.00.

The PBOC surprised markets in August 2015 by thrice devaluing the Renminbi, lowering its daily midpoint trading price significantly against the U.S. dollar. The currency devaluation of Renminbi was intended to bring it more in line with the market by taking market signals into account, but also boosts the competitiveness of PRC's exports. The PRC Government may make further adjustments to the exchange rate system in the future. In January and February 2016, the Renminbi experienced further fluctuation in value against the U.S. dollar which has continued in 2019. On 5 August 2019, the PBOC set the Renminbi's daily reference rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. With an increased floating range of the Renminbi's value against foreign currencies and a more market-oriented mechanism for determining the mid-point exchange rates, the Renminbi may further appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long-term. Any appreciation of Renminbi against the U.S. dollar or any other foreign currency may result in a decrease in the value of the Group's foreign currency-denominated assets. Conversely, any devaluation of Renminbi may adversely affect the value of the Group's assets in Renminbi terms.

Any volatility of the Renminbi exchange rate in the future may materially affect the Group's businesses, financial condition, operating results and future prospects and any devaluation of Renminbi against the Hong Kong dollar and the U.S. dollar will increase the amount of Renminbi the Group would need to service its obligations denominated in Hong Kong dollars or U.S. dollars.

Certain facts and statistics in this Offering Circular relating to the PRC economy and certain industries in the PRC are derived from published information which may be inaccurate

Some of the facts and statistics in this Offering Circular relating to the PRC, the PRC economy and industries in which the Group operates and related industry sectors are derived from various publications and obtained in communications with various agencies that the Issuer and the Guarantor believe to be reliable. However, neither the Issuer nor the Guarantor can guarantee the quality or reliability of certain information sources. Such facts and statistics have not been independently verified by the Issuer, the Guarantor, the Managers, the Agents or any of their respective affiliates or advisers and, therefore, neither the Issuer, the Guarantor, the Managers, the Agents nor their respective affiliates or advisers make any representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics in this Offering Circular relating to the PRC economy and the industries in which the Group operates and related industry sectors may contain certain inaccuracies. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts or statistics.

Changes in interest rates could significantly affect the Group's financial condition and results of operations

In recent years, the PBOC has adjusted the benchmark interest rates several times. There can be no assurance that the PBOC will not raise lending rates and any increase may cause the Group to be unable to obtain sufficient financing, or at all. As a result, it could materially and adversely affect the Group's liquidity and access to capital and the Group's ability to operate its businesses.

In addition, the Group is exposed to interest rate risk on its floating rate borrowings and on any additional debt financing that may be periodically needed for its capital expenditures. As at 31 December 2019, a certain portion of the Group's U.S. dollar bank borrowings carried a floating rate of interest. Any upward fluctuations in interest rates would increase the cost of both existing and new debts of the Group, which in turn could materially and adversely impact the financial condition, results of operations, planned capital expenditures and cash flows of the Group.

The legal system in the PRC is less developed than in certain other countries and laws in the PRC may not be interpreted and enforced in a consistent manner

Since 1979, the PRC Government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investments. Progress has been achieved in the promulgation of laws and regulations dealing with economic matters, such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the businesses and prospects of the Group. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainties. The interpretation of PRC laws may be subject to policy changes, which reflect domestic political changes. Any of these may have material adverse effect on the Group's prospects, financial condition and operating results.

The promulgation of new PRC tax laws may adversely impact the Group's results of operations

Since the Group expects to derive substantial revenues from its operations in the PRC, the PRC tax laws will affect the Group's financial condition and operating results, and the promulgation of new PRC tax laws may result in an increase in the tax expenses of the Group and may have adverse effects on the Group's profitability.

On 27 July 2011, the PRC State Administration of Taxation formulated "Administrative Measures for Income Tax of Chinese-Controlled Resident Enterprises Registered Abroad (For Trial Implementation)" which was further implemented on 17 April 2015, and strengthened the collection of income tax of Chinese-controlled resident enterprises incorporated overseas.

No assurance can be given that no further tax reforms will be introduced by the PRC Government that could further increase the Group's potential tax liability in the PRC.

RISKS RELATING TO THE BONDS AND THE GUARANTEE

The PRC government has no obligations under the Bonds or the Guarantee

The PRC government is not an obligor and shall under no circumstances have any obligation arising out of or in connection with the Bonds or the Guarantee in lieu of the Issuer or (as the case may be) the Guarantor. This position has been reinforced by the Circular of the Ministry of Finance on Issues relevant to the Regulation on the Investment and Financing Activities Conducted by Financial Institutions for Local Governments and State-owned enterprises(財政部關於規範金融企業對地方政府和國有企業投融資行為有關問題的通知(財金[2018]23號)promulgated on 28 March 2018 and which took effect on the same day, the Circular of the National Development and Reform Commission and the Ministry of Finance on Improvement of Market Regulatory Regime and Strict Prevention of Foreign

Debt Risks and Local Government Indebtedness Risks（國家發展改革委財政部關於完善市場約束機制嚴格防範外債風險和地方債務風險的通知）（發改外資[2018]706號）promulgated on 11 May 2018 and which took effect on the same day and the Circular by the General Office of the National Development and Reform Commission of the Relevant Requirements for the Application for Recordation and Registration of Foreign Debt Issuance by Local State-owned Enterprises（國家發展改革委辦公廳關於對地方國有企業發行外債申請備案登記有關要求的通知）（發改辦外資[2019]666號）promulgated on 6 June 2019 and which took effect on the same day.

The PRC government is the ultimate controlling shareholder of the Guarantor, the Guarantor's shareholders only have limited liability in the form of their equity contribution in the Guarantor. As such, the PRC government does not have any payment obligations under the Bonds or the Guarantee. The Bonds are solely to be repaid by the Issuer and by the Guarantor pursuant to the Guarantee, each as an obligor under the relevant transaction documents and as an independent legal person. Ownership or control by the PRC government does not provide assurance on the Issuer's financial condition either.

Bondholders should rely on publicly available information on CIMC

CIMC was not involved in the preparation of this Offering Circular and as such, any information on CIMC in this Offering Circular has been derived from publicly available information. Accordingly, the Bondholders should rely on publicly available information on business and results and operations of CIMC and there can be no assurance that such information presents an accurate description of business and results and operations and that it addresses any significant business changes of respective companies which could affect the value of the Shares.

CIMC has no obligations with respect to the Bonds

CIMC has no obligation with respect to the bonds, including any obligation to consider the needs of the Guarantor or holders of the Bonds. As a consequence, there can be no assurance that all events occurring prior to the date hereof that would affect the trading price of the Shares (and therefore the price of the Bonds) are available to prospective investors. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning CIMC could affect the trading price of the Shares deliverable upon exchange of the Bonds and therefore the trading price of the Bonds. CIMC will not receive any of the proceeds from the offering of the Bonds and are not responsible for, and has not participated in, the determination of the timing of, price for, or qualities of, the Bonds.

The transfer of the Shares upon exchange is subject to stamp duty in Hong Kong

No Hong Kong stamp duty will be chargeable upon the issue, transfer (for so long as the register of holders of the Bonds is maintained outside Hong Kong) or redemption at maturity (in which the Bonds shall be cancelled and extinguished) of a Bond. Hong Kong stamp duty is payable on any transfer of Hong Kong stock, including the transfer of the Shares to the holder of the Bonds upon exchange. The duty is charged on each of the transferor and the transferee at the ad valorem rate of 0.1 per cent. of the consideration for, or (if greater) the value of, the Shares bought and sold. In other words, a total of 0.2 per cent. is currently payable on a typical transfer (i.e. sale and purchase transaction) of the Shares. In addition, stamp duty is payable at the flat rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Shares. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. For further details, see "*Taxation – Hong Kong – Stamp Duty*". A document chargeable to stamp duty which is not duly stamped may not be received in evidence in any proceedings. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Bonds or any persons acquiring, selling or otherwise dealing in the Bonds or on any tax implications arising from the acquisition, sale or other dealings in respect of the Bonds. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

The Bonds and the Guarantee are unsecured obligations

The Bonds and the Guarantee are unsecured obligations of the Issuer and the Guarantor, respectively. The repayment of the Bonds and payment under the Guarantee may be adversely affected if:

- the Issuer or any of the Guarantor enters into bankruptcy, liquidation, reorganization or other winding-up proceedings;
- there is a default in payment under the Issuer's or any Guarantor's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's or any Guarantor's indebtedness.

If any of these events were to occur, the Issuer's or the Guarantor's (as the case may be) assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Bonds.

The Bonds constitute a new issue of securities for which there is no existing trading market

There is currently no existing trading market for the Bonds and the Bonds offer limited liquidity. Although an application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds on the Hong Kong Stock Exchange, no assurance can be given that such application will be approved, or even if the Bonds become so listed, an active trading market for the Bonds will develop or be sustained. No assurance can be given as to the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds or that a liquid market will develop. The liquidity of the Bonds will be adversely affected if the Bonds are held or allocated to limited investors. Bondholders should note that they may need to hold their Bonds until maturity as there may not be an active secondary market for the Bonds. None of the Joint Lead Managers is obligated to make a market in the Bonds, and if the Joint Lead Managers do so, they may discontinue such market making activity at any time at their sole discretion. In addition, the Bonds are being offered pursuant to exemptions from registration under the Securities Act and, as a result, holders will only be able to resell their Bonds in transactions that have been registered under the Securities Act or in transactions not subject to, or exempt from, registration under the Securities Act.

The Bonds are redeemable in the event of certain withholding taxes being applicable

No assurances are made by the Issuer as to whether or not payments on the Bonds may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong, the PRC or any subdivision or authority therein or thereof having power to tax. Although pursuant to the Terms and Conditions of the Bonds, the Issuer is required to gross up payments in respect of the Bonds on account of any such withholding taxes or deductions, the Issuer also has the right to redeem the Bonds at any time in the event it (or, as the case may be, the Guarantor) has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong, the PRC, the British Virgin Islands or any subdivision or authority therein or thereof having power to tax as a result of any change in, or amendment to, the laws or regulations of Hong Kong, the PRC, the British Virgin Islands or any political subdivision or authority therein or thereof having power to tax, or any change in the application or official interpretation of such laws or regulations.

The Bonds may be redeemed at the Issuer's option in accordance with Condition 8(b) (Redemption at the Option of the Issuer) of the Terms and Conditions of the Bonds or upon the occurrence of certain other events

The Issuer may redeem the Bonds at the option of the Issuer under certain circumstances in accordance with Condition 8(b) *(Redemption at the Option of the Issuer)*. An investor of the Bonds may not be able to reinvest the redemption proceeds in comparable securities at an effective interest rate at the same level as that of the Bonds.

The Issuer may not be able to meet its outstanding obligations under the Bonds

The Issuer may (and at maturity, will) be required to redeem all of the Bonds. In the event that the Issuer is required to redeem the Bonds or if investors exercise their redemption rights upon the occurrence of a Relevant Redemption Event (as defined in the Terms and Conditions of the Bonds), the Issuer may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. In addition, the Issuer's ability to redeem the Bonds in cash may be limited by law, by the terms of other agreements relating to its senior debt and by indebtedness and agreements that the Issuer may enter into in the future which may replace, supplement or amend its existing or future indebtedness. If the exercise of the redemption right on the dates specified in the Terms and Conditions of the Bonds occurs at a time when the Issuer is restricted from redeeming the Bonds, the Issuer could seek the consent of lenders to redeem the Bonds or could attempt to refinance the indebtedness subject to such restriction. If the Issuer is not able to obtain consent or refinance such indebtedness, it could be restricted from redeeming the Bonds. The Issuer's failure to repay, repurchase or redeem tendered Bonds could constitute an event of default under the Bonds, which may also constitute a default under the terms of the Issuer's or the Group's other indebtedness.

The Trustee may request the Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances (including without limitation the giving of notice to the Issuer pursuant to Condition 11 (*Events of Default*) of the Terms and Conditions of the Bonds and the taking of steps and/or actions and/or instituting proceedings pursuant to Condition 15 *(Enforcement)* of the Terms and Conditions of the Bonds), the Trustee may (at its sole discretion) request Bondholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes steps and/or actions and/or initiates proceedings on behalf of Bondholders. The Trustee shall not be obliged to take any such steps and/or actions and/or to initiate any such proceedings if not indemnified and/or prefunded and/or secured to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such steps and/or actions can be taken and/or such proceedings can be initiated. The Trustee may not be able to take steps and/or actions and/or to initiate proceedings, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed constituting Bonds and in such circumstances, or where there is uncertainty or dispute as to the applicable laws or regulations, to the extent permitted by the agreements and the applicable law, it will then be for the Bondholders to take such steps and/or actions and/or to initiate such proceedings directly.

The Group may issue additional Bonds in the future

The Group may, from time to time, and without prior consultation or approval of the Bondholders create and issue further bonds (see "*Terms and Conditions of the Bonds – Further Issues*") or otherwise raise additional capital through such means and in such manner as the Group may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Bonds.

Income or Gains on the transfer of the Bonds may be subject to income tax under PRC tax laws

The Issuer is incorporated under the laws of the British Virgin Islands. Pursuant to the Enterprise Income Tax Law of the PRC (the "**EIT Law**") and its implementation regulations, enterprises that are established under the laws of foreign countries and regions but whose "de facto management bodies" are within the PRC are treated as PRC tax resident enterprises for the purposes of the EIT Law. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that the "de facto management body" of the Issuer is within the PRC, the Issuer may be held to be a PRC tax resident enterprise for the purposes of the EIT Law and income or gains paid with respect to the Bonds may considered to be derived from sources within the PRC. Under the EIT Law, any income and gains realised on the transfer of the Bonds by holders who are deemed under the EIT Law as non-resident enterprises may be subject to PRC enterprise income tax if such gains are regarded as income derived from sources within the PRC. Under the EIT Law, a "non-resident enterprise" means an enterprise established under the laws of a jurisdiction other than the PRC and whose actual administrative organisation is not in the PRC, which has established offices or premises in the PRC, or which has not established any offices or premises in the PRC but has obtained income derived from sources within the PRC. There remains uncertainty as to whether the gains realised on the transfer of the Bonds by enterprise holders would be treated as incomes derived from sources within the PRC and be subject to PRC enterprise income tax. In the future, if the Issuer or the Guarantor is considered as PRC tax resident enterprises for the purposes of the EIT Law, interest paid on the Bonds or Guarantee may be considered to be PRC source, in which case the Issuer or Guarantor, as the case may be, would be required to withhold income tax at a rate of 10 per cent. from payments of interest in respect of the Bonds to any non-resident enterprise holders and a rate of 20 per cent. from payments of interest in respect of the Bonds to any non-resident individual holders. Any capital gain realised by a non-resident enterprise from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly may be subject to a PRC tax of up to 10 per cent. if the Issuer is treated as a PRC tax resident. Pursuant to the Individual Income Tax Law of the PRC and its implementation regulations, if the Issuer or Guarantor is considered to be a PRC tax resident enterprise, the Issuer or Guarantor, as the case may be, may be obliged to withhold such individual income tax on payments of interests to non-resident individual holders of the Bonds. Any capital gain realised by a non-resident individual holder from transfer of the Bonds may also be regarded as being derived from sources within the PRC and be subject to PRC tax of up to 20 per cent. if the Issuer is a PRC tax resident enterprise. The taxable income will be the balance of the total income obtained from the transfer of the Bonds minus all costs and expenses that are permitted under PRC tax laws to be deducted from the income.

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**Arrangement**") which was promulgated on 21 August 2006, Bondholders who are Hong Kong residents, including both enterprise holders and individual holders, will be exempted from PRC income tax on capital gains derived from a sale or exchange of the Bonds.

On 23 March 2016, the Ministry of Finance and the State Administration of Taxation issued the Circular of Full Implementation of Business Tax to VAT Reform Caishui [2016] No. 36, which introduced a new value-added tax ("**VAT**") from 1 May 2016. VAT is applicable where the entities or individuals provide services within the PRC. VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC. Circular 36 and laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

If a Bondholder, being a non-resident enterprise or non-resident individual, is required to pay any PRC income tax on gains on the transfer of the Bonds, the value of the relevant Bondholder's investment in the Bonds may be materially and adversely affected.

The Bonds may not be a suitable investment for all investors

Each potential investor in any Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;

- understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in Bonds which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of such Bonds and the impact this investment will have on the potential investor's overall investment portfolio. Additionally, the investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Bonds are legal investments for it, (b) Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Modifications and waivers may be made in respect of the Terms and Conditions of the Bonds, the Trust Deed and/or the Agency Agreement by the Trustee

The Terms and Conditions of the Bonds provide that the Trustee may, without the consent of the holders of the Bonds, agree to any modification (except as mentioned in the Trust Deed) of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee will not be materially prejudicial to the interests of the holders of the Bonds and to any modification of the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement which in the opinion of the Trustee is of a formal, minor or technical nature or is to correct a manifest error or to comply with any mandatory provision of applicable law.

In addition, the Trustee may, without the consent of the holders of the Bonds, authorise or waive any proposed breach or breach of the Bonds, the Trust Deed, the Terms and Conditions of the Bonds and/or the Agency Agreement (other than a proposed breach, or a breach relating to the subject of certain reserved matters) if, in the opinion of the Trustee, the interests of the holders of the Bonds will not be materially prejudiced thereby.

The obligations of the Guarantor under the Guarantee are structurally subordinated to the liabilities and obligations of their respective subsidiaries

The Guarantor is a holding company that mainly conducts its business through their respective subsidiaries, and the Guarantor's ability to perform its obligations under the Guarantee is effectively dependent on the cash flow of its respective subsidiaries. Any claim by the Trustee against the Guarantor in relation to the Guarantee will be effectively subordinated to all existing and future obligations of the Guarantor's subsidiaries (which have not provided the Guarantee) other than the Issuer, and all claims by creditors of such subsidiaries (which have not provided the Guarantee) will have priority to the assets of such entities over the claims of the Trustee under the Guarantee.

Bondholders have no security interest in the Exchange Property and the covenants imposed on the Issuer and the Guarantor in connection with the Exchange Property are not a pledge

There is no security interest in relation to the Exchange Property, and covenants imposed on the Issuer and the Guarantor in connection with the Exchange Property are not a pledge. The Trust Deed does not create any security interest in favour of the Bondholders either to secure the payment obligations arising under the Bonds or to secure the performance of the Exchange Rights thereunder. However, pursuant to the Terms and Conditions of the Bonds, the Issuer and the Guarantor have undertaken not to create or permit to subsist any security interest over the Exchange Property. Accordingly, in the event of any insolvency of the Issuer, the Bondholders will rank on a *pari passu* basis with all other unsecured and unsubordinated creditors of the Issuer and will have no preference in respect of the Exchange Property.

Bondholders will bear the risk of fluctuations in the price of the Shares

The market price of the Bonds at any time will be affected by, among other things, fluctuations in the trading price of the Shares. It is impossible to predict whether the price of the Shares will rise or fall. The trading price of the Shares will be influenced by, among other things, results of operations of CIMC, sales of additional shares of CIMC or securities exchangeable for or convertible into Shares, as well as political, economic, financial and other factors in the PRC market, all of which are beyond the control of the Issuer and the Guarantor. The Bondholders will bear the risk of a decline in the price of the Shares prior to maturity of the Bonds. Subsequent to the delivery of the Shares upon exchange of the Bonds, the holder of the Shares will be exposed to the risk associated with holding the Shares if such holder chooses not to sell the Shares. None of the Issuer, the Guarantor and the Joint Lead Managers can provide any assurance as to the future price level of the Shares or the Bonds.

Bondholders will have no direct rights as holders of Shares before exchange

Unless and until the Bondholders acquire the Shares deliverable upon exchange, the Bondholders will have no rights with respect to the Shares, including any voting rights. Upon exchange of the Bonds for the Shares, the holders will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the relevant Exchange Date.

Bondholders have limited anti-dilution protection

The Exchange Property into which the Bonds may be exchanged on a pro rata basis will be adjusted in the event that there is a subdivision, consolidation or redenomination, a rights issue, bonus issue, reorganisation, or other adjustment, which affects the property comprising the Exchange Property, but only in the situations and only to the extent described in the Terms and Conditions of the Bonds. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Exchange Property. Events in respect of which no adjustment is made may adversely affect the value of the Exchange Property and, therefore, adversely affect the value of the Bonds.

Risks attached to the exercise of exchange rights

Bondholders should be aware that the Bonds, being exchangeable for the Exchange Property, bear certain risks. Depending upon the performance of the Exchange Property, the value of the Exchange Property may be substantially lower at such time that Bondholders seek to exercise their Exchange

Rights than at the time when the Bonds were initially purchased. In addition, the value of the Exchange Property to be delivered may vary substantially between the date on which the Exchange Rights are exercised and the date on which such Exchange Property is delivered.

In order to exercise Exchange Rights, investors must make the representations, warranties and undertakings, including with respect to certain restrictions on transfer which may apply to the Exchange Property (initially comprising the Shares) received upon exchange and with respect to certain restrictions on depositing any of such Shares in any unrestricted depositary receipt facility for the Shares which is existing or may be created in the United States, contained in the Exchange Notice described under "*Terms and Conditions of the Bonds – Exchange Right*".

Risks relating to further issues or sales of Shares

There can be no certainty as to the effect, if any, that future issues or sales of Shares, or the availability of Shares for future issue or sale, would have on the market price of the Shares prevailing from time to time and therefore on the price of the Bonds. Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and, in turn, the Bonds. There can be no assurance that such sales of the Shares will not occur.

The Issuer may not be able to deliver the Exchange Property

In the event that the Issuer does not have sufficient Shares to deliver to exchanging Bondholders upon the exercise of their Exchange Rights or there are legal or regulatory restrictions on delivery of the Exchange Property, the Issuer may also choose to make purchases of the Shares in the open market to satisfy the exchanging Bondholders, but there can be no assurance that they will be successful in doing so or that they will have sufficient funds to acquire sufficient the Shares.

The liquidity and price of the Bonds following this offering may be volatile

The price and trading volume of the Bonds may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Group and CIMC and proposals of new investments, strategic alliances and/or acquisitions, interest rates, fluctuations in prices for comparable companies and the price and volatility of the Shares could cause the price of the Bonds to change. Any such developments may result in large and sudden changes in the volume and price at which the Bonds will trade. There can be no assurance that these developments will not occur in the future.

The Trust Deed does not contain restrictive financial or operating covenants

The Trust Deed does not contain restrictive financial or operating covenants or restrictions on the payments of dividends, the incurrence of indebtedness or the issuance or repurchase of securities by the Issuer. The Trust Deed does not contain any covenants or provisions that require the Issuer to achieve or maintain any minimum financial results relating to its financial position or results of operations. The Issuer's ability to recapitalise, incur additional debt and take other actions that are not limited by the terms of the Trust Deed could have the effect of diminishing the ability of the Issuer to make payments on the Bonds when due.

The Bonds will initially be held in book-entry form, and therefore Bondholders must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Bonds will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the Global Certificate representing the Bonds will trade in book-entry form only, and the Bonds in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of the Bonds for purposes of the Trust Deed. A nominee for a common depositary for Euroclear and Clearstream will be the sole registered holder of the Global Certificate. Accordingly, Bondholders must rely on the procedures of Euroclear or Clearstream, and if a Bondholder is not a participant in

Euroclear or Clearstream, on the procedures of the participant through which the Bondholder owns its interest, to exercise any rights and obligations of a holder of the Bonds under the relevant Trust Deed. Upon the occurrence of an event of default under the Terms and Conditions of the Bonds, unless and until definitive registered Bonds are issued in respect of all book-entry interests, if a Bondholder owns a book-entry interest, such Bondholder will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Bonds. See "*Summary of Provisions relating to the Bonds in Global Form*".

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in its debt agreements (if any), or the Bonds, there could be a default under the terms of these agreements, or the Bonds, which could cause repayments or acceleration of the Issuer's or the Guarantor's obligations under such agreements

If the Issuer or the Guarantor is unable to comply with the restrictions and covenants in the Bonds, or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer or the Guarantor, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, those debt agreements may contain cross-acceleration or cross-default provisions. As a result, the default by the Issuer or the Guarantor under one debt agreement may cause the acceleration of repayment of debt, including the Bonds, or result in a default under its other debt agreements, including the Bonds. If any of these events occurs, there can be no assurance that the Group's assets and cash flows would be sufficient to repay in full all of the Issuer's or the Guarantor's indebtedness, or that it would be able to find alternative financing. Even if the Issuer or the Guarantor could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer or, as the case may be, the Guarantor.

Developments in other markets may adversely affect the market price of the Bonds

The market price of the Bonds may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Bonds is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the subprime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Bonds could be adversely affected.

The insolvency laws of Hong Kong, the British Virgin Islands and the PRC and other local insolvency laws may differ from those of another jurisdiction with which the holders of the Bonds are familiar

As the Issuer is incorporated under the laws of the British Virgin Islands, and the Guarantor is incorporated under the laws of Hong Kong, any insolvency proceeding relating to the Issuer or the Guarantor would likely involve insolvency laws of the British Virgin Islands and Hong Kong, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Bonds are familiar.

Exchange rate risks and exchange controls may result in a Bondholder receiving less interest or principal than expected

The Issuer will pay principal, premium (if any) and default interest on the Bonds in U.S. dollars. This presents certain risks relating to currency conversions if a Bondholder's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in

the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor's Currency equivalent yield on the Bonds; (ii) the Investor's Currency equivalent value of the principal payable on the Bonds; and (iii) the Investor's Currency equivalent market value of the Bonds.

Governments and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a Bondholder may receive less interest or principal than expected, or no interest or principal.

Decisions that may be made on behalf of all holders of the Bonds may be adverse to the interests of individual holders of the Bonds

The Terms and Conditions of the Bonds will contain provisions for calling meetings of holders of the Bonds to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Bonds including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of holders of the Bonds may be adverse to the interests of individuals holders of Bonds.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to modification and other than the words in italics, is the text of the terms and conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of U.S.$230,000,000 zero coupon guaranteed exchangeable bonds due 2022 (the "**Bonds**", which term shall include, unless the context requires otherwise, any additional bonds issued in accordance with Condition 17 (*Further Issues*) and consolidated and forming a single series therewith), guaranteed by China Merchants Holdings (Hong Kong) Company Limited (the "**Guarantor**") and exchangeable into shares of China International Marine Containers (Group) Co., Ltd. ("**CIMC**"), was authorised by a resolution of the sole director of Fine Perfection Investment Limited (the "**Issuer**") passed on 17 February 2021. The giving of the Guarantee (as defined in Condition 3(b) (*Guarantee*)) was authorised by a resolution of the board of directors of the Guarantor on 7 April 2021. The Bonds are constituted by a trust deed (as the same may be amended, supplemented or modified from time to time, the "**Trust Deed**") dated on or about 19 April 2021 (the "**Issue Date**") between the Issuer, the Guarantor and The Bank of New York Mellon, London Branch (the "**Trustee**", which expression shall, where the context so permits, include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Bonds. These terms and conditions (these "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. The Issuer and the Guarantor shall enter into an agency agreement (as the same may be amended, supplemented and/or modified from time to time, the "**Agency Agreement**") dated on or about 19 April 2021 relating to the Bonds with the Trustee, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**", which expression shall include its successor(s)) and as transfer agent (the "**Transfer Agent**", which expression shall include its successor(s)), The Bank of New York Mellon, London Branch as principal paying agent (the "**Principal Paying Agent**") and exchange agent (the "**Exchange Agent**", which expression shall include its successor(s)) and the other paying agents (each, a "**Paying Agent**"), exchange agents (each, an "**Exchange Agent**") and transfer agents (each, a "**Transfer Agent**") appointed under it (together with the Registrar, the Transfer Agent, the Exchange Agent and the Principal Paying Agent, the "**Agents**") relating to the Bonds. References to the "**Principal Paying Agent**", the "**Registrar**", the "**Transfer Agent**", the "**Exchange Agent**" and the "**Agents**" below are references to the principal paying agent, the registrar, the transfer agent, the exchange agent and the agents for the time being for the Bonds. The term "**Paying Agents**" includes the Principal Paying Agent, the term "**Exchange Agents**" includes the Exchange Agent and the term "**Transfer Agents**" includes the Transfer Agent.

Copies of the Trust Deed and the Agency Agreement are available for inspection by the Bondholders (as defined herein) at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m., Monday to Friday (other than public holidays)) at the principal place of business of the Trustee (being as at the Issue Date at One Canada Square, London E14 5AL, United Kingdom) and at the specified office of the Principal Paying Agent, in each case following prior written request and proof of holding and identity to the satisfaction of the Trustee or, as the case may be, the Principal Paying Agent. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

All capitalised terms that are not defined in these Conditions will have the meanings given to them in the Trust Deed.

1 FORM, SPECIFIED DENOMINATION AND TITLE

The Bonds are issued in the specified denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

The Bonds are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(a) (*Transfer*), each Certificate shall represent the entire holding of Bonds by the same holder.

Title to the Bonds shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as otherwise required by law, the holder (as defined below) of any Bond shall be deemed to be and shall be treated as its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on the Certificate representing it (other than the endorsed form of transfer) or the theft or loss of such Certificate and no person shall be liable for so treating the holder.

In these Conditions, "**Bondholder**" and, in respect of a Bond, "**holder**" means the person in whose name a Bond is registered.

*Upon issue, the Bonds will be represented by a global certificate (the "**Global Certificate**") registered in the name of a nominee of, and deposited with, a common depositary for, Euroclear and Clearstream. The Conditions are modified by certain provisions contained in the Global Certificate. See "Summary of Provisions Relating to the Bonds in Global Form".*

Except in the limited circumstances described in the Global Certificate, owners of interests in Bonds represented by the Global Certificate will not be entitled to receive definitive Certificates in respect of their individual holdings of Bonds. The Bonds are not issuable in bearer form.

2 TRANSFERS OF BONDS

(a) **Transfer**: A holding of Bonds may, subject to the Agency Agreement and Condition 2(d) (*Closed Periods*), be transferred in whole or in part upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate(s) representing such Bonds to be transferred, together with the form of transfer endorsed on such Certificate(s) (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or the relevant Transfer Agent may require. In the case of a transfer of only part of a holding of Bonds represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. In the case of a transfer of Bonds to a person who is already a holder of Bonds, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding. No transfer of title to a Bond will be valid unless and until entered on the Register. All transfers of Bonds and entries on the Register will be made in accordance with the detailed regulations concerning transfers of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Trustee, or by the Registrar, with the prior written approval of the Trustee. A copy of the current regulations will be made available by the Registrar to any Bondholder at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m., Monday to Friday (other than public holidays)) following prior written request and satisfactory proof of holding and identity to the satisfaction of the Registrar.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules and procedures of the relevant clearing systems.

(b) **Delivery of New Certificates**: Each new Certificate to be issued pursuant to Condition 2(a) (*Transfer*) shall be made available for delivery within seven business days of receipt of a duly completed form of transfer and surrender of the existing Certificate(s). Delivery of the new Certificate(s) shall be made at the specified office of any Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer and Certificate shall have been made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent or the Registrar (as the case may be) the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(b) (*Delivery of New Certificates*), "**business day**" means a day, other than a Saturday, Sunday or public holiday, on which banks are generally open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

Except in the limited circumstances described in the Global Certificate, owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

(c) **Transfer Free of Charge**: Certificates, on transfer, shall be issued and registered without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon (i) payment by the relevant holder of any and all taxes, duties or other governmental charges that may be imposed in relation to it (or the giving of such indemnity and/or security and/or prefunding as the Registrar or the relevant Transfer Agent may require in respect thereof), (ii) the Registrar or the relevant Transfer Agent being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the Registrar or the relevant Transfer Agent being satisfied that the regulations concerning transfer of Bonds have been complied with.

(d) **Closed Periods**: No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven Payment Business Days (as defined in Condition 9(f) (*Non-Payment Business Days*)) ending on (but excluding) the due date for any payment of principal (or premium), or interest in respect of that Bond, (ii) in respect of which an Exchange Notice (as defined in Condition 6(b) (*Procedure for Exchange*)) has been delivered in accordance with Condition 6(b) (*Procedure for Exchange*) in respect of that Bond or (iii) after the exercise of the option in Condition 8(d) (*Redemption following the occurrence of a Relevant Redemption Event*) in respect of that Bond.

3 STATUS AND GUARANTEE

(a) **Status**: The Bonds constitute direct, unconditional, unsubordinated and (subject to Condition 4(a) (*Negative Pledge*)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

(b) **Guarantee**: The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Bonds and the Trust Deed. The Guarantor's obligations in respect of the Bonds and the Trust Deed (the "**Guarantee**") are contained in the Trust Deed. The obligations of the Guarantor under the Guarantee shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 4(a) (*Negative Pledge*), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

4 COVENANTS

(a) **Negative Pledge**: So long as any Bond remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will, and the Guarantor will ensure that none of its Material Subsidiaries (other than its Listed Material Subsidiaries and their Subsidiaries) will, create, or have outstanding, any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, without at the same time or prior thereto according to the Bonds (i) the same security as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or (ii) such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

(b) **No other business**: So long as any Bond remains outstanding, the Issuer and the Guarantor jointly and severally undertake that the Issuer shall not carry on any business activities other than those in connection with issuance of, and performance of its obligations under, the Bonds (and any further bonds issued pursuant to Condition 17 (*Further Issues*)) and the Trust Deed and advance of the net proceeds of the issuance to the Guarantor or any Subsidiary of the Guarantor.

(c) **Provision of Information**: So long as any Bond remains outstanding, the Issuer and the Guarantor shall make available to the Trustee and the Bondholders within 180 days after the end of each financial year for the time being (currently 31 December) of the Guarantor:

(i) the audited consolidated financial statements for and as at the last financial year of the Guarantor; and

(ii) a certificate of each of the Issuer and the Guarantor signed by any director of the Issuer who is also an Authorised Signatory of the Issuer or, as the case may be, any director of the Guarantor who is also an Authorised Signatory of the Guarantor, which shall be substantially in the form scheduled to the Trust Deed, that as of the end of the latest financial year of the Guarantor (i) no Event of Default or Potential Event of Default (as defined in the Trust Deed) had occurred since the certification date of the last such certificate or (if none) the Issue Date or, if such an event had occurred, giving details of it and the action which the Issuer or, as the case may be, the Guarantor proposes to take with respect thereto and (ii) confirming compliance of all of the Issuer's and the Guarantor's covenants that they are bound by under the Conditions and the Trust Deed or, if non-compliance event had occurred, giving details of it.

(d) **Other Covenants**:

Each of the Issuer and the Guarantor has, *inter alia*, undertaken in the Trust Deed that, so long as any Bond remains outstanding, it will:

(i) obtain and/or maintain all applicable consents and approvals which are required for the performance of its obligations under the Bonds, the Guarantee and the Trust Deed;

(ii) use all reasonable endeavours to maintain a listing of the Bonds on the Hong Kong Stock Exchange;

(iii) not create or purport or attempt to create, assume or permit to subsist any mortgage, charge, pledge, hypothecation, lien, interest under a trust or other encumbrance over the Exchange Property or any part thereof other than that which arise by operation of law;

(iv) keep available for the purpose of effecting the exercise of the Exchange Rights such amount of Exchange Property as would be required to be delivered upon exercise of all of the Exchange Rights outstanding from time to time; and

(v) deliver, in accordance with the Trust Deed and these Conditions, the Shares free and clear of all liens, claims, charges, security, encumbrances or like interests upon exchange of the Bonds.

The Issuer and the Guarantor have also given certain other undertakings in the Trust Deed for the protection of the Exchange Rights.

5 ZERO COUPON, DEFAULT INTEREST

The Bonds do not bear interest.

However, if the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 2 per cent. per annum from the due date until the earlier of (a) the day on which all sums due in respect of such Bonds up to but excluding that day are received by or on behalf of the relevant Bondholder and (b) the day falling seven days after the Trustee or the Principal Paying Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to but excluding that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). Such default interest shall accrue on the basis of a 360-day year of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

6 EXCHANGE RIGHT

(a) **Exchange Period and Exchange Rights**:

(i) Each Bondholder has the right, subject to any applicable laws and regulations and in the manner described below, to exchange a Bond at any time during the Exchange Period referred to below for a pro rata share of the Exchange Property as at the relevant Exchange Date. The right of a Bondholder to exchange a Bond for Exchange Property is herein referred to as the "**Exchange Right**". Upon the exchange of a Bond for Exchange Property, the right of the exchanging Bondholder to repayment of any amount of principal or premium (if any) of the Bond to be exchanged shall be extinguished and released, and in consideration and in exchange thereof the Issuer shall, and the Guarantor shall procure the Issuer to, deliver or procure the delivery of the relevant pro rata share of the Exchange Property as provided in this Condition 6 (*Exchange Right*). Neither the Trustee nor any Agent shall be responsible for the delivery of the Exchange Property to the Bondholders.

Subject to any applicable laws and regulations and upon compliance with these Conditions, the Exchange Right attaching to any Bond may be exercised by the holder thereof at any time on or after 30 May 2021 and up to the close of business (at the place where the Certificate representing such Bond is deposited for exchange) on the date which falls 10 business days prior to the Maturity Date (or, if such date shall not be a business day at the place where the Certificate representing the Bond is to be delivered, the immediately preceding business day at such place) or if such Bond shall have been called for redemption prior to the Maturity Date, then up to the close of business (at the place aforesaid) on the date which falls 10 business days prior to the date fixed for redemption thereof (or, if such date shall not be a business day at the place where the Certificate representing the Bond is to be delivered, the immediately preceding business day at such place).

Subject to Condition 6(b) (*Procedure for Exchange*), the Exchange Right in respect of any Bond in relation to which the conditions required for exchange have not been satisfied by the relevant Bondholder by the end of the tenth day (or, if such date shall not be a business day at the place where the Certificate representing such Bond has been delivered in connection with the exercise of the Exchange Right, on the immediately preceding business day at such place) prior to any date for redemption thereof pursuant to Condition 8 (*Redemption and Purchase*) below shall, save as provided below and in Condition 11(b), thereupon terminate.

Notwithstanding the provisions of the foregoing paragraphs of this Condition 6(a)(i), if (A) the Issuer shall default in making payment in full in respect of any Bond which shall have been called for redemption on the date fixed for redemption thereof, (B) any Bond has become due and repayable prior to the Maturity Date by reason of the occurrence of any of the events referred to in Condition 11 (*Event of Default*) or (C) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(a) (*Final Redemption*), the Exchange Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for exchange) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Paying Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of this Condition 6(a)(i), any Bond in respect of which the Certificate and Exchange Notice are deposited for exchange prior to such date shall be exchanged on the relevant Exchange Date (as defined herein) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Paying Agent or the Trustee before such Exchange Date or that the Exchange Period may have expired before such Exchange Date.

The period during which Bondholders shall be entitled to exercise Exchange Rights pursuant to these Conditions is referred to as the "**Exchange Period**".

Pursuant to the terms of the Agency Agreement, in the event that any Bond is exchanged notwithstanding that the full amount of the redemption moneys for all Bonds to be redeemed on such date have been deposited with the Principal Paying Agent, the Principal Paying Agent shall as soon as reasonably practicable return to the Issuer any money not required for that purpose.

(ii) Upon a due exercise of Exchange Rights, the relevant Bondholder shall be entitled to receive a pro rata share of the Exchange Property calculated as at the relevant Exchange Date.

(iii) No fraction of a Relevant Security or any other property comprised in the Exchange Property which is not divisible shall be delivered on exercise of the Exchange Rights and the Issuer shall not be under any obligation to make any payment to Bondholders in respect of any such fractions and any such fraction will be rounded down to the nearest whole multiple of a Relevant Security or unit of any such other property. Notwithstanding the foregoing, in the event of a consolidation or re-classification of a Relevant Security by operation of law or otherwise occurring after 7 April 2021 which reduces the number of Relevant Securities outstanding, the Issuer (failing whom the Guarantor) will upon exchange of Bonds pay in cash or procure that payment is made (in U.S. dollars by means of a U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York, in accordance with instructions given by the relevant Bondholder in the Exchange Notice) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate

deposited in connection with the exercise of Exchange Rights as corresponds to any fraction of a Relevant Security not delivered if such sum, when translated from Hong Kong dollars to U.S. dollars at the Prevailing Rate on the relevant Exchange Date, exceeds U.S.$10.

If more than one Bond is to be exchanged by a Bondholder pursuant to any one Exchange Notice, the Exchange Property to be delivered and any sum payable to that Bondholder shall be calculated on the basis of the aggregate principal amount of such Bonds so deposited.

(b) **Procedure for Exchange**:

(i) To exercise the Exchange Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours during the Exchange Period at the specified office of any Exchange Agent, a notice of exchange (an "**Exchange Notice**") in the form (for the time being current) obtainable from the specified office of any Exchange Agent, together with the Certificate evidencing such Bond (and any certificates and other documents as may be required by applicable law) and any amount to be paid by the Bondholder pursuant to this Condition 6(b)(i). An Exchange Notice once delivered shall be irrevocable.

Exchange Rights may be exercised in respect of whole Bonds only.

The Exchange Date in respect of a Bond (the "**Exchange Date**") will be the Exchange Business Day in the location of the specified office of the relevant Exchange Agent immediately following the date of the surrender of the Certificate in respect of such Bond (and any other documents as may be required by applicable law), due delivery of the relevant Exchange Notice and, if applicable, the making of any payment to be made and the giving of any indemnity and/or security to be given under these Conditions in connection with the exercise of such Exchange Right.

A Bondholder exercising Exchange Rights must pay directly to the relevant authorities any taxes and capital, stamp, issue, registration, documentary, transfer or other duties (including penalties) arising on exchange and/or on the transfer, delivery or other disposition of Exchange Property arising on exercise of Exchange Rights ("**Stamp Taxes**") or provide an indemnity and/or security in respect thereof in such form as the Issuer may reasonably require, other than or in respect of any Stamp Taxes payable or imposed in the British Virgin Islands, Hong Kong, the PRC or any other jurisdiction in which the register in respect of any securities or other property comprising Exchange Property is located or in which any property comprising Exchange Property is situated ("**Excluded Stamp Taxes**"), which shall be payable by the Issuer (failing whom the Guarantor) directly to the relevant authorities. If the Issuer and the Guarantor shall fail to pay any Excluded Stamp Taxes, the relevant holder shall be entitled to tender and pay the Excluded Stamp Taxes to the relevant tax authority. Each of the Issuer and the Guarantor, as a separate and independent stipulation, covenants to reimburse each such Bondholder or, as the case may be, the Trustee or any Agent in respect of the payment of Excluded Stamp Taxes and any penalties payable in respect thereof which shall be payable by the Issuer (failing whom the Guarantor). Such Bondholder must pay all, if any, taxes or duties imposed on it and arising by reference to any disposal or deemed disposal of a Bond or any interest therein in connection with the exercise of Exchange Rights by it directly to the relevant taxing or other governmental authority. Neither the Trustee nor any Agent shall be responsible for determining whether any Stamp Taxes are payable or the amount thereof and none of them shall be responsible or liable (A) for any failure by the Issuer, the Guarantor or any Bondholder to pay any such Stamp

Taxes, Excluded Stamp Taxes or other taxes or duties as referred to in this Condition 6(b)(i) or (B) to pay any such Stamp Taxes, Excluded Stamp Taxes or other taxes or duties as referred to in this Condition 6(b)(i).

(ii) As soon as practicable, and in any event not later than the Settlement Date, the Issuer shall cause the relevant Exchange Property to be delivered as follows:

(A) the Issuer shall, and the Guarantor shall procure the Issuer to, take all necessary action to procure the transfer of Shares and/or other Relevant Securities to exchanging Bondholders in accordance with prevailing laws, rules, regulations and procedures of CCASS effective from time to time. The Issuer shall, and the Guarantor shall procure the Issuer to, take all necessary action to procure that the Shares and/or Relevant Securities are delivered to an exchanging Bondholder or its nominee as provided for in the Exchange Notice through CCASS so long as the Shares and/or Relevant Securities are listed on the Hong Kong Stock Exchange within 17 business days after the Exchange Date.

(B) the Issuer shall, and the Guarantor shall procure the Issuer to, procure that such documents of title and evidence of ownership of any other Exchange Property to be delivered on exercise of Exchange Rights shall be despatched and any payment of any part of the Exchange Property comprising cash to be delivered on exercise of Exchange Rights (converted if necessary into U.S. dollars at the Prevailing Rate on the relevant Exchange Date) in accordance with directions given by the relevant Bondholder in the Exchange Notice.

References to "**business day**" in this Condition 6(b)(ii) shall mean a day on which both CCASS and the share registrar and transfer office of CIMC in Hong Kong are open for business for trade, settlement of the Shares and for registration of Share transfers.

Notwithstanding the above, if the Exchange Property has changed in whole or in part as a result of acceptance of an Offer or as a result of the compulsory acquisition of any Relevant Securities, in each case as provided in Condition 7 (*General Offers*), then the time for such delivery shall be the longer of such period set out above and the day falling five Payment Business Days after the date on which the consideration is received by the Issuer under the terms of the Offer or, as the case may be, the day falling five Payment Business Days following the date on which the consideration pursuant to such compulsory acquisition is received by the Issuer.

Upon exercise of an Exchange Right, a holder exchanging Bonds shall be required to represent and agree in the Exchange Notice that, at the time of signing and delivery of the Exchange Notice, it, or the person who has the beneficial interest in such Bonds, is (I) acquiring the Exchange Property (initially comprising the Shares) to be delivered upon exchange of such Bonds in an offshore transaction (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**")) in accordance with Rule 903 or Rule 904 of Regulation S ("**Regulation S**"), (II) located outside the United States and is not a U.S. person (within the meaning of Regulation S), and (III) understands that the Exchange Property to be delivered upon exchange of such Bonds has not been and will not be registered under the Securities Act and agrees that (x) if it, or such person, should offer, sell, pledge or otherwise transfer such Exchange Property, it, or such person, will do so only in compliance with the Securities Act and other applicable laws and only in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, and in accordance with any applicable securities law of any State of the United States, and (y) it and such person may not, subject to

restrictions under U.S. securities laws, deposit or cause to be deposited any of such Exchange Property in the form of Shares in any unrestricted depositary receipt facility for the Shares which is existing or may be created in the United States. No Exchange Property will be delivered to a holder of Bonds or a beneficial interest therein unless such holder satisfies the foregoing conditions. If such holder is unable or otherwise fails to satisfy the foregoing conditions, such holder may transfer its Exchange Property or beneficial interest therein subject to compliance with the transfer restrictions set forth in the Agency Agreement.

(iii) The relevant Bondholder (or the person designated in the relevant Exchange Notice) will be treated as the owner of the pro rata share of the Exchange Property deliverable upon exchange with effect from the Exchange Date and, in respect of such pro rata share of the Exchange Property, will be entitled to all rights, distributions or payments in respect of such pro rata share of the Exchange Property from the Exchange Date except voting rights.

Accordingly, relevant adjustments to the Exchange Property shall be made in accordance with Conditions 6(c) (*The Exchange Property and Adjustments to the Exchange Property*), 6(d) (*Sub-division, Consolidation or Redenomination*), 6(e) (*Rights Issues*), 6(f) (*Bonus Issues, Capital Distributions and Reorganisation*) and 6(i) (*Purchase or substitution of Relevant Securities etc.*), as the case may be, such that further Relevant Securities or other property or assets (including cash) received pursuant to such adjustment shall be added to the Exchange Property ("**Additional Exchange Property**"). For the avoidance of doubt, such adjustment shall be made in accordance with the full amount of any Capital Distribution. All Exchange Property deliverable upon exchange (including the Additional Exchange Property) shall be deliverable by the Issuer only on the Settlement Date in accordance with Condition 6(b)(ii).

The "**Effective Date**" of a Rights Issue or any Sub-divisions, Consolidation or Redenomination or Relevant Event shall be the completion date of such event where cash, Securities and/or other property has been received by and/or credited into the relevant accounts of the person(s) entitled to receive the same.

Exchange Property delivered or to be delivered upon exercise of Exchange Rights shall rank for and be entitled to all dividends, interest and other income, payments and distributions and rights thereon or in respect thereof declared, paid, made or granted by reference to a record date or other due date for the establishment of entitlement falling on or after the relevant Exchange Date.

If the record date or other due date for the establishment of the relevant entitlement for the payment of any dividend, interest or other income, payment or distribution or rights on or in respect of such Exchange Property falls on or after the Exchange Date but before the relevant Settlement Date (or any other date from which the relevant Bondholder is treated as the owner of, or entitled to all rights and entitlement to, such Exchange Property) with the effect that the relevant Bondholder is not entitled to such dividend, interest or other income, payment or distribution of rights, the Issuer (failing whom the Guarantor) shall:

(A) (in the case of dividends, interest or other income or distributions or rights to be paid in cash) pay, or procure the payment to, the exchanging Bondholder (or the person designated in the relevant Exchange Notice) in lieu of such dividend, interest or other income or distribution or rights, an amount equal to the amount actually received, with respect thereto, converted if necessary into U.S. dollars at

the Prevailing Rate on the date of receipt thereof by the Issuer (the "**Equivalent Amount**"). The Issuer (failing whom the Guarantor) shall pay the Equivalent Amount, or procure that it is paid, to the relevant Bondholder (or the person designated in the relevant Exchange Notice) by whichever is the later of five Payment Business Days after payment is made of the dividend, interest or other income, payment or distribution or rights and the relevant Settlement Date; and

(B) subject to the last two paragraphs of Condition 6(b)(ii), (in the case of dividends, or other income or distributions or rights satisfied or made otherwise than in cash) deliver, or procure the delivery of, the same to the relevant Bondholder (or the person designated in the relevant Exchange Notice) as soon as practicable by whichever is the later of 10 Payment Business Days after the receipt by the Guarantor or the Issuer (as the case may be) of such dividend or other income or distribution or rights and the relevant Settlement Date.

(iv) Upon exercise of Exchange Rights, a Bondholder shall, in the relevant Exchange Notice, specify a bank account in New York to which any cash amount payable on or in respect of the exercise of Exchange Rights by that Bondholder shall be credited and the Issuer (failing whom the Guarantor) shall pay such sum to the relevant Bondholder (or the person designated in the relevant Exchange Notice) in accordance with any such directions.

(c) **The Exchange Property and Adjustments to the Exchange Property**:

The "**Exchange Property**" shall initially comprise 103,488,035 Shares of par value of RMB1.00 each, and shall include all Relevant Securities and other property arising out of or derived or resulting therefrom and such other property, in each case as may be deemed or required to comprise all or part of the Exchange Property pursuant to these Conditions, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property.

On the exercise of Exchange Rights, Bondholders will initially be entitled to receive 89,989.5954 Shares for each U.S.$200,000 principal amount of Bonds (subject to adjustment pursuant to these Conditions).

All Exchange Property delivered upon exercise of Exchange Rights shall be delivered with full title guarantee and free from any and all mortgages, charges, pledges or other security interests or other adverse interests.

Shares forming part of the Exchange Property to be delivered on exercise of the Exchange Rights will be fully paid and will rank *pari passu* with all fully paid Shares of the same class in issue on the relevant Exchange Date.

(d) **Sub-division, Consolidation or Redenomination**:

If any Relevant Securities comprising the Exchange Property shall be sub-divided or consolidated, re-classified or re-denominated or in any other manner have their par value changed ("**Sub-division, Consolidation or Redenomination**") then the Securities resulting from such Sub-division, Consolidation or Redenomination so far as attributable to the Exchange Property, shall be included in the Exchange Property.

(e) **Rights Issues**:

If further Relevant Securities or other Securities, or options, warrants or rights to subscribe or purchase further Relevant Securities (or any of them) or other Securities, shall be offered by way of rights to holders of Relevant Securities (or any of them) or other Securities comprising Exchange Property (a "**Rights Issue**"), then the Issuer shall, at its option, and by notice in writing to the Trustee not later than the seventh day prior to the latest day for accepting or taking up any such rights, do one or any combination of the following:

(i) on an arm's length basis in good faith, procure the sale of sufficient rights to enable the whole of the balance of such rights to be taken up and procure the application of the net proceeds of sale (after deduction of the amounts referred to below) in the taking up of such rights, with the property acquired upon such exercise of rights and any excess proceeds of sale being added to and forming part of the Exchange Property; or

(ii) add to the Exchange Property such number of shares of Relevant Securities or other Securities as would have been subscribed or purchased if sufficient rights had been sold on an arm's length basis in good faith to enable the whole of the balance of such rights to be so taken up together with an amount equal to what would have been any such excess proceeds of sale as aforesaid; or

(iii) if such rights may not be so sold, use any part of the Exchange Property comprising cash to take up such rights (provided that, if there is insufficient cash in the Exchange Property to take up any rights, then the Issuer may elect not to take up any rights) and/or on an arm's length basis in good faith, procure the sale of sufficient Relevant Securities to enable (after deduction of the amounts referred to below) the whole of the balance of such rights to be taken up, with, in any such case any excess proceeds of sale being added to and forming part of the Exchange Property.

Each of the Issuer and the Guarantor undertakes to take such action as may be necessary to ensure that the provisions of this Condition 6(e) (*Rights Issues*) are complied with.

The timing of any sale of any relevant rights or Exchange Property (as the case may be) shall be at the discretion of the Issuer and neither the Issuer nor the Guarantor shall be liable to Bondholders for any loss incurred as a result of such transactions provided that the Issuer executes such sale at the best price reasonably obtainable in the market by the Issuer.

Neither the Trustee nor any of the Agents shall be liable to Bondholders, the Issuer, the Guarantor or any other person for any loss incurred as a result of any action or inaction in respect of any Rights Issue or any sale of any relevant rights or Exchange Property or the timing thereof.

There shall be deducted from the proceeds of sale of the relevant rights or Exchange Property (as the case may be) an amount equal to the aggregate of (A) any stamp, transfer, registration or similar duties actually payable by the Issuer or the Trustee or any Exchange Agent (as the case may be); (B) any expenses incurred by the Issuer or the Trustee or any Exchange Agent (as the case may be) in connection with the sale of the relevant rights or Exchange Property (as the case may be) and (C) such amount (if any) as the Issuer or the Trustee or the relevant Exchange Agent (as the case may be) shall determine to be necessary to indemnify it in respect of any liability to taxation of the Issuer or the Trustee or such Exchange Agent (as the case may be) arising therefrom.

Pending the foregoing, such rights shall form part of the Exchange Property.

(f) **Bonus Issues, Capital Distributions and Reorganisation**:

If any of the following events occurs (each, a "**Relevant Event**"):

(i) further Relevant Securities or other Securities are issued credited as fully paid to holders of Relevant Securities comprising Exchange Property by way of capitalisation of profits or reserves or otherwise by virtue of being holders of Relevant Securities (otherwise than in lieu of the whole or any part of a cash dividend which is not a Capital Distribution and which such holders would or could otherwise have received);

(ii) any Capital Distribution is made;

(iii) a Relevant Corporation purchases or redeems any Relevant Securities comprising Exchange Property; or

(iv) pursuant to any scheme of arrangement, reorganisation, amalgamation, reconstruction, merger, demerger or any like or similar event of any company or companies (whether or not involving liquidation or dissolution), any further Relevant Securities or other Securities, property or assets (including cash) are issued, distributed or otherwise made available to holders of Relevant Securities or other Securities comprising Exchange Property,

then the further Relevant Securities, Securities or other property or assets (including cash) actually received in relation to the Relevant Event, so far as attributable to the Exchange Property or, as the case may be, the Capital Distribution in respect of the Relevant Securities comprising the Exchange Property shall be included as part of the Exchange Property.

If the Issuer or the Guarantor (as the case may be) determines that, notwithstanding paragraphs (i) to (iv) of this Condition 6(f) (*Bonus Issues, Capital Distributions and Reorganisation*), an adjustment should be made to the Exchange Property as a result of one or more events or circumstances not referred to in this Condition 6(f) (*Bonus Issues, Capital Distributions and Reorganisation*) or circumstances have arisen which might have an adverse effect on the Exchange Property and no adjustment to the Exchange Property under this Condition 6(f) (*Bonus Issues, Capital Distributions and Reorganisation*) would otherwise arise, it shall instruct an Independent Financial Institution acting as an expert to determine as soon as practicable what adjustment (if any) to the Exchange Property or terms of this Condition 6(f) (*Bonus Issues, Capital Distributions and Reorganisation*) is fair and reasonable to take account thereof and the date on which such adjustment should take effect, and upon such determination the Issuer shall procure that such adjustment shall be made (provided it would result in an addition to the Exchange Property and take effect in accordance with such determination), provided that an adjustment shall only be made pursuant to this Condition 6(f) (*Bonus Issues, Capital Distributions and Reorganisation*) if such Independent Financial Institution is so requested to make such a determination in writing not more than 21 days after the occurrence of the relevant circumstance or event.

(g) **Notice of Change in Exchange Property**:

The Issuer shall give, and the Guarantor shall procure the Issuer to give, notice to the Trustee in writing and to the Bondholders in accordance with Condition 18 (*Notices*) of any change in the nature or composition of the Exchange Property pursuant to this Condition 6 (*Exchange Right*) (other than Condition 6(h) (*Release from the Exchange Property*)) as soon as reasonably practicable following such change, and the Issuer shall, and the Guarantor shall procure the Issuer to, certify such details as the Trustee may require of the Exchange Property to which the holder of a Bond would be entitled upon exercise of the Exchange Right in respect of such Bond following such change.

(h) **Release from the Exchange Property**:

Upon actual delivery of Exchange Property to the relevant Bondholder or upon redemption of the Bonds or upon any purchase and cancellation of the Bonds, the *pro rata* share of the Exchange Property or the relevant part thereof attributable to each relevant Bond shall cease to be part of the Exchange Property and the Exchange Property shall be reduced accordingly.

(i) **Purchase or substitution of Relevant Securities etc.**:

If any cash amount, Relevant Securities, Securities or other property is received under or pursuant to these Conditions in respect of Exchange Property which is to be added to and is to form part of the Exchange Property (other than (i) any Shares or Relevant Securities of a class already comprised in the Exchange Property; and (ii) as included in the Offer Consideration received under Condition 7 (*General Offers*) or added to and forming part of the Exchange Property pursuant to Condition 7 (*General Offers*)) before the Exchange Rights lapse, such cash amount may be added directly to the Exchange Property or may (at the Issuer's option) be applied, and such Relevant Securities, Securities or other property may be added directly, to the Exchange Property or may (at the Issuer's option) be sold by the Issuer (failing whom, the Guarantor) and the proceeds of such sale (net of any costs and expenses incurred in connection with such sale) shall be applied, by the Issuer or the Guarantor (as the case may be) as soon as reasonably practicable and to the extent possible in purchasing, or procuring the purchase of, additional Shares (not then comprised in the Exchange Property) or, where the Exchange Property comprises Securities other than Shares, additional units of such Securities. The timing of such sales and purchases shall be at the discretion of the Issuer or the Guarantor (as the case may be), and neither the Issuer nor the Guarantor shall be liable to the Bondholders for any loss incurred as a result of such transactions provided that the Issuer (or as the case may be, the Guarantor) executes such purchases and sales in good faith at the best price reasonably obtainable in the market by the Issuer or the Guarantor (as the case may be). At its option, the Issuer or the Guarantor (as the case may be) may elect to substitute any cash amount which is otherwise to be added to and form part of the Exchange Property with additional Shares or Relevant Securities of a class already comprised in the Exchange Property (owned by it and not comprised in the Exchange Property) at their Value as at the third Trading Day following the day on which such cash amount was received by the Issuer or the Guarantor (as the case may be). Any such additional Shares or other Securities purchased or substituted shall thereafter form part of the Exchange Property.

(j) **Voting Rights**:

Neither the Bondholders nor the Trustee shall have any voting rights in respect of the Shares and any other Relevant Securities comprising Exchange Property prior to the Settlement Date relating to such Exchange Property. The Issuer or the registered holder or owner of the Exchange Property will be entitled to exercise the voting rights attaching to the Relevant Securities.

It is possible that, in exercising such voting rights or making such election, the Issuer or the registered holder or owner of the Exchange Property may act contrary to the best interests of Bondholders.

(k) **Maintenance of Exchange Property**

Exchange Rights are not exercisable in respect of any specific Shares or other property comprising Exchange Property from time to time and no Shares or other Exchange Property has been or will be charged to secure or satisfy the obligations of the Issuer or the Guarantor in respect of the Exchange Rights. The composition of the Exchange Property may also change as a result of the operation of the Conditions.

Each of the Issuer and the Guarantor has undertaken to keep available for the purpose of effecting the exercise of Exchange Rights such amount of Exchange Property as may required to be delivered upon exercise all of the Exchange Rights outstanding from time to time. However, the arrangements described herein in relation to the Exchange Property do not amount to any security interest in favour of Bondholders to secure the debt obligations of the Bonds or to secure performance of the Exchange Rights thereunder.

Accordingly, in the event that the Issuer (or the Guarantor, as the case may be) at any time holds any Shares or other property comprising Exchange Property from time to time with another person and such person is or becomes insolvent, bankrupt or in liquidation, such Exchange Property will form part of the assets of such person available on a pari passu basis to all unsecured creditors of such person.

At any particular time, the Issuer or the Guarantor may or may not hold or be the beneficial owner of sufficient Exchange Property required to be delivered on exercise of Exchange Rights or otherwise pursuant to these Conditions in respect of all outstanding Bonds. However, these Conditions shall be read and construed as though at all times the Issuer (or the Guarantor, as the case may be) shall be the holder and beneficial owner of sufficient Exchange Property required to be delivered on exercise of Exchange Rights or otherwise pursuant to these Conditions in respect of all outstanding Bonds. Accordingly, for the purposes of determining whether and to what extent any adjustment should be made to the Exchange Property at any time, for the purposes of these Conditions, the Issuer (or the Guarantor, as the case may be) shall be deemed to be entitled to receive such further or other Shares, Relevant Securities, securities, property or assets including cash and/or consideration on the date the Issuer (or the Guarantor, as the case may be) would have been entitled to receive the same, and to make any relevant elections in respect thereof or relating thereto, as it would have been entitled to receive and or make had it at all relevant times been the holder and beneficial owner of sufficient Exchange Property to satisfy exercise of Exchange Rights or otherwise required to be delivered pursuant to these Conditions in respect of all outstanding Bonds, and references in these Conditions to the Exchange Property being adjusted shall be construed accordingly.

(l) **Not Obliged to Monitor**:

Neither the Trustee not any Agent shall be under any duty to (and none of them will be responsible or liable for any loss arising from any failure by it to) monitor whether any event or circumstance which gives rise or may give rise to an adjustment to the Exchange Property has happened or may occur or whether any event or circumstance exists as described in this Condition 6 (*Exchange Right*) or Condition 7 (*General Offers*) and, unless it is notified in writing by the Issuer or the Guarantor to the contrary, each of the Trustee and each Agent may assume that no such event or circumstance has happened or does exist and none of them shall be liable to any Bondholder or any other person for so doing. Furthermore, neither the Trustee nor any Agent shall be under any duty to monitor the adequacy or sufficiency of the Exchange Property or whether the Issuer or the Guarantor is complying with its respective obligations under these Conditions, the Trust Deed and/or the Agency Agreement in relation to the Exchange Property and/or the Exchange Rights in the event that any Bondholder exercises the same and neither the Trustee nor any Agent shall be liable to any Bondholder or any other person for not doing so.

7 GENERAL OFFERS

In the event of an Offer for Relevant Securities in a Relevant Corporation, the Issuer or the registered holder or owner of the Exchange Property shall have absolute discretion to accept such Offer (and as to any alternative consideration) or reject such Offer, provided that it shall not

(provided it is not thereby prejudiced) take any action with respect to any such Offer prior to the Specified Date. If it accepts such Offer (or if the Relevant Securities are subject to compulsory acquisition), then, with effect from the Final Date, the Exchange Property will be deemed to consist, in whole or in part, of the consideration (the "**Offer Consideration**") received for the Relevant Securities acquired under the Offer or pursuant to such compulsory acquisition and in place of the Exchange Property which it substitutes. The Issuer or the registered holder or owner of the Exchange Property shall not accept any Offer in respect of such part of the Exchange Property which would be deliverable to Bondholders who have exercised Exchange Rights for which the Exchange Date falls prior to the commencement of the Suspension Period (as defined below). The Issuer or the registered holder or owner of the Exchange Property shall give notice to the Trustee in writing and to the Bondholders in accordance with Condition 18 (*Notices*) forthwith upon receipt of any Offer for the Relevant Securities.

In relation to any scheme of arrangement, reorganisation, amalgamation or reconstruction of any company or companies (whether or not involving liquidation or dissolution), the Issuer or the registered holder or owner of the Exchange Property shall at all times be entitled, in relation to any Relevant Securities, to vote on, exercise its rights in respect of, or otherwise participate in, any such scheme of arrangement, reorganisation, amalgamation or reconstruction as it thinks fit up to the Settlement Date relating to such Relevant Securities.

The Exchange Rights shall be suspended during the period (the "**Suspension Period**") from and including (a) the Specified Date until the acceptance of the relevant Offer is withdrawn or the relevant Offer lapses or becomes or is declared unconditional in all respects; or (b) the date any vote is cast in relation to any applicable scheme of arrangement, reorganisation, amalgamation or reconstruction which is approved by the required majority until the same is approved or rejected by any relevant judicial or other authorities (both dates inclusive), and if Exchange Rights are exercised such that the Exchange Date would otherwise fall in the Suspension Period, such exercise shall be null and void.

If a tender or other offer is made by or on behalf of a Relevant Corporation (or any person associated with such Relevant Corporation) to purchase or otherwise acquire, redeem or exchange such Relevant Securities, the Issuer or the registered holder or owner of the Exchange Property shall not tender or be entitled to be treated as having tendered any such Relevant Securities which are comprised in the Exchange Property or be treated as having accepted any such offer in respect thereof or vote in respect of any such Relevant Securities in relation to any such tender or other offer, nor shall the Issuer or the registered holder or owner of the Exchange Property exercise or be treated as having exercised any option to require the redemption or repayment of such Relevant Securities prior to the final due date for redemption or repayment thereof.

8 REDEMPTION AND PURCHASE

(a) **Final Redemption**: Unless previously redeemed, exchanged or purchased and cancelled, the Bonds will be redeemed at 100.00 per cent. of their principal amount on 17 April 2022 (the "**Maturity Date**"). The Bonds may not be redeemed at the option of the Issuer other than in accordance with this Condition 8 (*Redemption and Purchase*).

(b) **Redemption at the Option of the Issuer**: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount:

(i) at any time on or after 18 June 2021, provided that the Value of the Exchange Property on each of not less than 20 Trading Days in any period of 30 consecutive Trading Days the last day of which period occurs no more than five Trading Days immediately prior to the date on which the relevant notice of redemption is given by the Issuer to the Bondholders shall have exceeded 130 per cent. of the aggregate principal amount of the Bonds then outstanding;

(ii) at any time if, prior to the date on which the relevant notice of redemption is given by the Issuer, less than 10 per cent. in principal amount of the Bonds originally issued (including any further bonds consolidated and forming a single series with the Bonds at such date) remain outstanding.

In order to exercise such option, the Issuer shall give not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent in writing and to the Bondholders in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Bonds on the date for redemption specified in such notice). Such notice shall specify (i) the date when the relevant redemption will take place and (ii) the last day on which Exchange Rights may be exercised by a Bondholder.

(c) **Redemption for Taxation Reasons**: The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Trustee and the Principal Paying Agent in writing and to the Bondholders in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable) at their principal amount, if the Issuer satisfies the Trustee immediately prior to the giving of such notice that:

(i) the Issuer (or, as the case may be, the Guarantor) has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*Redemption and Purchase*) as a result of any change in, or amendment to, the laws or regulations of the PRC, the British Virgin Islands or Hong Kong or, in any such case, any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a decision by a court of competent jurisdiction), which change or amendment becomes effective on or after 7 April 2021, and

(ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts if a payment in respect of the Bonds (or the Guarantee, as the case may be) were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 8(c) (*Redemption for Taxation Reasons*), the Issuer shall deliver to the Trustee (A) a certificate signed by two directors of the Issuer (or the Guarantor, as the case may be), each of whom is an Authorised Signatory of the Issuer or, as the case may be, the Guarantor, stating that the Issuer (or the Guarantor, as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and (B) an opinion of independent legal or tax advisers of recognised standing to the effect that the Issuer (or the Guarantor, as the case may be) has or will become obliged to pay such additional amounts as a result of such change or amendment. The Trustee shall be entitled (but shall not be obliged) to accept and rely upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the conditions precedent set out in (i) and (ii) above of this Condition 8(c), in which event the same shall be conclusive and binding on the Bondholders, and the Trustee shall be protected and shall have no liability to the Issuer, the Guarantor, any Bondholder or any other person for so accepting and relying on such certificate and/or opinion.

Neither the Trustee nor any of the Agents shall be responsible for monitoring or taking any steps to ascertain whether any of the circumstances mentioned in this Condition 8(c) has occurred or for calculating or verifying the calculations of any amount payable under any

notice of redemption under Condition 8(b) or this Condition 8(c) or under any Relevant Redemption Event Put Exercise Notice under Condition 8(d) and none of them shall be liable to the Bondholders, the Issuer, the Guarantor or any other person for not doing so.

(d) **Redemption following the occurrence of a Relevant Redemption Event**: At any time following a Relevant Redemption Event (as defined below), a Bondholder will have the right, at such Bondholder's option, to require the Issuer to redeem all, but not some only, of such Bondholder's Bonds on the Relevant Redemption Event Put Date (as defined below) at 101 per cent. of their principal amount.

To exercise such right, the Bondholder must deposit at the specified office of the Principal Paying Agent or any other Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (a "**Relevant Redemption Event Put Exercise Notice**"), together with the Certificate evidencing the Bonds to be redeemed, by not later than 30 days following a Relevant Redemption Event, or, if later, 30 days following the date upon which notice thereof is given to the Trustee and the Principal Paying Agent in writing and to the Bondholders by the Issuer in accordance with Condition 18 (*Notices*). The "**Relevant Redemption Event Put Date**" shall be the fourteenth day after the expiry of such period of 30 days as referred to above.

A Relevant Redemption Event Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Bonds which form the subject of Relevant Redemption Event Put Exercise Notices delivered as aforesaid on the Relevant Redemption Event Put Date.

The Issuer shall give notice to the Trustee and the Principal Paying Agent in writing and to the Bondholders in accordance with Condition 18 (*Notice*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Redemption Event, which notice shall (if applicable) specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition 8(d) (*Redemption following the occurrence of a Relevant Redemption Event*).

In this Condition 8(d) (*Redemption following the occurrence of a Relevant Redemption Event*):

a "**Change of Control**" means the occurrence of one or more of the following events:

(i) the government of the PRC or Persons under the Control of the government of the PRC cease to directly or indirectly or in combination Control China Merchants Group Limited ("**CMG**");

(ii) CMG ceases to directly or indirectly Control the Guarantor;

(iii) the Guarantor ceases to directly or indirectly Control CM Industry; or

(iv) CM Industry ceases to directly or indirectly Control the Issuer;

"**CM Industry**" means China Merchants Industry Holdings Co., Ltd., which has indirect ownership of all of the Issuer's share capital;

"**Control**" means (where applicable): (i) the ownership or control of the Relevant Percentage of the Voting Rights of the issued share capital of a person or (ii) the nomination or designation of the Relevant Percentage of the members then in office of a person's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of Voting Rights, contract or otherwise;

"**Relevant Percentage**" means (i) in the case of the government of the PRC and Persons under the Control of the government of the PRC and CMG, at least 50.1 per cent.; (ii) in the case of the government of the PRC and Persons under the Control of the government of the PRC, 100 per cent., (iii) in the case of CMG and the Guarantor, 100 per cent., (iv) in the case of the Guarantor and CM Industry, at least 50.1 per cent.; and (v) in the case of CM Industry and the Issuer, 100 per cent.;

a "**Relevant Redemption Event**" will be deemed to occur:

(i) when the Shares cease to be listed or admitted to trading, or are suspended from trading for a period exceeding 45 consecutive Trading Days, on the Hong Kong Stock Exchange (and if applicable, the Alternative Stock Exchange); or

(ii) when there is a Change of Control; and

"**Voting Rights**" means the right generally to vote at a general meeting of shareholders of a Person (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency, and any such voting power shall therefore be excluded for the purpose of this definition).

(e) **Redemption Notices**: All redemption notices to holders given by or on behalf of the Issuer pursuant to Condition 8(b) (*Redemption at the Option of the Issuer*) or Condition 8(c) (*Redemption for Taxation Reasons*) will specify (i) the pro rata share of the Exchange Property attributable to each Bond as at the date of the notice, (ii) the redemption date, (iii) that on the redemption date the principal of, and premium on, any Bonds to be redeemed will become due and payable, (iv) the place where Certificates are to be surrendered and (v) the identifying numbers of the Bonds and/or Certificates to be redeemed. If there is more than one notice of redemption given in respect of any Bond, the notice given first in time shall prevail and in the event of two notices being given on the same date, the first to be given shall prevail.

(f) **Purchases**: The Issuer, the Guarantor and their respective Subsidiaries may at any time purchase Bonds in the open market or otherwise at any price. Any Bonds so purchased, while held by or on behalf of the Issuer, the Guarantor or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of, among other things, calculating quorums at meetings of the Bondholders or for the purposes of Conditions 11 (*Events of Default*), 14 (*Meeting of Bondholders*) and 15 (*Enforcement*).

(g) **Cancellation**: All Certificates representing Bonds which are redeemed or purchased by or on behalf of the Issuer, the Guarantor or their respective Subsidiaries shall be surrendered for cancellation to the Registrar and, upon surrender thereof, all such Bonds shall be cancelled forthwith. Any Certificates so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Bonds shall be discharged.

9 PAYMENTS

(a) **Method of Payment**: Payments of principal and premium (if any) will be in U.S. dollars and will be made by transfer to the registered account of the holder. Payments of principal and premium (if any) will only be made against surrender of the relevant Certificate at the specified office of the Principal Paying Agent or any of the other Paying Agents.

For the purposes of this Condition 9(a) (*Method of Payment*), a Bondholder's "**registered account**" means the U.S. dollar account maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business Date on the fifth Payment Business Day (as defined in Condition 9(f) (*Non-Payment Business Days*) below) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

*Notwithstanding the foregoing, so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or any other clearing system, each payment in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive, other than public holidays) except 25 December and 1 January.*

(b) **Payments subject to Fiscal Laws**: All payments are subject in all cases to (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*) and (ii) if applicable, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 10 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(c) **Payment Initiation**: Payment instructions (for value on the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated on the last day on which the Principal Paying Agent is open for business preceding the due date for payment or, in the case of payments of principal and premium (if any) where the relevant Certificate has not been surrendered at the specified office of any Transfer Agent or of the Registrar, on a day on which the Principal Paying Agent is open for business and on which the relevant Certificate is surrendered.

(d) **Appointment of Agents**: The Principal Paying Agent, the Exchange Agent, the Registrar and the Transfer Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Principal Paying Agent, the Exchange Agent, the Registrar and the Transfer Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Bondholder. The Issuer and the Guarantor reserve the right at any time with the prior written approval of the Trustee to vary or terminate the appointment of the Principal Paying Agent, the Exchange Agent, the Registrar, any Transfer Agent or any of the other Agents and to appoint additional or other Agents, provided that the Issuer and the Guarantor shall at all times maintain (i) a Principal Paying Agent, (ii) a Registrar, (iii) a Transfer Agent, (iv) an Exchange Agent and (v) such other agents as may be required by any stock exchange on which the Bonds may be listed.

Notice of any such termination or appointment or any change of any specified office of an Agent shall promptly be given by the Issuer to the Bondholders.

(e) **Delay in Payment**: Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due on a Bond if the due date is not a Payment Business Day, if the Bondholder is late in surrendering or cannot surrender its Certificate (if required to do so).

(f) **Non-Payment Business Days**: If any date for payment in respect of any Bond is not a Payment Business Day, the holder shall not be entitled to payment until the next following Payment Business Day nor to any interest or other sum in respect of such postponed payment. In this Condition 9 (*Payments*), "**Payment Business Day**" means a day (other than a Saturday, a Sunday or a public holiday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Principal Paying Agent is located and where payment is to be made by transfer to an account maintained with a bank in U.S. dollars, on which foreign exchange transactions may be carried on in U.S. dollars in New York City.

10 TAXATION

(a) All payments of principal, premium (if any) and any default interest under Condition 5 (*Zero Coupon, Default Interest*) by or on behalf of the Issuer or the Guarantor in respect of the Bonds or under the Guarantee (as the case may be) shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the British Virgin Islands (in the case of a payment by the Issuer), or Hong Kong or the PRC (in the case of a payment by the Guarantor) or, in any such case, any authority therein or thereof having power to tax, unless such withholding or deduction is required by law.

(b) In the event that (i) any such withholding or deduction in respect of principal is required; or (ii) any such withholding or deduction in respect of default interest is required by the laws of the British Virgin Islands (in the case of the Issuer only) or Hong Kong or the PRC (in the case of the Guarantor only), the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as will result in receipt by the Bondholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Bond:

(A) **Other connection**: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the British Virgin Islands (in the case of a payment by the Issuer) or Hong Kong or the PRC (in the case of a payment by the Guarantor) other than the mere holding of the Bond; or

(B) **Surrender more than 30 days after the Relevant Date**: more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on surrendering the Certificate representing such Bond for payment on the last day of such period of 30 days (as if such last day were a Payment Business Day (as defined in Condition 9(f) (*Non-Payment Business Days*))).

As used in these Conditions, "**Relevant Date**" in respect of any Bond means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Bondholders that, upon further presentation of the Bond (or relevant Certificate) being made in accordance with these Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, assessment, governmental charges, withholding or other payment referred to in this Condition 10 (*Taxation*) or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, the Guarantor, any Bondholder or any third party to pay such tax, duty, assessment, governmental charges,

withholding or other payment in any jurisdiction or to provide any notice or information to the Trustee or any Agent that would permit, enable or facilitate the payment of any principal, premium, default interest or other amount under or in respect of the Bonds or the Guarantee without deduction or withholding for or on account of any tax, duty, assessment, governmental charge, withholding or other payment imposed by or in any jurisdiction.

11 EVENTS OF DEFAULT

(a) If any of the following events (each an "**Event of Default**") occurs, the Trustee at its discretion may, and if so requested in writing by holders of at least 25 per cent. of the aggregate principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (provided in any such case that the Trustee shall first have been indemnified and/or secured and/or prefunded to its satisfaction), give written notice to the Issuer and the Guarantor declaring that the Bonds are, and they shall immediately become, due and payable at their principal amount together (if applicable) with any accrued but unpaid interest:

(i) **Non-Payment**: a default is made in the payment of any principal in respect of the Bonds on the due date for payment thereof and such failure continues for a period of 14 days; or

(ii) **Non-delivery of Exchange Property**: any failure by the Issuer or the Guarantor to perform any of its obligations arising in respect of the exercise of Exchange Rights, including any failure to transfer or deliver any Exchange Property or Additional Exchange Property or to pay any Equivalent Amount by the time required pursuant to these Conditions required to be transferred or delivered or paid in respect of such exercise, and such failure continues for a period of 7 days; or

(iii) **Breach of Other Obligations**: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Bonds or under or in respect of the Guarantee (other than those obligations the breach of which would give rise to a right of redemption under Condition 8(d) (*Redemption following the occurrence of a Relevant Redemption Event*)) and such default remains unremedied for 45 days after written notice thereof, addressed to the Issuer and the Guarantor by the Trustee, has been delivered to the Issuer and the Guarantor; or

(iv) **Cross-default of Issuer, Guarantor or any Material Subsidiary**:

(A) any present or future Indebtedness of the Issuer, the Guarantor or any Material Subsidiary is not paid when due or (as the case may be) within any applicable grace period;

(B) any such Indebtedness becomes due and payable prior to its stated maturity (otherwise than at the option of the Issuer or (as the case may be) the Guarantor or (as the case may be) the relevant Material Subsidiary) by reason of any actual default or event of default; or

(C) the Issuer, the Guarantor or any Material Subsidiary fails to pay when due any amount payable by it under any Guarantee of any present or future Indebtedness,

provided that the amount of Indebtedness referred to in sub-paragraph (A) and/or sub-paragraph (B) of this Condition 11(a)(iv) and/or the amount payable under any Guarantee referred to in sub-paragraph (C) of this Condition 11(a)(iv) individually or in the aggregate exceeds U.S.$25,000,000 (or its equivalent in any other currency or currencies); or

(v) **Security enforced**: a secured party takes possession of, or a receiver, manager or other similar officer is appointed over, in each case for a continuous period of 60 days or more, the whole or any substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary; or

(vi) **Insolvency, etc.**: (A) the Issuer, the Guarantor or any Material Subsidiary becomes insolvent or is unable, for a continuous period of 60 days or more, to pay its debts as they fall due, (B) an administrator or liquidator of the Issuer, the Guarantor or any Material Subsidiary over the whole or a substantial part of the undertaking, assets and revenues of the Issuer, the Guarantor or any Material Subsidiary is appointed (or application for any such appointment is made and has not been discharged or stayed within a period of 60 days or more) or (C) the Issuer, the Guarantor or any Material Subsidiary makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of all or a substantial part of its Indebtedness or any Guarantee of any Indebtedness given by it; or

(vii) **Winding up, etc.**: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer, the Guarantor or any Material Subsidiary except (A) in the case of any Material Subsidiary, for a voluntary solvent winding up, liquidation or dissolution in connection with the transfer of all of the business, undertaking and assets of such Material Subsidiary to the Issuer, the Guarantor and/or other Subsidiary(ies) of the Issuer or of the Guarantor; or (B) in each case, for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation which has been approved by an Extraordinary Resolution of the Bondholders; or

(viii) **Analogous event**: any event occurs which, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in Condition 11(a)(v) (*Security enforced*), Condition 11(a)(vi) (*Insolvency, etc.*) and Condition 11(a)(vii) (*Winding up, etc.*); or

(ix) **Unlawfulness**: it is or will, within 120 days, become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Bonds or the Guarantee.

In these Conditions:

"**Guarantee**" means, in relation to any indebtedness of any person, any obligation of another person to pay such indebtedness including (without limitation):

(A) any obligation to purchase such indebtedness;

(B) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such indebtedness;

(C) any indemnity against the consequences of a default in the payment of such indebtedness; and

(D) any other agreement to be responsible for such indebtedness; and

"**Indebtedness**" means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(A) amounts raised by acceptance under any acceptance credit facility;

(B) amounts raised under any note purchase facility;

(C) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(D) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(E) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing.

(b) Notwithstanding receipt of any payment after the acceleration of the Bonds, a holder may exercise its Exchange Right by depositing an Exchange Notice with an Exchange Agent during the period from and including the date of a default notice with respect to an event specified in Condition 11(a) (at which time the Issuer or the Guarantor (as the case may be) will notify the holders of the number of Shares per Bond to be delivered upon exchange, assuming all the then outstanding Bonds are exchanged) to and including the close of business (at the place where the Certificate evidencing the relevant Bond is deposited for exchange) on the date upon which the full amount of moneys payable in respect of such Bond has been duly received by the Principal Paying Agent or the Trustee and notice of such receipt has been duly given to the Bondholders.

If any exchanging holder deposits an Exchange Notice pursuant to this Condition 11(b) on the business day prior to, or during, a Suspension Period, the holder's Exchange Right shall continue until the immediately following business day following the last day of the Suspension Period, which shall be deemed the Exchange Date, for the purposes of such holder's exercise of its Exchange Right pursuant to this Condition 11(b).

If the Exchange Right attached to any Bond is exercised pursuant to this Condition 11(b), the Issuer will deliver Shares (which number will be disclosed to such holder as soon as practicable after the Exchange Notice is given) in accordance with these Conditions against repayment of the payment received by the relevant holder after the acceleration of the Bonds, except that the Issuer shall have five business days before it is required to deliver the number of Shares to be delivered pursuant to this Condition 11(b) and an additional five business days from such delivery to make payment in accordance with the immediately following paragraph.

If the Exchange Right attached to any Bond is exercised pursuant to this Condition 11(b) or if the Bonds have become due and payable pursuant to Condition 11(a)(ii) (*Non-delivery of Exchange Property*), the Issuer (failing whom the Guarantor) shall at the request of the exchanging holder, pay to such holder an amount in U.S. dollars (the "**Default Cure Amount**"), equal to the product of (i) (A) the number of Shares that are required to be delivered by the Issuer to satisfy the Exchange Right in relation to such exchanging holder minus (B) the number of Shares that are actually delivered by the Issuer pursuant to such holders' Exchange Notice and (ii) the Share Price (as defined below) on the Exchange Date, converted into U.S. dollars at the Prevailing Rate on the Exchange Date; provided that if such holder has received any payment under the Bonds pursuant to this Condition 11 (*Events of Default*), the amount of such payment shall be deducted from the Default Cure Amount.

In this Condition 11(b):

"**business day**" means a day in which banks are open for business in the place where the Certificate evidencing the relevant Bond is deposited for exchange; and

"**Share Price**" means the closing price of the Shares as quoted by the Hong Kong Stock Exchange on the Exchange Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Hong Kong Stock Exchange or other applicable securities exchange on which the Shares are listed for such day as furnished by a reputable and independent broker-dealer selected from time to time by the Trustee at the expense of the Issuer or the Guarantor for such purpose.

12 PRESCRIPTION

Claims against the Issuer and/or the Guarantor for payment in respect of the Bonds shall be prescribed and become void unless made within 10 years from the appropriate Relevant Date in respect of them.

13 REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations or other relevant regulatory authority regulations, at the specified office of the Registrar or any Transfer Agent as may from time to time be designated by the Issuer for that purpose and notice of whose designation is given to Bondholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security, indemnity and otherwise as (a) the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice) and (b) the Registrar or the relevant Transfer Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

14 MEETINGS OF BONDHOLDERS, MODIFICATION AND WAIVER

(a) **Meetings of Bondholders**: The Trust Deed contains provisions for convening meetings of Bondholders to consider matters affecting their interests, including without limitation the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed or the Agency Agreement. Such a meeting may be convened by the Issuer, the Guarantor or the Trustee and shall be convened by the Trustee if requested in writing to do so by Bondholders holding not less than 10 per cent. in aggregate principal amount of the Bonds for the time being outstanding and subject to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction against all costs and expenses. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing more than 50 per cent. in aggregate principal amount of the Bonds for the time being outstanding, or at any adjourned meeting two or more persons being or representing Bondholders whatever the principal amount of the Bonds held or represented, unless the business of such meeting includes the consideration of proposals, *inter alia*, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal or premium payable in respect of the Bonds or changing the method of calculation of any amount payable under the Bonds, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Exchange Right, (v) to cancel or modify the Guarantee (subject to any modification pursuant to Condition 14(b) (*Modification of Agreements and Deeds*)) or (vi) to modify the provisions concerning the quorum required at any meeting of the holders or the majority required to pass an Extraordinary Resolution or sign a resolution in writing, in which case the necessary quorum will be two or more persons holding or representing not less than 66 per cent., or at any adjourned meeting not less than 25 per cent., in aggregate principal amount of the Bonds for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Bondholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in aggregate principal amount of the Bonds for the time being outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Bondholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

The Trust Deed provides that so long as the Global Certificate is held on behalf of Euroclear Bank SA/NV, Clearstream Banking S.A. or any other clearing system, a resolution passed by Electronic Consent (as defined in the Trust Deed) shall be as valid and effective as a duly passed Extraordinary Resolution.

In the event of the passing of an Extraordinary Resolution, the Issuer will as soon as practicable notify the Bondholders thereof in accordance with Condition 18 (Notices).

(b) **Modification of Trust Deed and Agency Agreement**: The Trustee may (but shall not be obliged to) agree, without the consent of the Bondholders, to (i) any modification of any of these Conditions and/or any of the provisions of the Trust Deed and/or the Agency Agreement that is in its opinion of a formal, minor or technical nature or is made to correct a manifest error or is to comply with any mandatory provision of applicable law, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of these Conditions or any of the provisions of the Trust Deed or the Agency Agreement that is in the opinion of the Trustee not materially prejudicial to the interests of the Bondholders. Any such modification, authorisation or waiver shall be binding on the Bondholders and, unless the Trustee otherwise agrees, such modification, authorisation or waiver shall be notified by the Issuer, failing whom the Guarantor, to the Bondholders as soon as practicable thereafter.

(c) **Entitlement of the Trustee**: In connection with the exercise of its functions, rights, powers and discretions (including but not limited to those referred to in this Condition 12 (*Prescription*)), the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders, and the Trustee shall not be entitled to require on behalf of any Bondholder, nor shall any Bondholder be entitled to claim, from the Issuer, the Guarantor or the Trustee any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

15 ENFORCEMENT

The Trustee may, at its discretion and without further notice, take such steps and/or actions and/or institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed and the Bonds, but it need not take any such steps and/or actions and/or institute any such proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by Bondholders holding at least 25 per cent. in aggregate principal amount of the Bonds then outstanding, and (b) it shall first have been indemnified and/or secured and/or pre-funded to its satisfaction. No Bondholder may proceed directly against the Issuer and/or the Guarantor unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

16 INDEMNIFICATION OF THE TRUSTEE

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including without limitation provisions relieving it from taking any steps and/or actions and/or instituting proceedings to enforce payment and its rights under the Trust Deed, the Agency Agreement and/or these Conditions and in respect of the Bonds and unless first

indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and/or any entity related (directly or indirectly) to the Issuer and/or the Guarantor without accounting for any profit.

None of the Trustee or any of the Agents shall be responsible for the performance by the Issuer, the Guarantor and any other person appointed by the Issuer, and/or the Guarantor in relation to the Bonds of the duties and obligations on their part expressed in respect of the same and, unless it has written notice from the Issuer, or the Guarantor to the contrary, the Trustee and each Agent shall be entitled to assume that the same are being duly performed. None of the Trustee or any Agent shall be liable to any Bondholder or any other person for any action taken by the Trustee or such Agent in accordance with the instructions, direction or request of the Bondholders. The Trustee shall be entitled to rely conclusively on any instructions, direction, request or resolution of Bondholders given by holders of the requisite principal amount of Bonds outstanding or passed at a meeting of Bondholders convened and held in accordance with the Trust Deed. Whenever the Trustee is required or entitled by the terms of the Trust Deed, the Agency Agreement or these Conditions to exercise any discretion or power, take any action, make any decision or give any direction, the Trustee is entitled, prior to its exercising any such discretion or power, taking any such action, making any such decision, or giving any such direction, to seek directions or clarification of any such direction from the Bondholders by way of an Extraordinary Resolution, and the Trustee shall not be responsible for any loss or liability incurred by the Issuer, the Guarantor, the Bondholders or any other person as a result of any delay in exercising such discretion or power, taking such action, making such decision, or giving such direction where the Trustee is seeking such directions or clarification of any such direction from the Bondholders or in the event that no such directions or no clarification of any such direction from the Bondholders are received. The Trustee shall not be under any obligation to monitor compliance with the provisions of the Trust Deed, the Agency Agreement or these Conditions.

The Trustee may rely conclusively without liability to Bondholders or any other person on any report, confirmation or certificate or any opinion or advice of any legal advisers, accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely conclusively on any such report, confirmation, certificate, opinion or advice and, in such event, such report, confirmation, certificate, opinion or advice shall be binding on the Issuer, the Guarantor and the Bondholders.

The Trustee shall have no obligation to monitor whether an Event of Default or a Potential Event of Default (as defined in the Trust Deed) or a Relevant Redemption Event has occurred, and shall not be liable to the Bondholders or any other person for not doing so.

Each Bondholder shall be solely responsible for making and continuing to make its own independent appraisal and investigation into the financial condition, creditworthiness, condition, affairs, status and nature of the Issuer and the Guarantor, and the Trustee shall not at any time have any responsibility for the same and each Bondholder shall not rely on the Trustee in respect thereof.

17 FURTHER ISSUES

The Issuer may from time to time without the consent of the Bondholders create and issue further bonds having the same terms and conditions as the Bonds in all respects (or in all respects except for the issue date) and so that such further issue shall be consolidated and form a single series with the outstanding Bonds. Any further Bonds forming a single series with the outstanding Bonds shall be constituted by a deed supplemental to the Trust Deed.

18 NOTICES

Unless otherwise provided in the Trust Deed or the Bonds, as described herein, notices to all holders shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

The Guarantor shall, or shall procure the Issuer to, cause to be filed with the Trustee, and shall cause to be given to all holders (a) at least 10 days prior to the applicable record date if CIMC shall (i) declare a dividend (or other distribution) on its Shares payable otherwise than in cash out of its retained earnings, or (ii) authorise the grant to the holders of its Shares of options, rights or warrants, and (b) at least 10 days prior to the applicable record date, upon (i) a reclassification of the Shares (other than a subdivision or combination of its outstanding Shares), or of any consolidation, merger or share exchange to which the Issuer, the Guarantor or CIMC is a party and for which approval of any shareholders is required, or of any tender or exchange offer by the Issuer, the Guarantor, CIMC or any Subsidiary for all or any of the Shares, or of the conveyance, lease, sale or transfer of all or substantially all of the assets of the Issuer, the Guarantor, CIMC or any Subsidiary, or (ii) the voluntary or involuntary dissolution, liquidation or winding up of the Issuer, the Guarantor, any of their Subsidiaries, a notice stating (A) the date on which a record is to be taken for the purpose of such dividend, distribution, rights options or warrants, or, if a record is not to be taken, the date as of which the holders of Shares of record to be entitled to such dividend, distribution, rights, options or warrants are to be determined, or (B) the date on which such reclassification, consolidation, merger, share exchange, tender or exchange offer, conveyance, lease, sale, transfer, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of Shares of record shall be entitled to exchange their Shares for securities, cash or other property deliverable upon such reclassification, consolidation, merger, share exchange, tender or exchange offer, conveyance, lease, sale, transfer, dissolution, liquidation or winding up. The foregoing will not require the Guarantor or the Issuer to send any notice to the holders or the Trustee prior to any notice or circular regarding the subject of such notice to the holders or the Trustee is sent to shareholders of CIMC.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and Clearstream or any Alternative Clearing System (as defined in the Global Certificate), any notice to the Bondholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream or any Alternative Clearing System, for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

19 CURRENCY INDEMNITY

Any amount received or recovered in a currency other than U.S. dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or the Guarantor or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer or the Guarantor shall only constitute a discharge to the Issuer or the Guarantor, as the case may be, to the extent of the U.S. dollars that the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If the amount received or recovered is less than the amount expressed to be due to the recipient under the Bonds, the Issuer, failing whom the Guarantor, shall indemnify it on demand against any loss sustained by it as a result. In any event, the Issuer, failing whom the Guarantor, shall indemnify the recipient on demand against the cost of making any such purchase. For the purposes of this Condition 19 (*Currency Indemnity*), it shall be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual

purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's and the Guarantor's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgment or order.

20 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

Without prejudice to the rights of the Bondholders as set out in Condition 15, no person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999 except to the extent provided for in these Conditions or in the Trust Deed.

21 GOVERNING LAW AND JURISDICTION

(a) **Governing Law**: The Trust Deed, the Agency Agreement, the Guarantee and the Bonds, and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction**: The courts of Hong Kong are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Bonds, the Guarantee, the Trust Deed, and the Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with the Bonds, the Guarantee, the Trust Deed, and the Agency Agreement ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor irrevocably submits to the jurisdiction of the courts of Hong Kong and waives any objection to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

(c) **Service of Process**: The Issuer has appointed China Merchants Industry Holdings Co., Ltd. at 31/F., Tower 2 Kowloon Commerce Centre, No. 51 Kwai Cheong Road, Kwai Chung, N.T., Hong Kong as its agent in Hong Kong to receive, for it and on its behalf, service of process in any Proceedings in Hong Kong. Such service shall be deemed completed on delivery to such process agent (whether or not, it is forwarded to and received by the Issuer). If for any reason such process agent ceases to be able to act as such or ceases to have an address in Hong Kong, the Issuer shall appoint a substitute process agent and shall deliver to the Trustee a copy of such agent's acceptance of that appointment within 30 days of such cessation. Nothing shall affect the right to serve process in any manner permitted by law.

(d) **Waiver of Immunity**: Each of the Issuer and the Guarantor hereby waives any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence, and irrevocably consents to the giving of any relief or the issue of any process, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings.

22 DEFINITIONS

For the purpose of these Conditions, the following words and phrases shall have the following meanings:

"**Alternative Stock Exchange**" means at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market as shall have been approved by an Extraordinary Resolution and on which the Shares are then listed or quoted or dealt in;

"**Capital Distribution**" means (a) any distribution of assets in specie by the Relevant Corporation for any financial period (whenever paid or made and however described) (and for these purposes a distribution of assets in specie includes without limitation an issue of shares or other securities credited as fully or partly paid-up by way of capitalisation of reserves); and (b) any cash dividend or distribution of any kind by the Relevant Corporation for any financial period (whenever paid or made and however described);

"**Closing Price**" of any Securities for any Trading Day shall be, (a) in respect of the Shares, the price published in the "Daily Quotation Sheet" published by the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day; and (b) in respect of any other Relevant Securities or any other Securities, the price published in the quotation sheet of the stock exchange or other securities market on which such Relevant Securities or any other Securities are principally traded for such day;

"**Current Market Price**" of any Securities shall be, in respect of any particular date, (a) in the case of the Shares, the average daily Closing Price for 20 consecutive Trading Days immediately before any particular date as obtained or derived from the Relevant Exchange for one Share on such date; and (b) in the case of any other Relevant Security, the average daily Closing Price for 20 consecutive Trading Days as obtained or derived from such stock exchange or other securities market on which such Relevant Security is principally traded for one share of such Relevant Security on such date;

"**CCASS**" means the Central Clearing and Settlement System of Hong Kong;

"**Exchange Business Day**" shall mean a day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer) or the Transfer Agent with whom a Certificate is deposited in connection with a transfer, is located;

"**Final Date**" means, in relation to any Offer, the date such Offer becomes or is declared unconditional in all respects;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Hong Kong Financial Reporting Standards**" means the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and all applicable guidance, bulletins and other relevant accounting regulations issued thereafter, as amended from time to time;

"**Hong Kong GAAP**" means generally accepted accounting principles in Hong Kong and accounting standards issued by the Hong Kong Institute of Certified Public Accountants (including, without limitation, Hong Kong Financial Reporting Standards);

"**Hong Kong Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Independent Financial Institution**" means an independent investment or commercial bank of international repute selected by the Guarantor and notified in writing to the Trustee;

"**Listed Material Subsidiaries**" means any Material Subsidiary, the shares of which are at the relevant time listed on the Hong Kong Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange or any other stock exchange;

"**Material Subsidiary**" means, at any time, any Subsidiary of the Guarantor:

(a) whose gross assets or (in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated financial statements) gross consolidated assets attributable to the Guarantor, as shown by its latest audited balance sheet are at least 10 per cent. of the sum of (i) the gross consolidated assets of the Guarantor and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Guarantor and its Subsidiaries and (ii) the Guarantor and its consolidated Subsidiaries' share of the gross assets (consolidated in the case of a Subsidiary of a Guarantor which itself has Subsidiaries and which customarily prepares consolidated financial statements) (as shown by its latest balance sheet (consolidated, if available)) of each Subsidiary of the Guarantor whose financial statements are not consolidated with the financial statements of the Guarantor after adjustment for minority interests, provided that;

    (A) in the case of a corporation or other business entity becoming a Subsidiary of the Guarantor after the end of the financial period to which the latest consolidated audited accounts of the Guarantor relate, the reference to the then latest consolidated audited accounts of the Guarantor for the purposes of the calculation above shall, until consolidated audited accounts of the Guarantor for the financial period in which the relevant corporation or other business entity becomes a Subsidiary of the Guarantor are published, be deemed to be a reference to the then latest consolidated audited accounts of the Guarantor adjusted to consolidate the latest accounts (consolidated in the case of a Subsidiary of the Guarantor which itself has Subsidiaries and which customarily prepares consolidated accounts) of such Subsidiary in such accounts;

    (B) if the accounts of any Subsidiary of the Guarantor (not being a Subsidiary of the Guarantor referred to in proviso (A) above) are not consolidated with those of the Guarantor, then the determination of whether or not such subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if available) with the consolidated accounts (determined on the basis of the foregoing) of the Guarantor; and

    (C) in relation to any Subsidiary of the Guarantor, each reference in proviso (A) or (B) above to all or any of the accounts (consolidated or otherwise) of such Subsidiary shall be deemed to be a reference to the relevant audited accounts of such Subsidiary if it customarily prepares accounts which are audited and, if not, to the relevant unaudited accounts of such Subsidiary which shall be certified by any two directors of such Subsidiary as having been properly prepared in accordance with generally accepted accounting principles applicable to such Subsidiary; or

(b) to which is transferred the whole or substantially the whole of the assets of another Subsidiary of the Guarantor which, immediately prior to such transfer, was a Material Subsidiary, provided that the Material Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Material Subsidiary at the date on which the first published audited consolidated accounts of the Guarantor prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Material Subsidiary on the basis of such accounts by virtue of the provisions of paragraph (a) above of this definition.

A certificate signed by any two directors of the Guarantor, each of whom is an Authorised Signatory of the Guarantor, that, in their opinion, a Subsidiary is or is not, or was or was not, a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties. The certificate shall, if there is a dispute as to whether an entity is or is not a Material

Subsidiary and if the Guarantor is able to procure the same by the use of its reasonable endeavours, be accompanied by a report by an internationally recognised firm of accountants addressed to the directors of the Guarantor as to proper extraction of the figures used by the Guarantor in determining the Material Subsidiaries of the Guarantor and mathematical accuracy of the calculation;

"**Offer**" means a publicly announced offer to the holders of any Relevant Securities comprising Exchange Property, whether expressed as a legal offer, an invitation to treat or in any other way, in circumstances where such offer is available to all holders of the applicable Relevant Securities or all or substantially all such holders other than any holder who is, or is connected with, or is deemed to be acting in concert with, the person making such offer or to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any stock exchange in any territory, it is determined not to make such an offer;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**PRC**" means the People's Republic of China which, for the purposes of these Conditions, shall not include Hong Kong, Macau Special Administrative Region of the People's Republic of China and Taiwan;

"**Prevailing Rate**" means, in respect of any two currencies on any day, the spot rate of exchange between such currencies prevailing as at or about 12:00 noon (Hong Kong time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12:00 noon (Hong Kong time) on the immediately preceding day on which such rate can be so determined, in each case, as notified in writing by the Issuer and/or the Guarantor to the Trustee and the relevant Agent(s) on the date of determination of the Prevailing Rate;

"**Relevant Exchange**" means the Hong Kong Stock Exchange or, if the Shares are no longer admitted to trading on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are traded or dealt in;

"**Relevant Corporation**" means CIMC, and any corporation or company derived from or resulting or surviving from the merger, consolidation, amalgamation, reconstruction or acquisition of CIMC with, into or by such other corporation or company, and any other entity, all or part of the share capital of which is, or all or some of the Securities are, at the relevant time included in the Exchange Property;

"**Relevant Indebtedness**" means any present or future indebtedness incurred outside the PRC which is in the form of, or represented or evidenced by, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market without regard, however, to whether such securities are sold through public offering or private placements (which for the avoidance of doubt shall not include any indebtedness under any syndicated or bilateral loan facility arranged or granted by a bank or other financial institution or any guarantee or indemnity in respect of such indebtedness (including any drawing down of any existing credit line or facility of the Issuer, the Guarantor or any of the Guarantor's Subsidiaries));

"**Relevant Page**" means the relevant page on Bloomberg or, if there is no such page, on Reuters or such other information service provider that displays the relevant information, in each case, as notified in writing by the Issuer to the Trustee and the relevant Agent(s) on the date of determination of the Prevailing Rate;

"**Relevant Securities**" means Securities included in the Exchange Property from time to time, and "**Relevant Security**" shall be read accordingly;

"**Securities**" means shares or other securities (including without limitation any options, warrants, convertible bonds, evidence of indebtedness or rights to subscribe or purchase shares or other Securities);

"**Security Interest**" means any mortgage, charge, pledge, lien or other encumbrance or security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Settlement Date**" means the date falling 17 business days after the relevant Exchange Date provided that in the event that a relevant Bondholder is entitled to receive Additional Exchange Property, the Settlement Date shall then be the later of (a) 17 business days after the relevant Exchange Date; and (b) 17 business days after the Effective Date, "**business days**" in this definition shall mean a day on which both CCASS and the share registrar and transfer office of CIMC in Hong Kong are open for business for trade, settlement of the Shares and for registration of Share transfers;

"**Shares**" means ordinary H-shares in the issued share capital of CIMC (Stock Code: 2039) or shares of any class or classes resulting from any subdivision, consolidation or reclassification of those shares, which as between themselves have no preference in respect of dividends nor of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of CIMC;

"**Specified Date**" means, in respect of any Offer, the fifteenth day following that on which such Offer was made, or where such Offer is open for less than 15 days the final date for acceptance of such Offer, which, if such Offer is extended prior to such final date, shall be the final date for acceptance of such extended Offer;

a "**Subsidiary**" of any Person means (a) any company or other business entity of which that Person owns or controls (either directly or through one or more other Subsidiaries) more than 50 per cent. of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity, or (b) any company or other business entity which at any time has its accounts consolidated with those of that Person or which, under the law or regulations of Hong Kong, or Hong Kong GAAP, should have its accounts consolidated with those of that Person;

"**Trading Day**" means (a) in respect of the Shares, a day (other than a Saturday or Sunday) on which the Relevant Exchange is open for business provided that if no closing price in respect of the Shares is reported on any such Trading Day, that Trading Day shall not be a Trading Day for the purposes of any calculation; and (b) in respect of any other Relevant Securities or any other Securities, a day (other than a Saturday or Sunday) on which the stock exchange or other securities market on which such Relevant Securities or any other Securities are principally traded is open for business provided that if no closing price in respect of such Relevant Security is reported on any such Trading Day, that Trading Day shall not be a Trading Day period for the purposes of any calculation; and

"**Value**" of the Exchange Property on any day shall be the aggregate of:

(a) the value of publicly traded Securities included in the Exchange Property, which shall be deemed to be the Current Market Price of such Securities on such day, provided that if such day is not a Trading Day then the value of such publicly traded Securities shall be the Current Market Price on the immediately preceding Trading Day, converted (if necessary) into U.S. dollars at the Prevailing Rate on such day;

(b) the value of all other assets and of publicly traded Securities for which a value cannot be determined pursuant to (a) above of this definition included in the Exchange Property, which shall be deemed to be the value on such day (converted (if necessary) into U.S. dollars as aforesaid) as certified by an Independent Financial Institution (in the case of Securities) or independent appraiser (in the case of other assets (other than cash)) of international repute selected by the Guarantor and notified in writing to the Trustee; and

(c) the value of cash shall be deemed to be the amount thereof (converted (if necessary) into U.S. dollars as aforesaid),

provided that if on any day any such publicly traded Securities are quoted on the Relevant Exchange or, as the case may be, such stock exchange or other Securities market as aforesaid cum any dividend or other entitlement, or any assets or publicly traded Securities the Value of which is to be determined pursuant to (b) above of this definition have the benefit of, or are entitled to, or carry the right to, any dividend or other entitlement, in any such case which a Bondholder would not be entitled to pursuant to these Conditions on exercising Exchange Rights on the last day permitted pursuant to these Conditions, then the Value of any such assets or publicly traded Securities on such day shall be reduced by an amount equal to the gross amount of any such dividend or other cash entitlement or, as the case may be, the Value (as determined by an Independent Financial Institution as aforesaid) of any entitlement or dividend where that is other than cash.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds set out in this Offering Circular.

Terms defined in the terms and conditions of the Bonds (the "**Conditions**" or "**Terms and Conditions of the Bonds**") set out in this Offering Circular have the meaning in the paragraphs below.

The Bonds will be represented by a Global Certificate which will be registered in the name of a nominee of, and deposited with, a common depositary on behalf of Euroclear and Clearstream.

Under the Global Certificate, the Issuer, for value received, will promise to pay to the holder of the Bonds represented by the Global Certificate (subject to surrender of the Global Certificate if no further payment falls to be made in respect of such Bonds) on the Maturity Date (or on such earlier date as the amount payable upon redemption under the Terms and Conditions of the Bonds may become repayable in accordance with the Terms and Conditions of the Bonds) the amount payable upon redemption under the Terms and Conditions of the Bonds represented by the Global Certificate and to pay default interest in respect of such Bonds at the rates and in accordance with the method of calculation provided for in the Terms and Conditions of the Bonds, save that the calculation is made in respect of the total aggregate amount of the Bonds represented by the Global Certificate, together with such other sums and additional amounts (if any) as may be payable under the Terms and Conditions of the Bonds, in accordance with the Terms and Conditions of the Bonds.

Owners of interests in the Bonds in respect of which the Global Certificate is issued will be entitled to have title to the Bonds registered in their names and to receive individual definitive Certificates if Euroclear or Clearstream or any other clearing system selected by the Issuer and approved in writing by the Trustee, the Principal Paying Agent and the Registrar through which the Bonds are held (an "**Alternative Clearing System**") is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. In such circumstances, the Issuer at its own expense will cause sufficient individual definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant holders of the Bonds. A person with an interest in the Bonds in respect of which the relevant Global Certificate is issued must provide the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange and a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such individual definitive Certificates.

In addition, the Global Certificate will contain provisions which modify the Terms and Conditions of the Bonds as they apply to the Bonds evidenced by the Global Certificate. The following is a summary of certain of those provisions:

Notices: So long as the Bonds are represented by the Global Certificate and such Global Certificate is held on behalf of Euroclear or Clearstream or any Alternative Clearing System, notices to holders of the Bonds shall be given by delivery of the relevant notice to Euroclear or Clearstream or such Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Terms and Conditions of the Bonds.

Meetings: For the purposes of any meeting of Bondholders, the holder of the Bonds represented by the Global Certificate shall (unless such Global Certificate represents only one Bond) be treated as two persons for the purposes of any quorum requirements of a meeting of Bondholders and as being entitled to one vote in respect of each U.S.$1,000 in principal amount of the Bonds for which the Global Certificate is issued.

Bondholders' Redemption: The Bondholders' redemption option in Condition 8(d) (*Redemption following the occurrence of a Relevant Redemption Event*) of the Terms and Conditions of the Bonds may be exercised by the holder of the Global Certificate giving notice to the Principal Paying Agent of the principal amount of Bonds in respect of which the option is exercised within the time limits specified in the Terms and Conditions of the Bonds.

Issuer's Redemption: The option of the Issuer provided for in Conditions 8(b) (*Redemption at the Option of the Issuer*) or 8(c) (*Redemption for Taxation Reasons*) of the Terms and Conditions of the Bonds shall be exercised by the Issuer giving notice to the holders of the Bonds within the time limits set out in and containing the information required by the Terms and Conditions of the Bonds.

Transfers: Transfers of beneficial interests in the Bonds represented by the Global Certificate will be effected through the records of Euroclear or Clearstream (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear or Clearstream (or any Alternative Clearing System) and their respective direct and indirect participants.

Exchange: Subject to the requirements of Euroclear and Clearstream (or any Alternative Clearing System), the Exchange Right attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation to or to the order of an Exchange Agent of one of more Exchange Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of such Global Certificate with the Exchange Agent together with the relevant Exchange Notice(s) shall not be required. The exercise of the Exchange Right shall be notified by the Exchange Agent to the Registrar and the holder of such Global Certificate.

Cancellation: Cancellation of any Bond represented by the Global Certificate following any redemption, exchange or purchase by the Issuer, the Guarantor or their respective Subsidiaries (as defined in the Trust Deed) will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders and the Global Certificate on its presentation to or to the order of the Registrar for annotation (for information only) in the schedule of the Global Certificate.

Trustee's Powers: In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, but without being obligated to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of such Bonds in respect of which the Global Certificate is issued.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, which is approximately U.S.$228.4 million, will be on-lent by the Issuer to the Guarantor and/or its subsidiaries for financing the capital expenditure, refinancing existing debt obligations and other general corporate purposes of the Group.

EXCHANGE RATE INFORMATION

Renminbi

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the markets during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange market. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC Government changed its decade-old policy of pegging the value of the Renminbi to that of the U.S. dollar only, to allow the value of the Renminbi to fluctuate within a narrow and managed band based on market supply and demand and by reference to a basket of currencies. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar.

The PRC Government has made further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Centre, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. on each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3 per cent. to 0.5 per cent. around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5 per cent. above or below the central parity rate published by the PBOC. On 19 June 2010, the PBOC announced that in view of the recent economic situation and financial market developments in China and abroad, and the balance of payments situation in China, it has decided to proceed further with reform of the Renminbi exchange rate regime and to enhance the Renminbi exchange rate flexibility. According to the announcement, the exchange rate floating bands will remain the same as previously announced but the PBOC will place more emphasis on reflecting the market supply and demand with reference to a basket of currencies. On 12 April 2012, the PBOC announced that on 16 April 2012, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar would be enlarged from 0.5 per cent. to 1.0 per cent. around the central parity rate, allowing the Renminbi to fluctuate against the U.S. dollar by up to 1.0 per cent. above or below the central parity rate published by the PBOC. The PBOC announced on 15 March 2014 that since 17 March 2014, the floating band for the trading prices in the inter-bank foreign exchange spot market of Renminbi against the U.S. dollar was further expanded from 1 per cent. to 2 per cent. On each business day, the spread between the Renminbi and U.S. dollar buying and selling prices offered by the designated foreign exchange banks to their clients shall be within 3.0 per cent. of the published central parity of the U.S. dollar on that day, instead of 2.0 per cent. On 11 August 2015, the PBOC adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change at primary international currencies. For three conservative days commencing 11 August 2015, the PBOC devalued the Renminbi against the U.S. dollar, leading to declines in the value of the Renminbi versus the U.S. dollar of up to 2.8 per cent. in currency markets and representing the largest single-day drop in the value of the Renminbi since 1994. On 11 December 2015, China Foreign Exchange Trade System ("**CFETS**"), a sub-institutional organisation of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. During 2016, along with the progressive interest rate increased by the U.S. Federal Reserve, the Renminbi accumulatively depreciated by 7.2% against the U.S. dollar. In the second half of 2017 and the first half of 2018, Renminbi experienced further fluctuation in value against the U.S. dollar. In August 2019, the PBOC on 5 August 2019 set the Renminbi's daily reference

rate above 7 per U.S. dollar for the first time in over a decade amidst an uncertain trade and global economic climate. The PRC government may adopt further reforms of its exchange rate system, including making the Renminbi freely convertible in the future.

Although PRC governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, requires the approval of SAFE and other relevant authorities.

The table below sets forth for the periods indicated, certain information concerning the exchange rates between Renminbi and U.S. dollars. For periods after 1 January 2010, the exchange rates reflect the exchange rates as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.

Period	Exchange Rate			
	Period End	Average[(1)]	High	Low
		(RMB per U.S.$1.00)		
2016	6.9430	6.6549	6.9580	6.4480
2017	6.5063	6.7569	6.9575	6.4773
2018	6.8755	6.6292	6.9737	6.2649
2019	6.9618	6.9014	7.1786	6.6822
2020				
July	6.9744	6.9977	7.0660	6.9744
August	6.8474	6.9270	6.9799	6.8474
September	6.7896	6.8106	6.8474	6.7529
October	6.6919	6.7254	6.7898	6.6503
November	6.5760	6.6029	6.6899	6.5556
December	6.5250	6.5393	6.5705	6.5208
2021				
January	6.4282	6.4672	6.4822	6.4282
February (up to 12 Feb)	6.4567	6.4576	6.4715	6.4344

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Guarantor

As at 31 December 2019, the issued share capital of the Guarantor was HK$16,800,239,864 consisting of 16,800,239,864 ordinary shares.

The following table sets out the audited consolidated capitalisation and indebtedness of the Group as at 31 December 2019:

	As at 31 December 2019			
	Actual		As adjusted	
	RMB'000	*U.S.[(2)]$'000*	*RMB'000*	*U.S.$'000*
Short-term bank and other borrowings (including current portion of long-term bank and other borrowings)[(1)]	134,047,981	19,254,788	134,047,981	19,254,788
Long-term bank and other borrowings[(3)]	193,800,289	27,837,670	193,800,289	27,837,670
Total bank and other borrowings	327,848,270	47,092,457	327,848,270	47,092,457
Bonds to be issued[(4)]	–	–	1,601,214	230,000
Total shareholders' funds[(5)]	142,956,863	20,534,469	142,956,863	20,534,469
TOTAL CAPITALISATION[(6)]	**470,805,133**	**67,626,926**	**472,406,347**	**67,856,926**

(1) *Short-term bank and other borrowings comprise short-term bank and other borrowings, current portion of long-term bank and other borrowings, lease liabilities payable within one year, short term portion of notes and debentures and short-term financing bills payables that are due within one year.*

(2) Translation of RMB amounts to U.S. dollars or U.S. dollar amounts to RMB (as the case may be) were made at a rate of RMB6.9618 to U.S.$1.00, the exchange rate as at 31 December 2019 as set forth in the H.10 weekly statistical release of the Board of Governors of the Federal Reserve System of the United States.

(3) Long-term bank and other borrowings comprise bank and other borrowings, debentures, notes, lease liabilities payable after one year and interest-bearing amounts due to non-controlling shareholders of subsidiaries, all of which are due in excess of one year.

(4) Representing the gross proceeds from the issue of the Bonds before deducting the underwriting fees and commissions and other estimated expenses payable in connection with this offering.

(5) Total shareholders' funds comprise ordinary shares capital, capital reserve, other asset revaluation reserve, investment revaluation reserve, translation reserve, equity transaction reserve and retained profits.

(6) Total capitalisation comprises total bank and other borrowings and shareholders' funds.

As at 31 December 2020 as compared with 31 December 2019, the Group's total bank and other borrowings have increased by approximately 10% to 15%, and the Group's total shareholders' funds have also increased by at least 10%. These increases are in the ordinary course of the Group's business.

Save as disclosed above, there has been no adverse material change in the capitalisation of the Group since 31 December 2019.

Capitalisation and Indebtedness of the Issuer

As at 6 January 2021, the date of its incorporation, the Issuer was authorised to issue a maximum of 50,000 U.S.$1.00 par value shares of a single class and series, of which one share is held by a wholly owned subsidiary of the Guarantor. As at the date of this Offering Circular the Issuer does not have any debt outstanding other than the issue of the Bonds.

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements.

DESCRIPTION OF THE ISSUER

Formation

Fine Perfection Investment Limited is a limited liability company incorporated under the BVI Business Companies Act, 2004, as amended (BVI Company Number: 2051683). It was incorporated in the British Virgin Islands on 6 January 2021. The Issuer is an indirectly wholly owned subsidiary of the Guarantor.

Business Activity

The Issuer was established for the purpose of issuing the Bonds and on-lending the proceeds to the Guarantor and/or its subsidiaries. The Issuer has not engaged, since the date of its incorporation, in any other material activities other than those relating to the issue of the Bonds and the on-lending of the proceeds to the Guarantor and/or its subsidiaries, and the authorisation of documents and agreements referred to in this Offering Circular to which it is or will be a party.

Financial Statements

Under British Virgin Islands law, the Issuer is not required to publish interim or annual financial statements. The Issuer is, however, required to keep proper books of account as are necessary to give a true and fair view of the state of the Issuer's affairs and to explain its transactions.

Directors and Officers

The sole director of the Issuer as at the date of this Offering Circular is Lin Changsen. The business address of the directors is 31/F., Tower 2 Kowloon Commerce Centre, No. 51 Kwai Cheong Road, Kwai Chung, N.T., Hong Kong. The Issuer has no employees.

Share Capital

The Issuer is authorised under its memorandum of association to issue a maximum of 50,000 shares of U.S.$1.00 par value each and one share has been issued to, and is held by, China Merchants (CIMC) Investment Limited, which is a wholly-owned subsidiary of the Guarantor. The register of the members of the Issuer is maintained at its registered office in the British Virgin Islands at OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands.. No part of the equity securities of the Issuer is listed or dealt on any stock exchange and no listing or permission to deal in such securities is being or is proposed to be sought. As at the date of this Offering Circular, the Issuer does not have any debt outstanding.

DESCRIPTION OF THE GROUP

Overview

China Merchants Holdings (Hong Kong) Company Limited (the "**Guarantor**") is a wholly owned subsidiary of CMG and the primary overseas platform of CMG for executing CMG's business strategy.

CMG is one of the PRC's key state-owned enterprises ("**SOE**") under the direct supervision of the State owned Assets Supervision and Administration Commission of the State Council of the PRC ("**SASAC**"). Established in 1872, CMG is the first national enterprise in China's modern history and the forerunner of China's national industry and commerce. CMG is currently one of the four major PRC SOEs headquartered in Hong Kong, and one of the key enterprises directly supervised by the central government of the PRC. CMG has been rated an "A-grade SOE" by SASAC consistently since the establishment of SASAC and, including the financial results of CM Bank, was the most profitable SOE in 2019, ranking first in terms of total assets among all the SOEs in 2019. CMG has been one of the eight "Level-A" state-owned enterprises for 16 consecutive years and a "High Performance Enterprise" for five consecutive years. CMG's core operations include transportation, port operation and management, roads, energy transport, logistics, ship repair, marine engineering, financial investment and management and property development and management in the PRC, Hong Kong, Southeast Asia and other emerging markets.

On 14 July 2016, SASAC named CMG as one of seven state-owned enterprises which will pilot reforms in ownership, management and supervision. The objective is to make SASAC a stakeholder, rather than a manager of a state-owned enterprise so as to increase managerial and operational efficiency, so that SASAC can focus on asset management rather than direct management of these enterprises.

The Guarantor was established in 1987 in order to consolidate CMG's overseas subsidiaries and has been an integral part of CMG's transformation and expansion since the commencement of its operations. Over the years, its assets and businesses have continued to grow through reorganisations, capital injections and acquisitions. The Guarantor accounted for approximately 51.5 per cent. of CMG's total consolidated assets as at 31 December 2019 and 18.7 per cent. of CMG's consolidated revenue for the year ended 31 December 2019.

The Guarantor is a holding company for a portfolio of high quality and well established businesses that benefit from the economic growth of the PRC. Its key business segments are: ports and related services, financial services business, shipping and related services, logistics and related services and property rental and related management services.

- *Ports and related services*: The Guarantor's key subsidiary, CMPort is a leading port operator in the PRC and overseas markets. CMPort manages an extensive network of ports and is experienced in creating synergy with the use of information technology, advanced engineering management and comprehensive marine logistic support. CMPort's port network is strategically located in gateway hubs within the PRC that are closely aligned with the PRC's economic needs, and has also expanded overseas.

Based on statistics published by the Ministry of Transport of the PRC ("**MOT**"), CMPort's ports handled over 111.7 million TEUs of containers in 2019 of which approximately 83.7 million TEUs were in the PRC, representing approximately 32.1 per cent. of the country's total container volume. As at 31 December 2019, CMPort is one of the top port operators in the PRC in terms of container throughput. In the first half of 2020, the Group's ports handled a total container throughput of approximately 54.9 million TEUs, up by 0.6 per cent. year-on-year. Among that, the Group's ports in Mainland China, Hong Kong and Taiwan contributed an aggregate container throughput of approximately 42.6 million TEUs, representing a decrease of 3.3 per cent. year-on-year, which was mainly due to the impact on import and export demand arising from the spread of the COVID-19 pandemic across the world. A total container throughput handled by the Group's overseas ports grew by 16.6 per cent. year-on-year to approximately

12.2 million TEUs, which was mainly benefitted from the additional throughput contributed by the eight terminals acquired by Terminal Link SAS ("**Terminal Link**") on 26 March 2020 and the growth in throughput of Lomé Container Terminal S.A. ("**LCT**") in Togo and TCP Participações S.A. ("**TCP**") in Brazil. Bulk cargo volume handled by the Group's ports decreased by 10.9 per cent. year-on-year to 199 million tonnes, within which the Group's ports in Mainland China handled a total bulk cargo volume of 196 million tonnes, representing a decrease of 10.9 per cent. year-on-year. CMPort is one of the first red chip companies listed on the SEHK. As at 31 December 2019, CMPort's corporate credit ratings as rated by Moody's Investors Service and Standard & Poor's Ratings Group are Baa1 and BBB respectively.

On 26 December 2018, CMPort completed a material asset reorganisation, whereby CMPort disposed of its entire 33.58 per cent. equity interest held in Shenzhen Chiwan Wharf Holdings Limited (whose shares are listed on the Shenzhen Stock Exchange, and has changed its name to China Merchants Port Group Co., Ltd. ("**CMPG**")) to CMG, which in turn holds CMPort as a subsidiary. After the reorganisation, CMG remains as the ultimate controlling shareholder of CMPort.

- *Financial services:* The Group provides a broad range of financial services in the PRC and Hong Kong primarily through CM Securities which was one of the top ten securities companies in China by net profit as at 30 September 2020. CM Securities originated as part of CM Bank, managing CM Bank's securities businesses. CM Securities was separately incorporated in August 1993. As at 31 December 2019, CMG, through China Merchants Steam Navigation Co., Ltd. ("**CM Steam Navigation**"), which holds 100 per cent. of the shares of the Guarantor, indirectly held a 44.09 per cent. interest in CM Securities.

  CM Securities was incorporated in August 1993 and prior to that constituted the securities business department of CM Bank. CM Securities was the third securities company to be listed on the SSE on 17 November 2009 by way of an initial public offering (Stock Code: 600999). In October 2016, CM Securities' initial public offering of its H shares on the Hong Kong Stock Exchange raised approximately HK$10.7 billion. CM Securities is one of the PRC's leading investment banks. With respect to its wealth management services and institutional business, CM Securities was ranked seventh in the PRC securities market by net income from agency trading in 2019. According to the statistics from Wind, in 2019, CM Securities ranked seventh and eighth in the industry in terms of the amount of A Share projects underwritten and the number of projects underwritten, respectively, and the number of projects underwritten was up by one position from 2018. In respect of the STAR Market, the value of IPO underwritten amounted to approximately RMB2.9 billion (average calculation based on the number of lead underwriters), ranking seventh in the industry, and three projects were underwritten, ranking eight in the industry. The number of refinancing projects underwritten ranked eighth in the industry. CM Securities was awarded various honours, including the title of "Excellent Member of the STAR Market" by the SSE, the "Best Local Investment Bank" of the 13th New Fortune award and the "2019 China IPO Investment Bank Junding Award" by the Securities Times.

  As at 31 December 2019, CM Securities has 258 securities branches and 12 branches across the PRC. CM Securities also has overseas presence in Hong Kong, United Kingdom, Singapore and Korea.

  As at 30 June 2020, CM Securities also holds a 49.0 per cent. equity interest in Bosera Asset Management Co., Limited ("**Bosera**"), one of the first five mutual fund management companies established in the PRC and a 45.0 per cent. equity interest in China Merchants Fund Management Co. Limited.

- *Shipping and related services, logistics and related services and property rental and related management services:* These business segments consist of unlisted and mostly wholly owned subsidiaries which complement the Group's core businesses.

The Group's substantial investments in these business segments are:

- Ship repair: The Group's wholly owned subsidiary China Merchants Industry Holdings Co., Ltd. ("**CM Industry**") is one of the largest repairers of offshore oil rigs, oil tankers and container ships in the PRC and Hong Kong. It owns the "Yiu Lian Shipyard" brand and "China Merchants Heavy Industry" brand. Yiu Lian Shipyard possesses the largest ship repair operation and the second largest tugboats fleet in Hong Kong, providing 24 hours a day non-stop service in harbour towage for all vessels anchored in Hong Kong;

- Marine engineering: The Group, primarily through CM Industry, undertakes heavy industry marine engineering and specialty ship building (including drilling, repair and other specialty platforms). As at 31 December 2019, CM Industry is wholly owned by the Guarantor; and

- Maritime products trading: The Group imports and exports and supplies vessel and port-related machinery and parts, communications and navigation equipment and accessories and other materials for shipowners, shipyards and ports in the PRC.

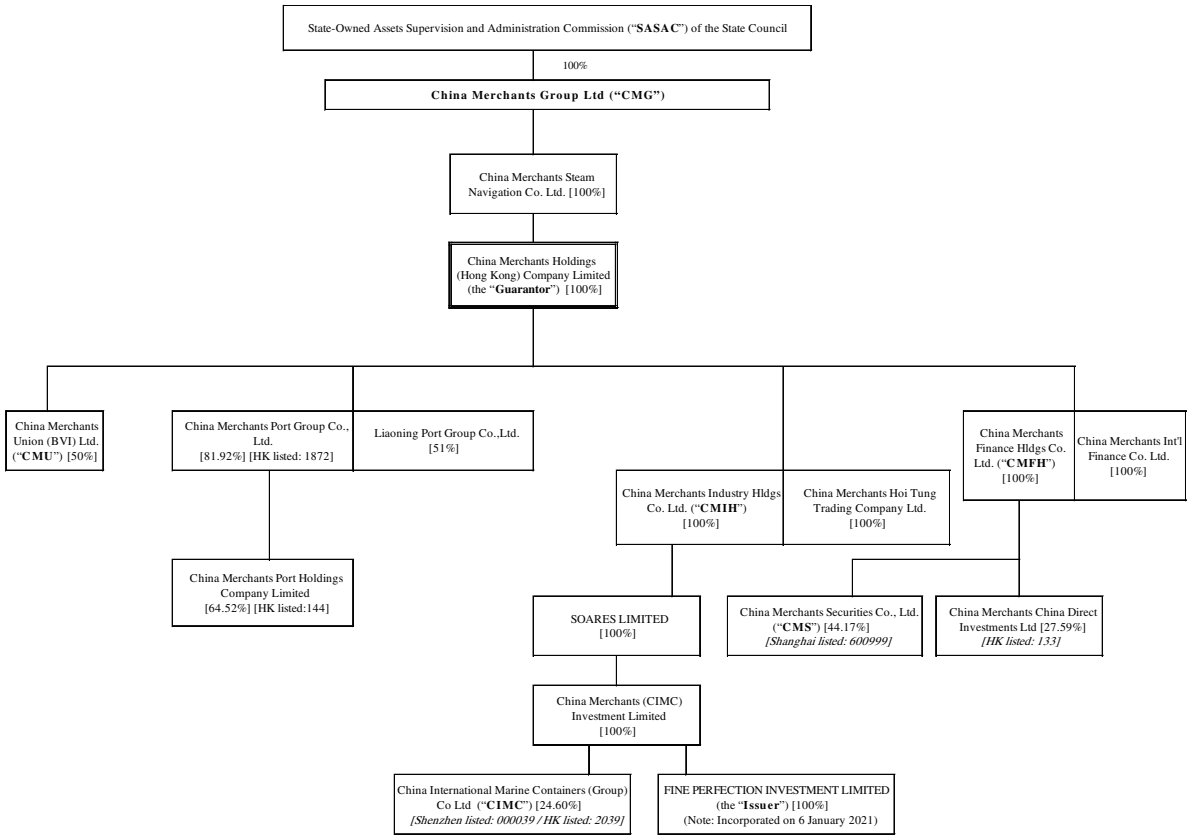
The following table sets forth the Guarantor's revenue by business segment for the years ended 31 December 2017, 2018 and 2019.

	2017 (Restated)		2018		2019	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Revenue						
Ports and related services	7,084	13	9,168	20	15,827	25
Financial services	18,272	35	21,422	47	34,370	54
Shipping and related services, logistics and related services and property rental and related management services	27,327	52	14,863	33	13,411	21
Total	**52,683**	**100**	**45,453**	**100**	**63,608**	**100**
Less						
Less Discounts, returns, rebates and sales related taxes (and GST)	258		423		427	
	52,425		**45,030**		**63,181**	

Source: Audited consolidated financial statements of the Guarantor for the years ended 31 December 2018 and 2019.

Group Structure

The following table provides an overview of the structure of the shareholding of the Guarantor and the Guarantor's principal business units and business activities as at 31 December 2020. It also shows key operating subsidiaries and associates and the direct or indirect percentage shareholding of the Guarantor in the relevant company. Certain of the following associates are held by non-wholly owned subsidiaries of the Guarantor.



History and Development of CMG

CMG, one of the oldest enterprises of modern China, was originally established as China's first national industry and commerce enterprise in Shanghai in 1872 under the name of ''Merchants Steamship Navigation Company'' (''**MSN**'') as part of a Chinese national effort to compete with foreign shipping companies. MSN established China's first commercial vessel fleet, first joint-stock commercial bank, first joint venture insurance company, first telegraph office, and restored China's first railway. The headquarters of MSN was moved to Hong Kong in 1949 following the founding of the PRC. MSN was nationalised by the PRC Government and renamed People's Steam Navigation Company of China in 1950.

In January 1979, MSN obtained approval from the PRC Government to develop the Shekou Industrial Zone in Shekou, in the Guangdong Province of the PRC, the development of which exemplified the PRC's open-door policy. In 1985, CMG was established in Beijing as a holding company, wholly owned by the State Council. In 1987, the Guarantor was established in Hong Kong by CMG to consolidate its overseas subsidiaries. CMG is a leading state owned conglomerate and is one of the most profitable state owned enterprises in the PRC. The primary focus of CMG's operations is transportation and related infrastructure, operation and management of ports, roads, energy transport, logistics, ship repair and marine engineering, financial investment and management and property development and management in the PRC, Hong Kong, Southeast Asia and other emerging markets.

Key Competitive Strengths of the Group

The Group believes that it has the following competitive strengths:

A top-tier government owned enterprise

The Group is wholly owned by SASAC through CMG, one of the largest state owned conglomerates and one of the most profitable SOEs in the PRC. CMG has been rated an "A-grade SOE" by SASAC consistently since the establishment of SASAC and, including the financial results of CM Bank, was the most profitable SOE in 2019, ranking first in terms of total assets among all the SOEs in 2019. CMG has been one of the eight "Level-A" state-owned enterprises for 16 consecutive years and a "High Performance Enterprise" for five consecutive years. The strategic development of the Group is closely supervised by SASAC, which performs periodic reviews of the Group's operating performance, business strategies and financial condition. CMG is well positioned to benefit from favourable government policies. In December 2014, the State Council officially approved the pilot free-trade zone in Guangdong province (the "**Guangdong Free Trade Zone**") to promote further economic cooperation amongst Guangdong, Hong Kong and Macau. The Guangdong Free Trade Zone comprises 28.2 square kilometres of Shenzhen Qianhai Shekou area, of which CMG occupies approximately 13.2 square kilometres. Over the years, CMG has developed and advanced its business segments, including ports, financial services, real estate, logistics, trading and marine engineering, many of which are operated in the Qianhai Shekou area. As such, CMG will be able to leverage on the favourable government policies in the Guangdong Free Trade Zone and capture the growth opportunities. In addition, with the implementation of the national "Belt and Road" strategy, CMG, as a pioneer in ports, financial services and shipping industries, will embrace the potential growth opportunity for rapid development.

The Guarantor is positioned as the primary overseas platform for CMG's ports and related services business, financial services business and ship repair and offshore engineering business. It benefits from strategic management by CMG, which also provides personnel, technical, risk management, administrative, financial and other forms of support to the Group.

Legacy and trusted recognition of the "China Merchants" brand

Established in 1872, CMG was the first national enterprise in China's modern history and the forerunner of China's national industry and commerce. CMG has played a significant role in the modernisation of China and its economic development as a pioneer of modern China's shipping industry. Since the commencement of economic reforms of the PRC in the 1970s, CMG has become the forerunner of the PRC's opening up to the world. CMG has now developed into a conglomerate of businesses and the "China Merchants" brand is well recognised. CMG is regarded as one of the most outward thinking PRC SOEs, and is recognised for its legacy of westernising the industry. In November 2015, CMPort, COSCO Pacific Limited and CIC Capital Corporation formed a Chinese consortium and established Euro-Asia Oceangate S.à.r.l. ("**Euro-Asia**"). Together with Fina Holding A.S., Euro-Asia completed the acquisition of 65.0 per cent. of the issued share capital in Kumport for an aggregate amount of U.S.$965 million in Turkey. CMPort contributed U.S.$386 million for the relevant project through its 40.0 per cent. shareholding in Euro-Asia. The acquisition was made pursuant to the "Belt and Road" strategy, further improving the global port network. Kumport owns and operates a terminal in the Ambarli Port Complex of the Marmara region in Turkey.

The Group benefits from the well-established "China Merchants" brand name of its parent company, CMG. The Group capitalises on such brand recognition by cross-marketing its products, thereby widening its customer base and increasing the quality of investment opportunities, both in the PRC and internationally. CMPort and CM Securities also rank among the largest companies listed on the Hong Kong Stock Exchange and SSE respectively in terms of market capitalisation. CM Securities is a constituent stock of the SSE Composite Index.

High-quality and well-established businesses with leading market positions

The Group enjoys leading market positions in many strategically important industries such as ports, financial services, ship repair and logistics.

Through its interest in CMPort, the Group is one of the top port operators in the PRC in terms of cargo volume handled by its ports. CMPort has interests in a network of ports operations in key coastal locations in the PRC including the Pearl River Delta, Yangtze River Delta, Bohai Rim, Xiamen Bay Economic Zone and south-western region of the Guangdong Province of the PRC.

The Group is Hong Kong's largest repairer of containers and other ships in terms of aggregate amount of repair, and built a world-class ship at its offshore engineering repair yard on Mazhou Island, Shekou in the PRC in December 2008.

Complementary businesses with resilient cash flow generation

Through the diversification of its businesses and implementation of its strategy for stable growth, the Group is not over-reliant on any one of its business segments. This allows the Group to reduce its operational risk from negative market developments in any single industry while the Group's alignment of its principal activities creates significant synergies across the Group's business segments and opportunities to meet the requirements of its customers. Customers of the Group's heavy industry marine engineering and specialised ship construction businesses employ the Group to repair ships in their fleets and berth those ships at the Group's ports. The Group's businesses in the PRC are primarily located in the same key locations, enabling the Group's management to use their knowledge of local market conditions as they conduct the Group's various lines of businesses. The Group is also able to take advantage of the scale, knowledge and opportunities that arise from its association with the CMG conglomerate.

The alignment of the Group's principal businesses delivers complementary synergies which is a key factor enabling the Group to continue its resilient cash flow generation for the Group. For example, in 2008 and 2009, the decrease in revenue in the ports and related services business segment and the shipping and related services business segment brought about by the financial crisis was mitigated by the increase in revenue of the financial services segment. The Group's operating cashflow before movements in working capital for the years ended 31 December 2017, 2018 and 2019 was RMB7.2 billion, RMB6.4 billion and RMB15.8 billion respectively.

Multi-channel and sustainable funding sources, prudent and efficient financial and risk management with healthy balance sheet

The Group manages its bank borrowings, a significant source of its liquidity, with the aim of maintaining flexibility in funding, and utilises a mix of committed and uncommitted credit lines available to it. The Group has access to both international and domestic capital markets. Further, as a company incorporated outside the PRC, the Group has a higher level of flexibility in tapping the international debt markets. The Group's financial policy is to encourage its more established subsidiaries to attain financial independence while adequate financial support will be provided to its investments in new businesses. In addition, CMG has historically provided financial support to the Group in the form of a financial guarantee to reduce the Group's financing costs. The Group has maintained well-established credit relationships with several leading PRC and international banks.

The Group maintains an effective internal risk management system that covers substantially all of its businesses. It has a set of comprehensive risk management policies and guidelines designed to minimise strategic risks, operational risks, market risks, financial risks and legal risks with well-defined checks and balances. The Group also performs annual cost reviews to evaluate the cost effectiveness of each of its business lines in order to gather objective information for the Group's management policies.

The Guarantor also maintains a centralised cash management policy in relation to its non-listed subsidiaries to enable centralised management of its liquidity, cash flow and debt-to-capital ratio to ensure a prudent expansion of its business and operations which is consistent with the overall business strategy of the Group. In managing its liquidity risk, the Guarantor monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation of cash flows.

Experienced and respected management team

The current management team is comprised of individuals with extensive experience in the transportation industry, the financial services industry and the engineering industry. Drawing from CMG's long operating history, the Group has a strong commitment to continue to build an experienced management team with international perspectives and the capability to innovate. The Group's businesses benefit from strong managerial support from CMG, many of whose members of senior management concurrently hold management positions in various principal entities within the Group. This leadership structure allows the Group's senior management to work closely with various subsidiaries across different levels.

Further, the Group's management is highly experienced in collaborating with various levels of the PRC Government in different projects which are of strategic value to the Group. A number of the Guarantor's directors and many members of the Group's senior management have previously served as senior officials within a number of SOEs and ministries within the central government of the PRC. In addition, the current management of CMG is appointed either by the State Council or SASAC through a careful evaluation process. Its understanding of the regulatory framework and PRC Government policies allows the Group to play a significant role in development projects with various local governments in the PRC.

Strategies of the Group

The overall goal of the Guarantor is to continue to enhance the Group's leadership position in its existing core businesses and increase its global competitiveness. As an integral part of achieving this overall goal, the Guarantor aims to achieve significant growth in each of its core business segments by employing the following strategies:

Continue to enhance the Group's market positions

The Group's goal is to continue to support its existing principal portfolio companies to grow into leaders in their respective industries through organic as well as inorganic growth and through strategic partnerships.

The Group plans to continue to optimise the performance of its existing ports operations and to enhance its existing position as a leading ports operator in the PRC and Hong Kong. The Group's expansion strategies include investment in new port projects, acquisitions of quality ports businesses, enlargement of its interests in existing port projects and acquisitions of management rights in the ports in which it has invested. In addition, the Group intends to continue to closely monitor overseas markets and progressively explore, on a prudent and selective basis, ports acquisition and investment opportunities overseas which will offer synergies with its existing ports network in the PRC.

For the financial services business, the Group intends to improve the balance and develop synergies between different business areas by capturing cross-selling opportunities, and aims to become a one-stop financial solutions provider for the Group's customers.

In relation to its shipping and related services and logistics and related services businesses, the Group will continue to develop capabilities in its high-end offshore engineering and modification business and its high-margin oil tankers and chemical vessels repairing businesses.

Improve cost control, enhance operating efficiency and simplify the Group's corporate structure

The Group will focus on improving its cost control and strategic control through implementation of a key performance indicator evaluation system (the "**KPI system**"). Through the KPI system and other management enhancements, the Group aims to empower its managers across different levels to meet strategic targets and stay abreast of changes in the Group's competitive position within its operating environment in order to identify areas for improvement in operating efficiency and the Group's cost structure and to create revenue and cost synergies. For example, CM Securities will focus on the efficient delivery of services by improved technology, research, back office support and client management, as well as implementing standard client service protocols across all of its branches. Costs in the Group's ship repair and logistics business will be monitored and tightly controlled by measures such as the centralisation of equipment and spare-parts purchase, sourcing products from the PRC and better utilisation of scrap metal and spare-parts.

To further enhance overall operating efficiency, the Group will continue to restructure its operating entities in its core business segments under a rationalised and streamlined operating structure in order to achieve strategic synergy within the Group. The Group intends to reduce cross-holdings across various businesses, consolidate interests in its key investments and develop its key subsidiaries to focus on their specific business sectors.

Continue to strengthen talent pool and foster a culture of innovation

The Group recognises that human capital is key to the success of its core businesses. The Group is planning to adopt an innovative approach to enhance its human capital management systems to provide training and career advancement opportunities to young talents and further integrate the training, operation and performance evaluation processes with an improved remuneration mechanism to match the prevailing market rates in light of the different operating environments of the Group's various businesses with an emphasis on attracting, retaining and utilising suitable management talents to support the future expansion of the Group's core businesses.

The Group considers the legacy of its operations in China for over a century to be a valuable asset to the Group's development in the future. The Group is planning to pursue growth by leveraging its management expertise in its core business. Historically, the Group has been a pioneer for innovation among SOEs in the PRC. With increased government support to foster development of innovative strategic businesses, the Group also aims to continue to enhance its business operations and operating efficiency by exploring new business concepts, developing new markets and business models, improving management innovations and optimising the products and services structure by fostering a culture of innovation to ensure that the Group adapts to changes in prevailing industry and market conditions.

Strengthen corporate governance and risk management across all businesses

With the support from CMG, the Group will continue to emphasise strong and effective management, maintain an adequate capital base and manage risks by using advanced risk analysis technology and active internal controls across all of its business divisions. The Group will continue to upgrade its group- wide risk management infrastructure.

The Group will continue to strengthen its risk management system to control credit, market, regulatory and operational risks through the use of various risk management tools such as quantification of operational risk, risk-adjusted return analysis, resource allocation optimisation, periodic stress test and sensitivity analysis to identify the weaknesses in its risk management and control and to take proper precautionary responses to overcome such weaknesses.

Ports and Related Services

Overview

The Group's ports and related services business is principally conducted through CMPort. CMPort was incorporated in Hong Kong on 28 May 1991. In 1992, it became one of the first red chip companies to be listed on the SEHK (Stock Code: 0144). As at 31 December 2019, CMPort's corporate credit ratings as rated by Moody's Investors Service and Standard & Poor's Ratings Group are Baa1 and BBB respectively.

As at 30 June 2020, CMG directly and indirectly, including through China Merchants Union (BVI) Limited ("**CMU**"), has the power to direct the voting rights of approximately 63.1 per cent. of the total issued share capital of CMPort.

On 26 December 2018, CMPort completed a material asset reorganisation, whereby CMPort disposed of its entire 33.58 per cent. equity interest held in Shenzhen Chiwan Wharf Holdings Limited (whose shares are listed on the Shenzhen Stock Exchange, and has changed its name to CMPG).

CMPG then entered into an agreement with China Merchants Investment Development Company Limited ("**CMID**"), an indirect subsidiary of CMG, pursuant to which CMPG acquired CMID's entire interest in CMPort for a consideration of RMB24,650 million. The consideration was settled by CMPG by issuing 1,148,648,648 shares (representing approximately 64.05 per cent. of the enlarged total issued capital of CMPG) to CMID on 26 December 2018. As part of this transaction, CMPG also entered into an acting in concert agreement with the Guarantor in relation to the voting rights attached to the shares in CMPort entitled by the Guarantor. As at 31 December 2018, CMG, directly and indirectly, including through CMPG and its subsidiaries as described above and CMU, a company incorporated in the British Virgin Islands held as to 50 per cent. by CMG, held an effective interest of approximately 42.82 per cent. of the issued share capital of CMPort.

As at 31 December 2019, CMPort is one of the top port operators in the PRC with a market share of approximately 19.0 per cent. in terms of container throughput. In terms of gross throughput, CMPort is one of the largest ports operators in the world. CMPort's container throughput reached 111.7 million TEUs in 2019, an increase of 2.4 per cent. against 2018, while its general and bulk cargo throughput reached 449 million tonnes, a decrease of 10.5 per cent. from 2018.

As at 30 September 2020, the Group's ports network comprised 41 container and bulk cargo terminals conveniently situated along major international sea-lanes across 25 countries and regions in six continents.

On 20 December 2019, the Group entered into a master agreement with CMA CGM-PSA, CMA Terminals, Terminal Link and China Merchants Luxembourg S.à,r.l ("**CMLux**"), to set out the framework in relation to, among others, the acquisition by Terminal Link of a portfolio of ten container terminals. On 26 March 2020, the acquisition of eight of such ten container terminals was completed.

- CMPort has recently expanded its ports operations outside of the PRC in order to strengthen its ports network and pursue new sources of revenue growth, thus further anchoring CMPort's presence in pursuit of its international strategies for the longer term development of its port business whilst complementing CMPort's existing ports operation and bringing in new growth drivers. This includes TICT in Nigeria, PDSA in Djibouti, Kumport in Turkey and PON in Australia, the South Container Terminal in Colombo, Sri Lanka by CICT, the Hambantota Port in Hambantota, Sri Lanka by HIPG, LCT in Togo, TCP in Brazil and Terminal Link in France which newly invested in Odessa Terminal in Ukraine, CMA CGM-PSA in Singapore, Kingston Freeport in Jamaica, Rotterdam World Gateway in the Netherlands, First Logistics in Vietnam, Laem Chabang in Thailand and CMA CGM Terminals Iraq S.A.S, the Umm Qasr Terminal, which together operate, develop and invest in a port network comprising 41 container and bulk cargo terminals in 25 countries and regions across six continents.

Further, leveraging on favourable policies, CMPort is well positioned to explore possible restructuring and integration with its existing ports, the streamlined customs processes and potential development of innovative models, thus further facilitating development of CMPort's home-base ports.

As for CMPort's operation in other parts of China, CMPort has been proactively interacting with major port groups along coastal China; having established a network of port operations in the PRC spanning the Pearl River Delta, Yangtze River Delta, Bohai Rim, the south-eastern region and the south-western region of Mainland China, CMPort continues to strengthen and optimise the layout of its domestic ports network, with a view to identifying new investment and cooperation opportunities. Recent developments to optimise CMPort's domestic ports network include:

- In October 2019, the Tonggu Channel on the West of Shenzhen, which leads to the West Shenzhen Port Zone of the Guarantor, was certified by the navigation notice of Shenzhen Maritime Safety Administration that the actual channel depth of water measured was 17.5 metres, which signified a breakthrough and further enhancement of the capability achieved by the West Shenzhen Port Zone to serve ultra-large container vessels of 200,000 DWT. The Group intends to continue to promote the development of channels in West Shenzhen by completing the delivery and acceptance of section II and III of the Public Channel and expediting the construction of phase II of the navigation channel outside the West Shenzhen Port Zone as well as trying to realise regular night services of Tonggu Channel, thereby enhancing the navigation capability and competitiveness of the West Shenzhen Port Zone.

- CMPort has been pushing forward the construction of the Mawan Smart Port (renamed from "Haixing Intelligent Port") and strengthened innovative applications to develop an "intelligent port cluster".

- CMPort will actively expand ocean-going shipping routes for the West Shenzhen homebase port while maintaining the stable service of short-sea shipping routes, striving to increase import volume while sustaining a healthy growth of export volume from its hinterland. CMPort will also develop customised services and expand international transhipment volume by leveraging on the supportive policy for the business of "discharging and transferring containers of an entire vessel" offered by the Shekou Customs in Shenzhen.

- CMPort will continue to advance various upgrading construction projects in respect of its West Shenzhen homebase port, such as channel dredging, berths upgrading and cranes heightening, to resolve the key historical bottleneck of the channels' navigation capacities and upgrade the hardware facilities and infrastructures. CMPort will also continue to step up its efforts in pushing forward the integration of feeder services and customs clearance.

- In terms of overseas homebase ports, CMPort intends to develop South Asia's regional leading ports and regional hub for international shipping in Sri Lanka, as well as establish a South Asian port network centred on Sri Lanka. In this regard, CICT played an active role in cultivating talent and formulating management systems. As a successful project of overseas operations, CICT accelerated the output of experience in overseas project management. Hambantota Port enhanced its comprehensive service capability by cooperating with shipping companies as planned for developing container terminal business with an aim to become a container hub port in South Asia, and successfully inducted an oil refining enterprise, well-positioned to become the vessel refuelling hub in South Asia. It also strengthened the collaborative development with CICT and launched logistics solutions for hinterland containers.

- In April 2020, Hambantota Port welcomed the first fuel oil vessel for berthing and unloading, which marked the official commencement of fuel oil bunkering service for vessels, so as to supply low-sulphur fuel oil to cargo ships and ocean-going fishing vessels.

- CMPort's long-term vision is to develop its overseas homebase ports in Sri Lanka into regional leading ports in South Asia.

- In order to enhance the value added to the ports industry, CMPort has accelerated the establishment of a maritime service company.

- CMPort is committed to optimising customer mix and improving its terminals' profitability, promoting quality and efficiency enhancement and expanding innovation channels. CMPort will also cultivate teams of expat talents at the headquarters and push forward talent localisation in overseas projects. Greater efforts will be put on the management of subcontractors, using a performance appraisal system.

In terms of implementing innovation port management measures, CMPort plans to continue its "digitalisation strategy" by formulating and implementing plans that emphasise the development of "digital CMPort". Based on the application of "E-Port" of the West Shenzhen Port Zone, CMPort further promoted the establishment of "CM ePort", an e-commerce platform for the port and shipping industry in its subsidiary terminals. The Mawan Smart Port project and the automatic loading and unloading project at Zhanjiang Port's bulk terminals to handle commodities are in progress. The West Shenzhen Port Zone issued the first B2B blockchain electronic invoice in China's port industry and launched the pilot programme of its self-developed blockchain depository receipts of electronic delivery order and equipment interchange receipt on domestic container business. In July 2020, CMPort signed the contract in respect of the CTOS project with the Thessaloniki Port Authority in Greece, and will leverage on this opportunity to promote the extensive application of the "CMCore" platform in the ports and logistics industry in Europe.

In addition, CMPort was actively involved in the "Guangdong-Hong Kong-Macao Greater Bay Area Port Logistics and Trade Facilitation Blockchain Platform" project. With pushing the data of logistics and customs clearance stored on the blockchain, CMPort will be able to promote the innovation of new business model for the combination ports in the Pearl River Delta region.

Furthermore, CMPort has achieved steady progress with its Mawan Smart Port Project, which focuses on the implementation of nine core intelligent elements, namely CMCore, CM ePort, artificial intelligence, the application of 5G network, Beidou high-precision positioning system, automation, smart customs, blockchain, as well as green and low-carbon operation

CMPort officially established the "Research Institute of CMPort for Technological Innovation and Development" in 2019, which marked the establishment of a technology-empowered platform for industry development. An industrial fund focusing on investment in innovation and development for ports is expected to be launched in the near term, which, centring on the development of a port ecosystem in the future, intends to invest in start-ups to facilitate the collaboration of resources between port groups and industries with help from the financial platform.

CMPort also puts strong emphasis on its strategic cooperation with leading enterprises in the Internet sector, including tech giants such as Alibaba and Tencent, with which it has signed the strategic cooperation framework agreement, with a view to building a digitalised ecosystem of ports and logistics in collaborative efforts.

- Leveraging on the opportunities arising from the rapid growth of emerging industries, CMPort will continue with its efforts to promote the transformation and upgrade of the port industry in order to bring new vitality into the traditional core port operation.

Industry Overview

Container shipping was first introduced in the 1950s, and has grown significantly since then to become the dominant means of international cargo transport because of its safety, security, speed and cost efficiency. Containers are used to transport semi-manufactured goods, manufactured goods, foodstuffs, consumer goods, plants and machinery. Container terminals have developed in line with the container shipping industry as a result of globalisation, a reduction in trade barriers and the trend of containerisation.

Container terminals are capital intensive and subject to stringent planning regulations. The capacity expansion planning is normally driven by governments and port authorities which may be a ten year process from inception to commercial operation. As such, the entry barriers are substantial and the industry is dominated by a few players. Competition between terminals is normally not on pricing. Instead, handling productivity, availability of berths, and hinterland connectivity are key differentiating attributes as terminals offer similar services to their shipping customers.

International trade and economic activities have a direct impact on container traffic. Historically, the growth of container traffic has consistently outpaced the growth of global real GDP, largely attributable to decentralisation of manufacturing and increasing division of labour which have significantly increased shipping activities between countries.

The container shipping industry was one of the earliest services industries opened up to foreign competition by the PRC Government. In the early 1990s major international shipping companies entered the container shipping market in the PRC and commenced operation of extensive direct shipping services, connecting the PRC to various international destinations. When the PRC gained access to the WTO in December 2001, the PRC Government further liberalised its maritime industry, allowing foreign port operators to jointly develop container ports with domestic partners, although the policy of allowing foreign majority-ownership has since been withdrawn.

As a major export centre and a growing consumer market, the PRC is now the largest and one of the fastest growing container port markets in the world. Container port throughput in the PRC has grown at twice the rate of the PRC's GDP growth in the last decade.

Financial Results

For the years ended 31 December 2017, 2018 and 2019, the Group's ports and related services audited consolidated revenue was approximately CNY7.1 billion, CNY9.2 billion and CNY15.8 billion, respectively.

According to the audited consolidated financial statements of CMPort prepared in accordance with HKFRS, CMPort, as one of the Group's material subsidiaries in its ports and related services business segment, earned a consolidated revenue for the years ended 31 December 2017, 2018 and 2019 of HK$8.7 billion, HK$10.2 billion and HK$8.9 billion respectively. For the same years, CMPort's profit before taxation was HK$7.4 billion, HK$9.3 billion and HK$11.8 billion respectively.

Business activities

Ports Services

The core business of CMPort is ports services. CMPort's core segment of domestic ports operations is based at five hub locations: the Pearl River Delta, Yangtze River Delta, Bohai Rim Area, the southeastern region and the south-western region of Mainland China.

CMPort has the following port and logistics projects as at 31 December 2019.



CMPort is one of the leading ports operators in the PRC. In the first half of 2020, the Group's ports handled a total container throughput of approximately 54.9 million TEUs, up by 0.6 per cent. year-on-year. Among that, the Group's ports in Mainland China, Hong Kong and Taiwan contributed an aggregate container throughput of approximately 42.6 million TEUs, representing a decrease of 3.3 per cent. year-on-year, which was mainly due to the impact on import and export demand arising from the spread of the COVID-19 pandemic across the world. A total container throughput handled by the Group's overseas ports grew by 16.6 per cent. year-on-year to approximately 12.2 million TEUs, which was mainly benefitted from the additional throughput contributed by the eight terminals acquired by Terminal Link on 26 March this year and the growth in throughput of LCT in Togo and TCP in Brazil. Bulk cargo volume handled by the Group's ports decreased by 10.9 per cent. year-on-year to 199 million tonnes, within which the Group's ports in Mainland China handled a total bulk cargo volume of 196 million tonnes, representing a decrease of 10.9 per cent. year-on-year. The following table provides the container throughput of CMPort's port areas for the relevant periods.

	For the year ended 31 December		
	2017	2018	2019
		(millions TEU)	
Container throughput (TEUs) PRC, Hong Kong and Taiwan:			
Pearl River Delta			
Western Shenzhen	11.18	10.69	10.21
Chu Rong River Trade Terminal	1.35	1.17	1.09
Shunde	0.05	0.22	0.30
Hong Kong	5.79	5.93	5.57
Yangtze River Delta			
Shanghai	40.23	42.01	43.3
Ningbo	3.01	3.16	3.29
Bohai Rim			
Qingdao	6.24	6.93	7.92
Tianjin	2.63	2.72	4.47
Dalian	10.75	11.11	10.22

	For the year ended 31 December		
	2017	2018	2019
		(millions TEU)	
Mainland China (South-East)			
Zhangzhou	0.40	0.46	0.42
Shantou	0.37	1.29	1.34
Mainland China (South-West)			
Zhanjiang	0.90	0.98	1.11
Other Locations			
Taiwan	1.70	1.75	1.64
Overseas			
Nigeria			
Tin-Can Island Container Terminal	0.47	0.48	0.47
Djibouti			
Port de Djibouti SA	0.93	0.86	0.92
French Republic			
Terminal Link SAS	12.56	13.64	13.25
Sri Lanka			
Colombo South Container Terminal	2.39	2.68	2.88
Togo			
Lome Container Terminal	0.89	1.05	1.13
Turkey			
Kumport	1.06	1.26	1.28
Brazil			
TCP Participações S.A	–	0.69	0.92
Total for the port areas in which the Group has investments	**102.90**	**109.06**	**111.72**

During the first half of 2020, the Group's ports handled bulk cargo volume of 199 million tonnes, down by 10.9 per cent. over the same period of the previous year.

The container and general and bulk cargo handling process involves a diverse range of terminal-related operations including loading, unloading, storage and international transhipment for containers.

In February 2018, the Group disposed of its approximately 34 per cent. equity interest of CMPG. This allowed the Group to resolve an outstanding competition issue.

The following table provides certain information in relation to CMPort's ports in the PRC, Hong Kong and overseas as at 30 September 2020.

Ports	Business Type	CMPort Effective Interest	Management Rights[(1)]
Pearl River Delta			
Western Shenzhen			
Shekou Container Terminal companies	Container terminal services	85.40%	Yes
Chiwan Container Terminal Co., Ltd	Container terminal services	14.16%	Board representation only
China Merchants Port Services (Shenzhen) Co., Ltd	Container terminal services, general and bulk cargo	100.00%	Yes
Mawan Port project companies	Container terminal services	70.00%	Yes
Shenzhen Haixing Harbour Development Co., Ltd	Container terminal services, general and bulk cargo	67.00%	Yes
Chu Kong River Trade Terminal Co., Ltd	Container terminal services, general and bulk cargo	20.00%	Board representation only
Guangdong Yide Port Limited	Container terminal services, general and bulk cargo	51.00%	Yes
Hong Kong & Taiwan			
Modern Terminals Ltd	Container terminal services	27.01%	Board representation only
China Merchants Container Services Ltd.	Mid-Stream services	100.00%	Yes
Kao Ming Container Terminal Co., Ltd	Container terminal services	10.00%	Board representation only
Yangtze River Delta			
Niagho Daxie China Merchants International Terminals Co., Ltd	Container terminal services	45.00%	Yes
Shanghai International Port (Group) Co., Ltd.	Container terminal services, general and bulk cargo	26.77%	Board representation only

Ports	Business Type	CMPort Effective Interest	Management Rights[1]
Bohal Rim			
Qingdao Qianwan United Container Terminal Co., Ltd	Ports and bulk cargo terminal	50.00%	Board representation only
Qingdao Qianwan West Port United Terminal Co., Ltd	Ports and bulk cargo terminal	49.00%	Board representation
Qingdao Port Dongjiakou Ore Terminal Co., Ltd	General and bulk cargo	25.00%	Board representation only
Dalian Port (PDA) Company Limited	Container terminal services	21.05%	Board representation only
Tianjin Port Container Terminal Co., Ltd	Container terminal services	7.31%	Board representation only
South-eastern region of Mainland China			
Zhangzhou China Merchants Port Co., Ltd	Container terminal services, general and bulk cargo	60.00%	Yes
Xia Men Bay China Merchants Terminals Co., Ltd.	General and bulk cargo	31.00%	Yes
Shantou China Merchants Port Group Co., Ltd	Container terminal services, general and bulk cargo	60.00%	Yes
South-western region of the Guangdong Province			
Zhanjiang Port (Group) Co., Ltd	Container terminal services, general and bulk cargo	27.58%	Board representation only
Overseas			
Sri Lanka			
Colombo International Container Terminals Limited	Container terminal services	85.00%	Yes
Hambantota Port project	Container terminal services, general and bulk cargo	65.00%	Yes
Togo			
Lomé Container Terminal S.A	Container terminal services	35.00%	Yes
Nigeria			
Tin-Can Island Container Terminal Limited	Container terminal services	28.50%	Board representation only
Djibouti			
Port de Djibouti SA	Container terminal services, general and bulk cargo	23.50%	Board representation only
Brazil			
TCP Participações S.A	Container terminal services	77.45%	Yes
Turkey			
Kumport Liman Hizmetleri ve Lojistik Sanayi ve Ticaret A.S.	Container terminal services	28.50%	Board representation only
French Republic			
Terminal Link SAS	Container terminal services	49.00%	Board representation only
Australia			
Port of Newcastle/Gold Newcastle Property Holding Pty Limited	Container terminal services, general and bulk cargo	50.00%	Board representation only

Bonded Logistics Operations

CMPort has introduced multi-level and integrated marine logistics and other value-added services to its customers at its ports to enhance the competitiveness of its terminals and to expand its income sources.

Bonded port zone collaboration

CMPort has implemented a bonded port zones collaboration model at its logistics parks in western Shenzhen, Qingdao, Tianjin and Djibouti. In general, in the PRC, shipment of containers and general and bulk cargo from a port to a location outside the port will be subject to duty. Customers enjoy duty exemption by transporting their containers and general and bulk cargo from the port to the bonded port zones, which are adjacent to the port area.

CMPort's logistics parks provide processing, delivery, consolidation, assortment, packaging and assembling services to meet its customer's demands for integrated logistics services. CMPort believes its logistics parks benefit its customers with savings in operating costs and increases in shipping routes, which in turn result in increased throughput at its ports and enhanced competitiveness of its ports.

Other Ports related services

Barge shuttle network

CMPort commenced its barge shuttle service in the Pearl River Delta area in 2004. This service has allowed general and bulk cargo owners to conduct transhipment between the port areas in western Shenzhen and the Pearl River Delta area. CMPort believes that its barge shuttle network will attract major marine routes to designate Shenzhen as their home port. Leveraging the unique advantages of the port area in western Shenzhen, the Group's barge shuttle service has expanded into the hinterland of the port area in western Shenzhen over the years. At present, the coverage of the shuttle service has extended to Huangpu, Shunde, Jiangmen, Zhongshan, Nanhai, Foshan, Zhanjiang, Zhuhai, Zhaoqing and other ports along the feeder routes.

Tugboat services

CMPort provides tugboat and ancillary transportation and security services to its customers through certain of its subsidiaries. These are:

- Zhangzhou China Merchants Tugboat Co., Ltd, which was established in November 2004, and provides tugboat services to ships using the Zhangzhou port and the Xiamen port in Fujian. As at 31 December 2019, CMPort held a 70 per cent. interest in this investment.

- Shenzhen Lianda Tug Co., Ltd, which was established in 1992, and provides tugboat services to ships using the Shenzhen port. As at 31 December 2019, CMPort held a 60.29 per cent. interest in this investment.

- Shantou Harbour Tug Service Co., Ltd, which was established in 2016, and provides tugboat services to ships using the Shantou port. As at 31 December 2019, CMPort held a 60 per cent. interest in this investment.

Port-related manufacturing operations

Container Manufacturing

CMPort was previously the single largest (24.53 per cent. as at 31 December 2016) shareholder of China International Marine Containers (Group) Co., Ltd ("**CIMC**"). CIMC manufactures dry cargo containers, reefer and insulated containers and special containers such as flatracks, open-tops and car carriers and has an established container service network. In April 2017, CMPort entered into a share purchase agreement with CM Industry for the proposed disposal of its entire indirect interest of 24.53 per cent. shareholding in CIMC. In June 2017, CMPort completed the disposal of its equity interests in CIMC for a cash consideration of HK$8,739 million, achieving a one-off net gain of approximately HK$813 million.

Financial Services Business

Overview

The Group's financial services business is principally conducted through CM Securities. As at 31 December 2019, CMG, through CM Steam Navigation, which holds 100 per cent. of the shares of the Guarantor, indirectly held a 44.09 per cent. interest in CM Securities. In July and August 2020, CM Securities completed its A shares and H shares rights issue respectively.

The financial results of CM Securities are consolidated into the financial statements of the Guarantor pursuant to entrustment arrangements with CMG and certain of its subsidiaries.

CM Securities was incorporated in August 1993 and prior to that constituted the securities business department of CM Bank. CM Securities was the third securities company to be listed on the SSE on 17 November 2009 by way of an initial public offering (Stock Code: 600999). In October 2016, CM Securities' initial public offering of its H shares on the Hong Kong Stock Exchange raised HK$10.695

billion. CM Securities is one of the PRC's leading investment banks. With respect to its wealth management services and institutional business, CM Securities was ranked seventh in the PRC securities market by net income from agency trading in 2019. According to the statistics from Wind, in 2019, CM Securities ranked seventh and eighth in the industry in terms of the amount of A Share projects underwritten and the number of projects underwritten, respectively, and the number of projects underwritten was up by 1 position from 2018. In respect of the STAR Market, the value of IPO underwritten amounted to approximately RMB2.9 billion (average calculation based on the number of lead underwriters), ranking seventh in the industry, and three projects were underwritten, ranking eight in the industry. The number of refinancing projects underwritten ranked eighth in the industry. CM Securities was awarded various honours, including the title of "Excellent Member of the STAR Market" by the SSE, the "Best Local Investment Bank" of the 13th New Fortune award and the "2019 China IPO Investment Bank Junding Award" by the Securities Times.

As at 31 December 2019, CM Securities has 258 securities branches and 12 branches across the PRC. CM Securities also has overseas presence in Hong Kong, United Kingdom, Singapore and Korea.

The CSRC approved CM Securities as a qualified domestic institutional investor on 30 August 2007, enabling CM Securities to engage in foreign securities investment and management.

CM Securities became the first PRC certified securities company to establish an overseas branch in 2005 by acquiring UB Holdings Limited whose name was changed to China Merchants Securities Holdings (HK) Company Limited in 2006 and then to China Merchants Securities International Company Limited ("**CMS International**") in 2010. CMS International is a wholly owned subsidiary of CM Securities. As an overseas business platform of CM Securities, CMS International engages in comprehensive investment banking services through its subsidiaries, including brokerage, corporate finance, capital market, sales and trading, leveraged and structured financing, asset management, direct investment, global commodities and futures.

CM Securities conducts asset management business through CMS Asset Management Co., Limited ("**CMS Asset Management**") and its interests in Bosera and China Merchants Fund Management Co., Ltd. ("**CM Fund Management**").

Industry Overview

The financial services industry in the PRC falls under the direct supervision of the PBOC, the CSRC and the China Banking and Insurance Regulatory Commission. State-owned commercial banks form a core part of the PRC financial services industry in which policy-based finance is segregated from commercial finance in the PRC, with a number of other financial institutions, such as insurance companies, securities firms and trust companies.

For the year ended 31 December 2019, the average daily trading volume of stocks and funds in the SSE and the SZSE amounted to CNY542.7 billion, representing a year-on-year increase of 38.7 per cent.. Traditionally, securities companies in the PRC rely heavily on brokerage services to generate revenue. The traditional brokerage business is under continuous downward pricing pressure as a result of intense price competition within the PRC securities industry.

At present, innovative financial products only account for a small proportion of the overall revenue of PRC securities companies. However, it is expected that if new policies are promulgated by the CSRC to encourage further development of innovative financial products and services, such as further relaxation of margin trading and the authorisation requirements for financial products, liberalisation of the commodities markets and the introduction of the international board, an overall positive effect on securities businesses in the PRC will result.

Competition from foreign banks and financial institutions is likely to increase as the PRC financial services industry becomes increasingly liberalised. The Guarantor expects to leverage the synergies created across its various business units in order to continue its steady growth.

Financial Results

For the years ended 31 December 2017, 2018 and 2019 the Group's financial services' audited consolidated revenue was approximately CNY18.3 billion, CNY21.4 billion and CNY34.4 billion respectively.

According to the audited consolidated financial statements of CM Securities prepared in accordance with International Financial Reporting Standards, CM Securities, as one of the Group's material subsidiaries in its financial services business, earned, for the years ended 31 December 2017, 2018 and 2019, consolidated revenue and other income of approximately CNY19.3 billion, CNY18.1 billion and CNY25.7 billion respectively and a consolidated profit before taxation for the same periods of CNY7.1 billion, CNY5.4 billion and CNY8.8 billion respectively.

Business Operations

Wealth Management and Institutional Business

Through CM Securities, the Group provides wealth management services and institutional business, comprising retail brokerage and wealth management, capital-based intermediary business and institutional client service.

Historically, the wealth management and institutional business accounts for the majority of CM Securities' total revenue and other income. For the years ended 31 December 2017, 2018 and 2019, the revenue and other income of CM Securities' wealth management and institutional business segment was CNY12,290.8 million, CNY11,353.4 million and CNY11,967.7 million, which accounted for approximately 63.8 per cent., 62.8 per cent and 46.6 per cent. of CM Securities' consolidated revenue and other income for the same year. In addition, for the years ended 31 December 2017, 2018 and 2019, the profit before income tax of CM Securities' wealth management and institutional business segment was CNY3,397.6 million, CNY2,655.3 million and CNY3,347.1 million respectively, which accounted for 47.8 per cent., 48.7 per cent. and 38.1 per cent., respectively of CM Securities' profit before income tax for the same period.

In response to the industry-wide decline in brokerage commission rates, CM Securities has adopted several mitigating strategies, including the development and offering of "Zhiyuan Wealth Management Plans", which provide diverse value-added services based on a customer's asset size and investment needs. Accordingly, these plans have five different commission rate brackets, which are higher than CM Securities' overall average brokerage commission rates. CM Securities has also focused on providing high net-worth customers with additional wealth management services. This approach has allowed CM Securities to tailor its business resources to clients across its business lines in order to sustain and grow its aggregate market share in light of intensified competition. In 2018, CM Securities continued to promote its retail brokerage and wealth management business by upgrading its mobile platform – Zhiyuan Yi Hu Tong (智遠一戶通) and implemented a digitalised operating system. CM Securities also intensified efforts to build up a data operation system and big data platform, so as to identify customer needs with data and improve customer's experience with Internet thinking, which resulted in on-going improvement in online customer service experience.

CM Securities has received a number of awards in recognition of its wealth management and institutional business. In 2016, it was recognised as the "Best Asset Management Broker in China" and the "Best Institutional Client Service Broker in China" by the Securities Times. In 2017, the Guarantor achieved the "Best Smart Brokerage Award" by Securities Daily. In 2018, the Guarantor was awarded "Top 10 options Broker" for the first session by the SSE. In 2019, the Guarantor was awarded "Top 10 options Broker" for the second session by the SSE.

- *Wealth management* – CM Securities trades various securities on behalf of its customers, including stocks of companies listed on the SSE, the SZSE and the Hong Kong Stock Exchange; listed funds, including open-ended funds, close-ended funds and exchange- traded funds; and listed bonds, including, among others, treasury bonds and enterprise bonds. CM Securities' services mainly include sales of financial products, investment advisory, account analysis, investment portfolio advisory, market research and asset allocation. In respect of futures brokerage, CM Securities engages in futures brokerage business through China Merchants Futures Co., Limited ("**CMF**"), a wholly owned subsidiary. CMF is a member of the Shanghai Futures Exchange, the Dalian Commodity Exchange, the Zhengzhou Commodity Exchange and the China Financial Futures Exchange, and it is a qualified trading agent for all types of futures in the Chinese futures market. In 2019, the market share and ranking of the retail brokerage business rose steadily.

- *Institutional client services* – CM Securities has established an integrated prime brokerage services system with investment research, trading and custody service as basic core businesses and product sale, margin financing and securities lending, market making, operational outsourcing, funds hatching as value-added services, that provides institutional clients with one- stop solutions.

CM Securities serves customers through its national branch network, online platform and customer service personnel. As at 31 December 2019, CM Securities had 258 securities branches and 12 branches across the PRC. Additionally, CM Securities has established an online platform through mobile apps and through its websites, offering a variety of services including account opening, transaction execution, portfolio overview, etc. It has become an important channel for account opening and transaction execution for CM Securities' wealth management services and institutional business.

Investment Banking

CM Securities' investment banking business serves as a gateway to its corporate clients and is a key driver of growth for its full-service business platform, including equity underwriting and sponsoring, debt underwriting, financial advisory and OTC investment banking, in the PRC and overseas. CM Securities effectively makes use of its competitive cross-border business platform and effective internal coordination mechanisms and systems to enhance the growth of the domestic and overseas investment banking businesses by mutually referring customers to each side.

For the years ended 31 December 2017, 2018 and 2019, the revenue and other income of CM Securities' investment banking business segment was CNY2,576.6 million, CNY1,600.2 million and CNY1,879.8 million, which accounted for approximately 13.4 per cent., 8.9 per cent. and 7.3 per cent. of CM Securities' consolidated revenue and other income for the same period. In addition, for the years ended 31 December 2017, 2018 and 2019, the profit before income tax of CM Securities' investment banking business segment was CNY1,071.6 million, CNY404.8 million and CNY973.5 million respectively, which accounted for 15.1 per cent., 7.4 per cent. and 11.1 per cent., respectively of CM Securities' profit before income tax for the same period.

In 2019, revenue from the investment banking business recorded a year-on-year increase of 17.5 per cent., representing a decrease of 1.53 percentage points in its contribution to the total revenue and other income of CM Securities.

- *Equity underwriting and sponsoring* – CM Securities is engaged in the business of equity underwriting and sponsoring. According to Wind Information Co. Ltd ("**Wind Information**"), in 2019, CM Securities ranked seventh in the industry in terms of the amount of A Share underwritten and eighth in terms of the number of A Share underwriting projects as a lead underwriter. CM Securities ranked fourth in the industry in 2019 in terms of value of initial public offerings underwritten. It continues to focus on small and medium enterprises because they have higher growth potential with substantially underserved funding needs. At the same time, CM Securities endeavours to serve blue-chip enterprises with its well-established market position and strategic expansion.

- *Debt underwriting* – CM Securities has maintained strong market competitiveness in bond underwriting and ranked among the top two in the industry in terms of the amount of asset- backed securities underwritten for three consecutive years. Its amount of bonds underwritten (including debt securities issued as a principal) in 2019 amounted to approximately CNY410.1 billion, representing a year-on-year decrease of 11.4 per cent..

- *Financial Advisory* – CM Securities' financial advisory business includes financial advisory services for mergers and acquisitions ("**M&A**") and restructuring of corporate clients in China. Its M&A financial advisory capability for listed companies has been awarded "Class A" by the Securities Association of China consecutively for five years since 2015. According to Wind Information, in 2019, CM Securities conducted 11 M&A transactions as disclosed and ranked ninth in the industry. The total mergers and acquisitions transaction amount as disclosed was CNY187.8 billion.

- *Overseas Corporate Finance and Underwriting* – CM Securities conducts its overseas corporate finance and underwriting business through China Merchants Securities (HK) Co., Ltd. with a full service platform, including initial public offerings underwriting and sponsorship, follow-on offerings, debt underwriting and financial advisory services.

Investment Management

CM Securities' investment management business consists of asset management, private equity funds and fund management.

For the years ended 31 December 2017, 2018 and 2019, the revenue and other income of CM Securities' investment management business segment was CNY1,750.1 million, CNY1,381.4 million and CNY1,873.8 million, respectively, which accounted for approximately 9.1 per cent., 7.6 per cent. and 7.3 per cent, respectively of CM Securities' consolidated revenue and other income for the same period. In addition, for the years ended 31 December 2017, 2018 and 2019, the profit before income tax of CM Securities' investment management segment was CNY1,295.6 million, CNY899.7 million and CNY1,499.7 million respectively, which accounted for 18.2 per cent., 16.5 per cent. and 17.1 per cent., respectively of CM Securities' profit before income tax for the same period.

In 2019, revenue from the investment management business of CM Securities recorded a year-on-year increase of 33.8 per cent. and its percentage contribution to total revenue and other income decreased by 0.34 percentage points.

- *Asset Management* – CM Securities was among the first PRC securities firms approved by the CRSC in 2002 to carry out an asset management business. It provides asset management products and services based on market conditions and customers' needs. In April 2015, a wholly owned subsidiary, CMS Asset Management, was established to conduct the asset management business in a more focused and specialised manner. Revenue is generated from charging management fees based on the assets under management and performance-based fees. As at the end of 2019, the assets managed by CM Securities reached CNY687.7 billion, of which, the average monthly private AUM of active management (second quarter) amounted to RMB263.9 billion, representing an increase of 70.7 per cent. from the average monthly AUM of 2019. According to the statistics from the Asset Management Association of China, the total entrusted management scale of CMS Asset Management ranked second in the industry, up by two positions from 2019; and the average monthly private AUM of active management (second quarter) of securities companies ranked fourth in the industry, remaining flat with 2019 (fourth quarter).

- *Private Investment Funds* – Since August 2009, the private investment funds business has been carried out through a wholly owned subsidiary, CMS Zhiyuan Capital Co Ltd. ("**CMS Zhiyuan**"). It mainly engages in private equity fund management, mezzanine fund management and direct equity investment. It also provides customers with financial advisory and investment advisory

services in relation to equity and debt instruments. During the first half of 2020, CMS Zhiyuan Capital had made substantial progress in respect of fundraising, investment, management and exiting. In respect of fundraising, it initiated the establishment of three funds, and raised approximately RMB3 billions of proceeds. In respect of investment, it identified investment opportunities in financial, greater health, TMT, high-end manufacturing and some other sectors, with the cumulative investment amount exceeding RMB1.7 billion. In respect of management, three investees have undergone IPO, with another six investees being in the stage of approval or under pre-listing tutoring of IPO. In respect of exiting, it has recorded a total exiting proceeds of more than RMB1.6 billion, and also received refund of principals on funds and bonus of more than RMB1.7 billion, rewarding the investors with positive returns.

- *Fund Management* – CM Securities' financial results include the results of two associated companies, Bosera and CM Fund Management.

- *Bosera* – CM Securities directly owns 49.0 per cent. of the issued shares of Bosera. As at 31 December 2019, the assets under management of Bosera were CNY1,066.8 billion (excluding the assets managed by subsidiaries).

- *CM Fund Management* – CM Securities also holds 45.0 per cent. of the shares in CM Fund Management. As at 31 December 2019, the assets under management of CM Fund Management were CNY555.3 billion (excluding the assets managed by subsidiaries).

Investment and Trading

CM Securities trades equity and fixed-income securities and other financial products for its own accounts. In these business segments, CM Securities is subject to a variety of risks, including primarily market risk, credit risk and interest rate risk. Accordingly, CM Securities applies advanced trading strategies and techniques to mitigate investment risks and to enhance return. In addition, to meet customers' investment, financing and risk management needs, CM Securities also offers OTC financial products, and to trade them on the OTC market.

For the years ended 31 December 2017, 2018 and 2019, the revenue and other income of CM Securities' investment and trading business segment was CNY2,454.6 million, CNY3,361.7 million and CNY7,358.8 million respectively, which accounted for approximately 12.8 per cent., 18.6 per cent. and 28.7 per cent., respectively of CM Securities' consolidated revenue and other income for the same period. In addition, for the years ended 31 December 2017, 2018 and 2019, the profit before income tax of CM Securities' investment and trading segment was CNY514.4 million, CNY678.9 million and CNY2,578.6 million respectively, which accounted for 7.2 per cent., 12.5 per cent. and 29.4 per cent., respectively of CM Securities' profit before income tax for the same period.

In 2019, revenue from the investment and trading business recorded a year-on-year increase of 118.9 per cent. and its percentage contribution to the total revenue and other income of CM Securities increased by 12.97 percentage points, mainly due to a substantial increase in income from equity investment and fixed income investment.

- *Equity Investment* – CM Securities' major business of equity investment include market-making for funds, market-making for exchange-traded options and trading of OTC derivatives. In 2018 and 2019, CM Securities actively engaged in market-neutral investment business by adopting quantifying and hedging approaches and leveraged on the Group's competitive strategies. The Group's market-making in its funds business continued to expand its business scale. The Group optimized its market-making strategies and systems for market-making in exchange-traded options to enhance the market competitiveness of the Group's quotes.

- *FICC* – CM Securities trades various types of fixed-income securities for its own accounts on the PRC interbank bond market and stock exchanges, principally including treasury bonds, financial bonds, PBOC notes, corporate bonds, ABS, convertible bonds, and exchangeable bonds. It also engages in hedging through interest rate swaps and treasury bond futures to mitigate market risk in its fixed-income trading. It also invests in fixed-income securities overseas, such as U.S. dollar bonds, debenture bonds and dim sum bonds, through CMS International.

Risk Management

Since CM Securities' incorporation in 1993, it has established sound corporate governance, as well as effective risk management and internal control systems to manage its risk exposure in the securities market. A prudent risk management culture, an effective risk management framework, pioneering quantitative risk measurements and comprehensive risk management instruments are essential components of a leading investment bank and fundamental to CM Securities' sustainable growth. For 13 consecutive years from 2008 to 2020, CM Securities has received a "(Class A) AA" regulatory rating from the CSRC, the highest rating issued to a PRC securities firm to date, being one of only two PRC securities firms to receive such regulatory rating for 13 consecutive years since 2008, which is crucial for CM Securities to apply for new business and to establish new securities branches. Its competitive advantages in risk management and internal controls include the following:

- *Prudent risk management culture:* CM Securities has been committed to establishing an innovative and insightful risk management system that is aligned with its operation strategies and covers its core business lines comprehensively.

- *Effective risk management framework:* CM Securities established a five-tier risk management structure, consisting of: (i) CM Securities' board of directors and the board's risk management committee; (ii) the Supervisor Committee; (iii) the senior management; (iv) the relevant departments in charge of risk management; and (v) other departments, branches and subsidiaries. Meanwhile, CM Securities adopts a three-level risk management organisation structure system: the first level refers to implementation of effective controls on risk management by all departments and branches themselves; the second level refers to risk management and internal control measures implemented by relevant risk management departments; the third level refers to post-event supervision and evaluation by the Audit and Supervision Department.

- *Proven risk management indicators:* CM Securities has established a quantitative risk management indicator system covering risk appetite, risk tolerance, economic capital and risk limit, so as to prioritize businesses with higher risk-adjusted returns for resources allocation. It has established a dynamic net capital monitoring mechanism to comply with statutory net capital requirements and other regulatory standards to maintain capital adequacy. In relation to all risk control indicators, it adopts an early warning and reporting mechanism in its risk management system that is more stringent than the regulatory warning levels to minimize compliance risk.

Shipping and related services, logistics and related services and property rental and related management services

Financial Results

For the years ended 31 December 2017, 2018 and 2019, the audited consolidated revenue of the Group's shipping and related services, logistics and related services and property rental and related management services business segments was approximately CNY27.3 billion, CNY14.9 billion and CNY13.4 billion, respectively.

Shipping and related Services

Overview

This business segment consists of mostly unlisted and wholly owned subsidiaries which complement the Guarantor's core ports and related services business. The Guarantor's key subsidiaries in this segment are engaged in businesses including ship repair and offshore engineering, specifically offshore equipment and specialised ship construction and the repair and conversion of offshore equipment and ships. The Guarantor plans to grow its investments within this business segment to more significant levels in the future.

The Group's wholly owned subsidiary CM Industry has become a major player in the Chinese marine engineering industry, and has maintained an excellent record in the industry for business performance. It is one of the largest repairers of offshore oil rigs, oil tankers and container ships in the PRC and Hong Kong; it owns the "Yiu Lian Dockyards" brand, "China Merchants Heavy Industry" brand and "CMI Jinling Shipyard" brand.

- CM Industry has continued to invest in technological research and development in this area, particularly in Shanghai, Shenzhen and Jiangsu Nantong, in order to maintain the shipyard's world-class shipbuilding and repair facilities.

- CM Industry's Hong Kong operations are now the largest in Hong Kong, supported by the second-largest tugboat fleet to support repair services in Hong Kong's largest shipyard.

The Group's substantial investments in this business segment are:

- ship repairs, offshore engineering and speciality ship building, tugboat services, steel structures and piping engineering, port machinery and aluminium alloy processing. The Group's offshore oil rig, oil tanker, container and other ship repairs are conducted at the Group's dockyards at Tsing Yi in Hong Kong (the largest shipyard in Hong Kong) and at Mazhou Island, Shekou in the PRC. The Group's dockyard at Mazhou Island covers approximately 700,000 square metres and is one of the ten largest shipyards in the PRC by size. The Group's ship repair and heavy engineering businesses were established in Hong Kong in 1964 and are now controlled by CM Industry, a wholly owned subsidiary of the Guarantor incorporated in November 1997. Over the years, the Group has also been establishing strategic cooperation relationships with leading shipping companies in the world;

- in 2017, CM Industry successfully contracted American adventure cruise owner SunStone to construct a 4+6 Polar Expedition Cruise ship. In 2019, China Merchants Heavy Industry (Jiangsu) Co., Ltd. ("**Jiangsu Heavy Industry**"), a subsidiary of CM Industry successfully delivered the first Polar Expedition Cruise ship in China. At the same time, CM Industry held nearly ten small and medium-sized cruise ship orderbooks. In 2017, CM Industry formally established the "China Merchants Group Ocean Engineering Technology Center" to further promote the development of CMG's offshore engineering sector to launch high-quality technologies and products. In 2019, CM Industry acquired Deltamarin Group, which is a ship design company based in Finland and has 30 years of experience in providing ship design, offshore engineering and construction support services for marine and offshore industries worldwide.

Industry Overview

China has become the world's leading importer of raw materials and exporter of finished products as a result of its rapid economic growth in recent years. The fleet of cargo container ships that services this import and export demand requires berths at the PRC's ports as well as repair facilities. Changes in international trade flows, price competition and technological improvements have resulted in an increase in the demand for ship repairs and related services in the PRC.

Demand for marine equipment manufacturing such as offshore oil drilling platforms (including drilling ships), oil platforms, special ocean engineering vessels (pipe-laying vessels, cranes, work boats, etc.) and other marine construction equipment is driven by the international demand for oil and gas. Marine equipment manufacturing requires superior technology and involves long construction periods and financial risks. These characteristics make it difficult for new entrants to compete with established manufacturers. Manufacture of special ships, including semi-submersible vessels, dredgers, floating cranes and other kinds of offshore support vessels, tends to be undertaken by specialised ship construction shipyards rather than large shipyards which focus on large tonnage vessels.

Business Operations

Ship Repairs and Related Business

CM Industry conducts its business through a number of wholly owned subsidiaries located in:

- Hong Kong, where it is one of the largest ship repairers and owns shipyards at Tsing Yi as at 31 December 2019. It operates two floating docks and over 550 metres of berths. It provides container ship repairs, special ship repair services, and harbour tugboat services; and

- Shenzhen, Haimen, Nanjing, Yangzhou, Weihai and Zhoushan of the PRC, where it focuses on ship, marine and offshore equipment repair and conversion, marine and offshore equipment manufacturing, speciality ship building as well as cruise ship building.

CM Industry's ship, marine and offshore equipment repair and conversion businesses are conducted through Yiu Lian Dockyards (Shekou) Limited, Yiu Lian Dockyards (Zhoushan) Limited and Yiu Lian Dockyards Limited, undertaking a wide range of repair work and conversion for various types of ocean-going vessels. This business segment focuses on cruise repair and refurbishment, LNG ship repair, floating production storage and offloading (FPSO) and other offshore equipment repair and conversion. It enjoys first-class and comprehensive facilities and has strategic partnerships with some of the world's leading shipping organisations and petroleum companies.

CM Industry's marine and offshore equipment manufacturing business are conducted through Jiangsu Heavy Industry and China Merchants Heavy Industry (Shenzhen) Co., Ltd. ("**China Merchants Heavy Industry**"). Since 2006, nearly 100 offshore products have been built by China Merchants Heavy Industry. Such activities include the construction and fabrication of mobile offshore drilling units, wind turbine installation platforms, tender assist drilling barges, drilling modules, accommodation rigs, FPSO, fishery resources development equipment and LNG production and transportation equipment. It has successfully constructed over ten types of products, including CJ46 jack-up drilling rigs, multifunctional platforms, offshore wind power installation platforms and multi-purpose diving support vessels. In 2017, Jiangsu Heavy Industry became the first Chinese shipyard to build a polar expedition cruise ship, and also entered into a memorandum of understanding to construct a 2+2 luxury cruise, establishing CM Industry in the field of luxury cruise ship construction. In 2017, CM Industry established the "China Merchants Group Ocean Engineering Technology Center" to further promote the development of CMG's offshore engineering sector.

CM Industry's speciality ship building business are conducted through China Merchants Jinling Shipyard (Nanjing) Company Limited, China Merchants Jinling Shipyard (Jiangsu) Company Limited, China Merchants Jinling Shipyard (Weihai) Company Limited ("**CMI Jinling Shipyard**") and China Merchants Jinling Shipyard (Yangzhou) Dingheng Company Limited. The main products include Ro-Ro ships, Ro-Pax ships, chemical tankers and gas carrier. CMI Jinling Shipyard is the earliest Ro-Ro ship building company in China, with the most comprehensive Ro-Ro categories and the most number of deliveries. Such products have been exported to more than 30 countries and regions in the world.

In June 2017, CM Industry entered into a share purchase agreement with CMPort to purchase the latter's entire indirect interest of 24.53 per cent. shareholding in CIMC. CIMC is a leading manufacturer of cargo containers in the world and a leading road transportation vehicle manufacturer in the PRC which

is listed on the SZSE and the Hong Kong Stock Exchange. It manufactures dry cargo containers, reefer and insulated containers and special containers such as flatracks, open-tops and car carriers. It has established a container service network across the PRC, providing one-stop container management, inspection and repair services to its customers.

Logistics and related services

The Group's logistics and related businesses are mainly conducted through its subsidiary, China Merchants Hoi Tung Trading Company Limited ("**Hoi Tung**").

Hoi Tung is primarily engaged in maritime products, commodities and food products trading. It has subsidiaries and representative offices in major cities including Dalian, Beijing, Qingdao, Shanghai, Guangzhou and Shenzhen in the PRC and in countries overseas.

Business Operations

Maritime products trading businesses

Through the maritime equipment department, machinery department and parts supply department of Hoi Tung's wholly owned subsidiary, Hoi Tung Marine Machinery Suppliers Limited ("**Hoi Tung Marine Machinery**"), Hoi Tung is one of the largest suppliers in Chinese maritime products. Hoi Tung Marine Machinery imports, exports and supplies vessel and port-related machinery and parts, communications and navigation equipment, accessories and other materials for shipowners, shipyards and ports in the PRC.

Through its subsidiary, China Merchants Ship Trading Company Limited, Hoi Tung has over 20 years' experience in the ship trading business, and is currently one of Hong Kong's most active ship trading firms.

The Group is also engaged in the import and export of ships and cars through its subsidiaries China Communications Import & Export Co., Ltd and China Merchants Automobile Trading Co., Ltd.

Commodities trading businesses

The Group conducts trading of non-ferrous and precious metals, chemical and energy products through China Merchants Commodities Co., Ltd and China Merchants Energy Trading (Singapore) Pte Ltd.

Food products trading businesses

Hoi Tung has subsidiaries in the PRC, Australia, New Zealand, Europe and Canada which conduct food and beverage trading. Its subsidiary, Oriental Merchant Pty Ltd. is a leading importer and distributor of Asian grocery products in Australia and New Zealand. Hoi Tung is also an agent and distributor of a number of well-known brands within and outside the PRC such as Maotai Liquor, Wuliangye Liquor and Chung Hwa Cigarettes, through its wholly owned subsidiary Hai Luen Trading Co., (HK) Ltd.

Property rental and related management services

This business segment is primarily concerned with the rental of and investment in properties, including the provision of related property management services.

The Guarantor had a 30 per cent. interest in the Zhangzhou China Merchants Economic and Technological Development Zone (the "**Zhangzhou Development Zone**"), one of the most important state development zones in the strategically located Fujian Western Straits Economic Zone of the PRC. It is located in southern Xiamen Bay and is 564 nautical miles from Shanghai, 120 nautical miles from Taichung port in Taiwan and 287 nautical miles from Hong Kong.

Funding

The Group's primary source of funding has traditionally been dividends from its subsidiaries, associates and jointly controlled entities. More recently, members of the Group have undertaken U.S. dollar, Renminbi and Hong Kong dollar denominated external commercial borrowings primarily in the form of syndicated loans and bonds. The Group's financial policy is to encourage its more established subsidiaries to attain financial independence while adequate financial support will be provided to its investments in its new businesses. In addition, CMG has historically provided financial support to the Group in the form of financial guarantees to reduce the Group's financing cost.

Employees

As at 31 December 2019, the Group had more than 66,000 employees.

The Group adheres to, and complies with, the relevant labour laws of the PRC and other jurisdictions where the Group has operations, e.g. Hong Kong. Staff benefits include salaries, provident fund contributions, insurance, medical care and housing. The Group believes that the Group's employees are critical to its success and the Guarantor is committed to investing in the development of its employees through continuing education and training, as well as the creation of opportunities for career growth. In order to motivate employees, employee salaries are tied to business and individual performance.

The Group has never had any major strike or work stoppage. There are currently no unresolved material labour disputes. The Guarantor considers its relations with its employees to be good.

Governmental Regulations

General

The Group's operations are subject to a variety of laws and regulations promulgated by the Hong Kong government and the national and local governments of the PRC. The principal laws which are relevant to the Group's businesses are laws regulating port operations, the financial services industry and environmental protection. The Group's operations are subject to inspections by government officials. The Group believes that it is in compliance in all material respects with applicable laws and regulations in the jurisdictions in which the Group operates. Compliance with such laws has not had a material adverse effect upon the Group's expenditures, earnings or competitive position. The Guarantor is not aware of any governmental proceedings or investigations to which any member of the Group is or might become a party and which may have a material adverse effect on its financial position or operating results.

Ports

Port operators are required to obtain a port operation licence as well as to comply with strict regulations in respect of, among other things, the operational management, supervision, inspection, loading, unloading and storage of hazardous goods. One of the key areas in which regulations affect port operators is with respect to fees and charges. The MOT, the administrative body in charge of the port industry in the PRC, is responsible for making regulations on port fees and charges. Port operators must set their fees and charges for services in accordance with the fees and charges regulations promulgated by the MOT and the National Development and Reform Commission of the PRC, and the currently effective regulation is Rules on Calculation of the Port Charges(《港口收費計費辦法》). As such, operators have limited room to compete with each other on the basis of price and instead must rely on service levels and efficiency.

Financial services

There are many laws and regulations in the PRC that regulate the businesses of securities companies including the setting up of branches, corporate governance, internal control, financial risk control and check and balance procedures. These laws and regulations set out, among other things, the criteria to

establish a securities company including the permitted scope of business, the ongoing obligations and the punishment for breach of law in relation to conducting a securities business. No one may conduct a securities business without the approval of the State Council's securities regulatory body.

Laws and regulations such as the "Measures for the Supervision and Administration of the Qualifications of the Directors, Supervisors and Senior Managers of Securities Companies" and the "Measures for the Administration of the Qualifications of Securities Practitioners" set out the qualification requirements for directors, supervisors, senior management and the relevant individuals in securities companies.

Environmental protection

The Group is subject to national and local environmental protection regulations in the PRC. Under current PRC environmental laws, if the PRC Government finds the Group's operations to be in violation of applicable PRC environmental protection laws or regulations, the Group will be given a warning, fined and/or given a period of time to remedy the violation. If the Group fails to do so, the PRC Government may force a shut-down of its operations until it has complied with the regulations.

Legal Proceedings and Potential Litigation

As at the date of this Offering Circular, the Group has not been involved in any litigation, arbitration or administrative proceedings that could have a material adverse effect on its financial condition or results of operations. The Group has, however, from time to time, been involved in certain legal proceedings arising out of the ordinary course of its businesses. None of these proceedings, individually or in the aggregate, has had any material adverse effect on the Group's financial position or operating results.

Risk Management

Insurance

The Group is covered by insurance policies which cover losses caused by fire, flood, riot, strike and malicious damage. The Group believes that its properties are covered by adequate insurance provided by reputable independent insurance companies in the relevant jurisdictions and with commercially reasonable deductibles and limits on coverage, which are normal for the type and location of the assets and properties to which they relate. Notwithstanding such insurance coverage, damage to the Group's buildings, facilities, equipment or other property as a result of occurrences such as fire, flood, water damage, explosion, power loss, typhoon and other natural disasters or terrorism, or any decline in the Group's business as a result of any threat of war, outbreak of disease or epidemic, may potentially have a material adverse effect on the Group's (and hence the Guarantor's) financial position and operating results.

Foreign Exchange

Most of the transactions of the Group are denominated in Renminbi, Hong Kong dollars or U.S. dollars. The Group is exposed to foreign exchange risk primarily through sales and purchases, capital expenditure and expenses that are denominated in a currency other than the functional currency of the relevant Group companies. The Group considers that its foreign currency exposure mainly arises from the exposure of the Renminbi against the Hong Kong dollar and the U.S. dollar. The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time. The Group is presently using forward exchange contracts to hedge foreign exchange risk arising from sales and purchase, capital expenditure and expenses transactions.

Interest Rates

The Group's exposure to changes in interest rates is mainly attributable to its bank and other borrowings and notes payable. In order to mitigate the interest rate risk, the Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the

contractual terms of borrowings. In order to achieve this result, the Group entered into certain interest rate swaps to partially hedge against its exposures to variable interest rates of bank borrowings. The critical terms of these interest rate swaps are similar to those of the hedged borrowings.

Credit

The credit risk arises principally from trading and securities dealing business. In order to minimise the credit risk, Group has set up different internal policies in different industries according to the industry practice and business environment in each of these operations. The respective credit teams determine different credit limits, credit approvals and other monitoring procedures to ensure that the receivables are able to be recovered.

Liquidity

In the management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents considered to be adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group also monitors the utilisation of borrowings and ensures compliance with loan covenants.

DIRECTORS OF THE GUARANTOR

The members of the board of directors of the Guarantor as at the date of this Offering Circular are as follows:

Name	Age	Title
Executive Directors		
Dr. HU Jianhua	58	Director
Mr. WANG Cuijun	53	Director
Dr. WANG Hong	58	Director
Mr. DENG Renjie	50	Director
Ms. DUAN Xianghui	54	Director
Mr. ZHOU Song	48	Director
Mr. LI Baian	56	Director
Mr. HONG Xiaoyuan	57	Director
Mr. CHU Zongsheng	58	Director
Mr. LI Yadong	49	Director

The biographies of the executive directors of the Guarantor as at the date of this Offering Circular are as follows:

Executive Directors

Dr. HU Jianhua

Dr. Hu, born in 1962, is a master degree holder of Construction Management granted by the University of Birmingham and a PhD degree holder in Business Administration granted by the University of South Australia. He currently serves as Executive Vice President of CMG, Vice Managing Director of CMPort, Director of China Investment Corporation (International) Co., Ltd., Chairman of Silk Road E-Merchants Information Technologies Co., Ltd. and Vice President of Djibouti Port. He served as Chairman of China Nanshan Development (Group) Incorporation, China Merchants Logistics and Colombo International Container Terminals Ltd., Managing Director of China Harbor Engineering Company Ltd. and President of China Harbour Zhenhua.

Mr. WANG Cuijun

Mr. Wang, born in 1967, is master degree holder of Business Administration granted by Jinan University. He is also a certified Senior Engineer. He is concurrently serving as the Executive Vice President of CMG. He has previously served as Deputy General Manager, Director and General Manager of CM Industry, General Manager of China Merchants Heavy Industry (Shenzhen) Co., Ltd., Deputy General Manager of Yiu Lian Dockyards Limited and General Manager of Yiu Lian Dockyards (Shekou) Limited and Deputy General Manager and General Manager of Guangzhou Hangtong Shipbuilding and Shipping Co., Ltd..

Dr. WANG Hong

Dr. Wang, born in 1962, is a master degree holder of Business Administration granted by the University of Science and Technology Beijing and a PhD degree holder in Management granted by the China Academy of Social Science. He currently serves as Executive Vice President of CMG. He successively served as Chief Economist of CMG and General Manager of Corporate Planning Department, Human Resources Department, Performance Evaluation Department, and Strategic and Research Department of CMG. He also served as Executive Deputy General Manager of China Merchants Holdings (International) Co., Ltd., and Managing Director of Hoi Tung Marine Machinery.

Mr. DENG Renjie

Mr. Deng, born in 1970, is a master degree holder of International Economic Law granted by Dalian Maritime University. He currently serves as Executive Vice President of CMG, and concurrently as Deputy Director of 8th China Highway & Transportation Society and China Association of Communication Enterprise Management. Mr. Deng successively served as General Manager of General Office and Assistant President of CMG, Deputy Secretary-General of the Party Committee of the Xinjiang Uyghur Autonomous Region, Deputy Secretary-General of Hunan Province, Deputy Director of the General Office in Hunan Province, and Consultant of the General Office in Ministry of Transportation of China.

Ms. DUAN Xianghui

Ms. Duan, born in 1966, is a master degree holder of Law granted by Wuhan University and Master of Common Law degree holder granted by University of Hong Kong. She is concurrently serving as a Director of CMG. She served as Director-General and Deputy Director-General of Bureaus in National Ministries, namely The Supreme People's Procuratorate of the People's Republic of China and the General Office of the CPC Central Committee.

Mr. ZHOU Song

Mr. Zhou, born in 1972, serves as Chief Financial Officer of CMG, concurrently as Chairman of China Merchants Capital Investment Co., Ltd, China Merchants Pingan AMC and China Merchants Finance Holdings Co., Ltd.. He successively served as the General Manager of the Planning and Finance Department, Assets and Liabilities Management Department, Assets Management Department and concurrently as the Business Director and the President of the Financial Institutions Headquarter of CM Bank. He previously worked as Deputy Chief Financial Officer of CMG. Mr. Zhou received his master degree in World Economy from Wuhan University.

Mr. Li Baian

Mr. Li Baian, born in 1964, received his MBA degree from University of International Business and Economics. Mr. Li serves as Executive Vice President of China Merchants Group Limited. He successively served as Deputy General Manager of Human Resources Dept. and General Manager of Corporate Planning and Management Dept. of China State Construction Engineering Corporation Limited(CSCEC), Chairman of China Construction Second Engineering Bureau Limited, and Vice President of CSCEC and concurrently as General Manager of Investment Dept. of CSCEC and President of China State Construction Land.

Mr. HONG Xiaoyuan

Mr. Hong, born in 1963, is a master degree holder of Economics granted by Peking University and a master degree holder of Science granted by Australian National University. He is also a Senior Economist. He is concurrently serving as Assistant General Manager of CMG, Chairman of the Executive Committee of China Merchants Financial Business Unit, Chairman and Chief Executive Officer of China Merchants Finance Holdings Co., Ltd.. He also serves for Shenzhen Zhaorong Investment Holdings Co., Ltd., China Merchants Direct Investments Limited (listed on the Hong Kong Stock Exchange), Shenzhen CMB Futures Financial Assets Trading Center Co., Ltd., China Merchants Joint Development Co., Ltd. and as Chairman of China Merchants Innovation Investment Management Co., Ltd., Vice Chairman of China Merchants Capital Investment Co., Ltd. and Director of China Merchants Life Insurance Co., Ltd..

Mr. CHU Zongsheng

Mr. Chu, born in 1962, is master degree holder of Business Administration granted by Northeastern University. He is concurrently serving as the Assistant General Manager of CMG, a Supervisor in China Merchants Steam Navigation Co., Ltd., Director of China Merchants Shekou Industrial Zone Holding Co., Ltd., Supervisor at China Merchants Innovation Investment Management Co., Ltd. and Chairman of China Merchants Group (Shanghai) Limited.

Mr. LI Yadong

Mr. Li, born in 1971, graduated from Renmin University of China and acquired an MBA degree from China Europe International Business School. Mr. Li serves as Assistant President of CMG, in charge of health care sector, overseas business and international trade. He concurrently serves as Chairman of Hoi Tung, Chairman of Tianjin Institute of Pharmaceutical Research. He previously served as General Manager of the General Office of CMG, General Manager of Board of Directors Office, General Manager of Poverty Alleviation Office, Deputy General Manager of CMPort, Secretary General of China Merchants Charitable Foundation and etc.

INFORMATION OF THE SHARES OF CIMC

The information included below is for information purposes only and is based on, or derived or extracted from, among other sources, publicly available information. The Issuer and the Guarantor have taken reasonable care in the compilation and reproduction of the information. However, none of the Issuer and the Guarantor, the Managers, the Trustee and the Agents or their respective officers, employees, affiliates, advisers and agents has independently verified such information. No representation or warranty, express or implied, is made or given by the Issuer or the Guarantor or any of their employees or professional advisers as to the accuracy, completeness or sufficiency of such information. Accordingly, such information should not be unduly relied upon.

The Exchange Property shall comprise ordinary H-shares (the "**Shares**") of par value RMB1.00 each of CIMC. The Shares have been listed on the Hong Kong Stock Exchange since 19 December 2012. Information about CIMC can be found on the website of the Hong Kong Stock Exchange. Information contained in the website of the Hong Kong Stock Exchange does not form part of this Offering Circular. None of the Issuer and the Guarantor accept any responsibility for the information contained in such third party website. In addition, CIMC was not involved in the preparation of this Offering Circular and has no obligation with respect to the Bonds.

DEMATERIALISATION

China Merchants (CIMC) Investment Limited holds the Shares in dematerialised form in the Central Clearing and Settlement System ("**CCASS**"). The delivery of the Exchange Property upon the exchange of the Bonds will be made through CCASS. None of the Guarantor and the Issuer will deliver the Exchange Property in physical paper form.

MARKET PRICE

The table below sets forth the closing prices and the daily trading volume of the Shares on the Hong Kong Stock Exchange for the periods indicated:

	Closing Share Price			Daily average trading volume of Shares
	High	Low	End of Period	
	HK$	*HK$*	*HK$*	
2012				
Four Quarter	9.90	9.08	9.90	4,099,826
2013				
First Quarter	13.80	10.67	10.67	2,776,609
Second Quarter	11.77	9.22	11.15	1,722,656
Third Quarter	12.20	9.75	11.58	1,266,156
Fourth Quarter	13.75	11.45	13.75	1,665,831
2014				
First Quarter	16.42	14.12	14.98	1,669,333
Second Quarter	14.98	11.47	12.45	585,814
Third Quarter	15.28	12.93	13.35	816,183
Fourth Quarter	15.97	13.62	14.35	1,269,963
2015				
First Quarter	14.47	11.77	14.07	1,383,469
Second Quarter	19.96	14.08	16.62	3,921,806
Third Quarter	15.93	10.43	11.33	2,558,861
Fourth Quarter	12.47	11.07	11.82	1,514,018
2016				
First Quarter	11.32	9.20	10.13	1,028,521
Second Quarter	10.87	7.64	7.95	2,832,522
Third Quarter	8.48	7.20	7.60	1,930,604
Fourth Quarter	10.20	7.66	9.33	2,730,672

	Closing Share Price			Daily average trading volume of Shares
	High	Low	End of Period	
	HK$	*HK$*	*HK$*	
2017				
First Quarter	11.90	9.25	11.07	2,337,798
Second Quarter	11.93	10.22	11.63	1,672,023
Third Quarter	13.80	11.33	12.30	1,815,998
Fourth Quarter	13.37	11.27	12.58	2,112,470
2018				
First Quarter	13.82	9.98	10.20	1,957,244
Second Quarter	11.42	8.20	8.57	2,935,536
Third Quarter	8.08	6.50	6.92	1,640,777
Fourth Quarter	7.29	5.69	6.27	4,826,499
2019				
First Quarter	8.37	6.06	8.37	2,551,349
Second Quarter	9.27	6.67	7.86	2,711,889
Third Quarter	7.85	6.56	6.81	1,106,671
Fourth Quarter	7.80	6.58	7.27	1,275,875
2020				
First Quarter	8.00	6.29	7.24	1,657,152
Second Quarter	7.23	5.91	6.30	965,790
Third Quarter	8.64	6.53	8.37	1,084,151
Fourth Quarter	14.22	8.36	11.30	14,114,785

Source: Bloomberg

TAXATION

The following is a general description of certain tax considerations relating to the Bonds and is based on law and relevant interpretation thereof in effect as at the date of this Offering Circular all of which are subject to changes and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Bonds, whether in those countries or elsewhere. Prospective purchasers of the Bonds should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of the Bonds and receiving payments of interest, principal and/or other amounts under the Bonds and the consequences of such actions under the tax laws of those countries. It is emphasised that none of the Issuer, the Guarantor accepts responsibility for any tax effects or liabilities resulting from the subscription for purchase, holding or disposal of the Bonds.

HONG KONG

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal or interest in respect of the Bonds or in respect of any capital gains arising from the sale of the Bonds.

No tax is payable in Hong Kong by withholding or otherwise in respect of payments of dividends on the Shares.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Bond.

Hong Kong stamp duty is payable on any transfer of Hong Kong stock, including the transfer of the Shares to the holder of the Bonds upon the exchange. The duty is charged on each of the transferor and the transferee at the ad valorem rate of 0.1 per cent. of the consideration for, or (if greater) the value of, the Shares bought and sold. In other words, a total of 0.2 per cent. is currently payable on a typical transfer (i.e. sale and purchase transaction) of Shares. *The Hong Kong government has gazetted the Revenue (Stamp Duty) Bill 2021 to increase the ad valorem rate of stamp duty on transfers of Hong Kong stock from 0.1 per cent. to 0.13 per cent., which is expected to take effect on 1 August 2021.* In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5. Where a transfer of Shares registered on a Hong Kong share register is effected by a person who is not resident in Hong Kong and any stamp duty payable thereon is not paid, the relevant instrument of transfer (if any) is chargeable with such duty in default and the transferee is liable to pay such duty.

If stamp duty is not paid, in general, both the seller and the purchaser may be liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase of any Hong Kong stock if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed.

PRC

Taxation on Interest and Other Payments

In accordance with the Enterprise Income Tax Law of the PRC which was further amended on 24 February 2017, its implementation regulations and the Notice of the State Administration of Taxation on Issues about the Determination of Chinese-Controlled Enterprises Registered Abroad as Resident Enterprises on the Basis of Their Body of Actual Management（國家稅務總局關於境外注册中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知）which was further amended on 29 January 2010, all of which took effect on 1 January 2008, Chinese-Controlled enterprises established outside the PRC whose "actual management bodies" are within China are considered as "PRC tax resident enterprises".

As of the date of this Offering Circular, neither the Issuer nor the Guarantor has been considered a PRC tax resident enterprise by the PRC tax authorities.

Pursuant to these provisions of the PRC tax law, if the Issuer is considered a PRC tax resident enterprise, interest payable to non-resident enterprise Bondholders on the Bonds may be regarded as non-resident enterprise Bondholders getting income from sources within the PRC and be subject to 10 per cent. enterprise income tax. Accordingly, the Issuer would be obliged to withhold enterprise income tax of 10 per cent. on payments of interests to non-resident enterprise Bondholders. In accordance with the Individual Income Tax Law of the PRC and its implementation regulations both of which were amended in 2011 and took effect on 1 September 2011, if the Issuer is considered a PRC tax resident enterprise, interest payable to non-resident individual Bondholders on the Bonds may be regarded as non-resident individual Bondholders getting income from sources within the PRC and be subject to 20 per cent. individual income tax. Accordingly, the Issuer would be obliged to withhold individual income tax of 20 per cent. on payments of interests to non-resident individual Bondholders. However, it is uncertain whether the PRC tax authority will deem the Issuer as a PRC tax resident enterprise. Under the Announcement of the State Administration of Taxation on Matters Concerning Withholding of Income Tax of Non-resident Enterprises at Source（國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告）, if the Guarantor is required to perform its obligations under the Guarantee to repay the principal of the Bonds and pay interest on the Bonds, the interest paid by the Guarantor to non-resident Bondholders on the Bonds may be regarded as income received by non-resident Bondholders from sources within the PRC and as a consequence the Guarantor may be obliged to withhold income tax of 10 per cent. for non-resident enterprise Bondholders and 20 per cent. for non-resident individual Bondholders on payments of such interest to non-resident Bondholders. To the extent that China has entered into arrangements relating to the avoidance of double-taxation with any jurisdiction, such as Hong Kong, that allow a lower rate of withholding tax, such lower rate may apply to Bondholders who qualify for such treaty benefits.

Furthermore, if the Issuer or the Guarantor is treated as a PRC tax resident enterprise under the Enterprise Income Tax Law and related implementation regulations in the future, any gain realised by the non-resident enterprise Bondholders or non-resident individual Bondholders from the transfer of the Bonds may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 20 per cent. of PRC withholding tax.

VAT (FOR INTEREST PAYMENTS FROM 1 MAY 2016)

On 23 March 2016, the MOF and the SAT issued the Circular of Full Implementation of Business Tax to VAT Reform（《關於全面推開營業稅改徵增值稅試點的通知》Caishui [2016] No. 36, ("**Circular 36**"), which introduced a new VAT from 1 May 2016.

Under Circular 36, VAT is applicable where the entities or individuals provide services within the PRC. The operating income generated from the provision of taxable sale of services by entities and individuals, such as financial services, shall be subject to PRC VAT if the seller or buyer of the services is within PRC. In the event that foreign entities or individuals do not have a business establishment in the PRC, the purchaser of services shall act as the withholding agent. According to the Explanatory Notes to Sale of Services, Intangible Assets and Real Property attached to Circular 36, financial services refer to the business activities of financial and insurance operation, including loan processing services, financial services of direct charges, insurance services and the transfer of financial instruments, and the VAT rate is 6 per cent. Circular 36 further clarified that "loan processing" refers to the activity of lending capital for another's use and receiving the interest income thereon, therefore based on such an interpretation of "loan processing" under the Circular 36, the issuance of Bonds may be treated as the Bondholders providing loans to the Issuer or the Guarantor, which thus shall be regarded as the provision of financial services.

Accordingly, the interest and other interest like earnings received by a non-PRC resident Bondholder from the Issuer will be subject to PRC VAT at the rate of 6 per cent if the Issuer is treated as a PRC resident enterprise for PRC tax purposes. The Issuer will be obligated to withhold VAT of 6 per cent. and certain surcharges on VAT for payments of interest and certain other amounts on the Bonds paid by the Issuer to Bondholders that are non-resident enterprises or individuals. And as the withholding agent, the Issuer shall calculate the withholding tax according to the following formula: withholding tax = price paid by the purchaser ÷ (1 + tax rate) × tax rate. Pursuant to relevant local rules regarding the Urban Maintenance & Construction Tax, the Educational Fund Surcharge and the Local Educational Fund Surcharge respectively as levies on the VAT, such local levies will be applicable when entities and individuals are obliged to pay VAT (at an aggregate rate of approximately 12 per cent. on any VAT payable, so consequently the combined rate of the VAT and such local levies would be around 6.72 per cent.).

However, there is uncertainty as to whether gains derived from a sale or exchange of Bonds consummated outside of the PRC between non-PRC resident Bondholders will be subject to PRC VAT. VAT is unlikely to be applicable to any transfer of Bonds between entities or individuals located outside of the PRC and therefore unlikely to be applicable to gains realised upon such transfers of Bonds, but there is uncertainty as to the applicability of VAT if either the seller or buyer of Bonds is located inside the PRC.

Circular 36 together with other laws and regulations pertaining to VAT are relatively new, the interpretation and enforcement of such laws and regulations involve uncertainties.

Stamp duty

No PRC stamp tax will be chargeable upon the issue or transfer (for so long as the register of holders of the Bonds is maintained outside Mainland China) of a Bond.

British Virgin Islands

The following is a discussion on certain British Virgin Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under British Virgin Islands law.

Under existing British Virgin Islands laws:

(i) the Issuer is not liable to pay any form of taxation in the British Virgin Islands and all payments of interest and principal on the Bonds and other amounts made by the Issuer to persons who are not persons resident in the British Virgin Islands are exempt from all forms of taxation in the British Virgin Islands and any capital gains realised with respect to the disposal of the Bonds by persons who are not persons resident in the British Virgin Islands are exempt from all forms of taxation in the British Virgin Islands.

(ii) No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the British Virgin Islands with respect to any shares, debt obligation or other securities of the Issuer.

(iii) Subject to the payment of stamp duty on the acquisition of property in the British Virgin Islands by the Issuer, all instruments relating to transfers of property to or by the Issuer and all instruments relating to transactions in respect of the shares, debt obligations or other securities of the Issuer and all instruments relating to other transactions relating to the business of the Issuer are exempt from payment of stamp duty in the British Virgin Islands.

(iv) There are currently no withholding taxes or exchange control regulations in the British Virgin Islands applicable to the Issuer or its shareholders.

Foreign Account Tax Compliance Act ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including British Virgin Islands, Hong Kong and the PRC) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Bonds, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Bonds, such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds.

Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Bonds.

PRC CURRENCY CONTROLS RELATING TO RENMINBI

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow has been increased in September 2015.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Until 2010, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "foreign debt") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "outbound loans"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "cross-border security"). Under current rules promulgated by the State Administration of Foreign Exchange of the PRC ("**SAFE**") and the PBoC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross- border security regimes applicable to foreign currencies. After piloting in the free trade zones, the PBoC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financings denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a

special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalised for foreign investors. The PBoC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between Mainland China and Hong Kong to allow eligible investors to invest in CIBM and has also expanded the list of foreign investors eligible to directly invest in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In 2018, CFETS further relaxed qualifications, application materials and the procedures for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorised as capital account items. There is no assurance that the PRC Government will continue to gradually liberalise the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

SUBSCRIPTION AND SALE

The Issuer and the Guarantor have entered into a subscription agreement with UBS AG Hong Kong Branch, Huatai Financial Holdings (Hong Kong) Limited and China Merchants Securities (HK) Co., Limited as the Joint Lead Managers dated 7 April 2021 (the "**Subscription Agreement**") pursuant to which and subject to certain conditions contained in the Subscription Agreement, the Issuer agreed to sell to the Joint Lead Managers, and the Joint Lead Managers agreed to severally, but not jointly, subscribe and pay for the aggregate principal amount of the Bonds set forth opposite its name below.

Joint Lead Managers	**Principal amount of the Bonds to be subscribed**
UBS AG Hong Kong Branch	U.S.$138,000,000
Huatai Financial Holdings (Hong Kong) Limited	U.S.$92,000,000
China Merchants Securities (HK) Co., Limited	U.S.$0
Total	**U.S.$230,000,000**

The Subscription Agreement provides that the Issuer and the Guarantor will jointly and severally indemnify the Joint Lead Managers and their affiliates against certain liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer.

In connection with the issue of the Bonds, UBS AG Hong Kong Branch (the "**Stabilisation Manager**") or any person acting on behalf of the Stabilisation Manager may, to the extent permitted by applicable laws and directives, over-allot the Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager shall act as principal and not as agent of the Issuer or the Guarantor. However, there is no assurance that the Stabilisation Manager or any person acting on behalf of the Stabilisation Manager will undertake Stabilisation action. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the Stabilisation Manager or, as the case may be, the Joint Lead Managers in the manner agreed by them.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the Issuer and the Guarantor, for which they received or will receive customary fees and expenses.

The Joint Lead Managers and their respective affiliates may purchase the Bonds and be allocated the Bonds for asset management and/or proprietary purposes but not with a view to distribution. In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer and the Guarantor.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or

invitation is not authorised. No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required.

Selling Restrictions

United States of America

The Bonds, the Guarantee and the Exchange Shares to be delivered upon exchange of the Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds and the Guarantee are being offered and sold outside of the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds and the Guarantee, an offer or sale of Bonds, the Guarantee or the Exchange Shares to be delivered upon exchange of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Prohibition of Sales to EEA Retail Investors

Each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the European Economic Area. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of MiFID II; or

(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

United Kingdom

Each of the Managers has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Prohibition of Sales to UK Retail Investors

Each of the Managers has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any retail investor in the United Kingdom. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(b) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

PRC

Each Joint Lead Manager has represented and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by applicable laws of the People's Republic of China.

Hong Kong

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds (except for Bonds which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (the "**SFO**") other than (i) to "professional investors" as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "Prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions Ordinance (Cap. 32) of Hong Kong (the "**Companies Ordinance**") or which do not constitute an offer to the public within the meaning of the Companies Ordinance; and

(a) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

The Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the "**FIEA**"). Accordingly, each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Offering Circular will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell such Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person

(as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offer of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore SFA Product Classification: In connection with Section 309B of the SFA and the CMP Regulations 2018, the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Bonds are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

British Virgin Islands

Each Joint Lead Manager has represented, warranted and agreed that it has not made and will not make an invitation to any person resident in the British Virgin Islands to offer or sell the Bonds but the Bonds may be acquired by British Virgin Islands persons who receive the offer of the Bonds outside of the British Virgin Islands and in a manner which does not contravene the laws of the jurisdiction in which such offer is received.

GENERAL INFORMATION

1. **Listing:** Application will be made to the Hong Kong Stock Exchange for permission to deal in and the listing of the Bonds by way of debt issues to Professional Investors only.

2. **Authorisation:** Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the respective obligations under the Bonds, the Trust Deed and the Agency Agreement. The issue of the Bonds was authorised by a resolution of the sole director of the Issuer passed on 17 February 2021. The giving of the Guarantee was authorised by resolutions of the board of directors of the Guarantor on 7 April 2021.

3. **Legal and Arbitration Proceedings:** Save as disclosed in this Offering Circular, none of the Issuer, the Guarantor and any other member of the Group is or has been involved in any legal or arbitration proceedings (nor is the Issuer or the Guarantor aware that any such proceedings are pending or threatened), which may have, or have had during the 12 months prior to the date of this Offering Circular, a material adverse effect on the financial position or profitability of the Issuer, the Guarantor or the Group.

4. **No Material Adverse Change:** Save as disclosed in this Offering Circular, since 31 December 2019, there has been no material adverse change in the financial or trading position of the Guarantor and the Group.

5. **Documents on Display:** Copies of the Guarantor's 2018 Consolidated Financial Statements and 2019 Consolidated Financial Statements, the Trust Deed and the Agency Agreement will be available for inspection from the Issue Date at the registered office of the Guarantor at 39/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. So long as any Bond is outstanding, copies of the Trust Deed and the Agency Agreement will also be available for inspection by the Bondholders at the principal place of business of the Trustee (being as at the Issue Date at One Canada Square, London E14 5AL, United Kingdom) at all reasonable times during normal business hours (being between 9:00 a.m. and 3:00 p.m., Monday to Friday (other than public holidays)) following prior written request and proof of holding and identity to the satisfaction of the Trustee.

6. **Clearing of the Bonds**: The Bonds have been accepted for clearance through Euroclear and Clearstream. The ISIN and Common Code for the Bonds are XS2307591896 and 230759189, respectively.

7. The Issuer's Legal Entity Identifier (LEI) is 549300FX92K5YHFF9Q73.

INDEX TO FINANCIAL STATEMENTS OF THE GUARANTOR

Index to Audited Consolidated Financial Statements for the Year Ended 31 December 2019

The following is a reproduction of the audited consolidated financial statements of the Guarantor for the year ended 31 December 2019 together with the independent auditor's report.

Other than the references made in this content page, references to a page number refer to the original page number of the Guarantor's audited financial statements as at and for the year ended 31 December 2019.

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The following is a reproduction of the audited consolidated financial statements of the Guarantor for the year ended 31 December 2018 together with the independent auditor's report.

Other than the references made in this content page, references to a page number refer to the original page number of the Guarantor's audited financial statements as at and for the year ended 31 December 2018.

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Deloitte. 德勤

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF
CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Merchants Holdings (Hong Kong) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 7 to 176, which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Digital Difference
勤启数智

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
May 6, 2020

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	5		
- Goods and services		40,913,759	31,626,570
- Lease income		2,179,587	1,436,310
- Interest income		9,324,761	8,637,554
- Gross insurance written premiums and policy fee		10,762,757	3,329,752
		63,180,864	45,030,186
Direct costs		(45,343,897)	(30,322,735)
Gross profit		17,836,967	14,707,451
Distribution and selling expenses		(4,793,620)	(4,708,502)
General and administrative expenses		(9,275,251)	(5,940,660)
Finance costs, net	6	(4,769,541)	(4,139,148)
Share of results of:			
- associates		17,404,309	15,831,416
- joint ventures		1,215,157	1,022,154
Net income, gains and losses from other investments	7	10,649,760	4,058,236
Other gains and losses, net	8(a)	3,142,637	(685,746)
Impairment losses, under expected credit loss model, net of reversal	8(b)	(2,339,869)	(3,620,894)
Profit before tax		29,070,549	16,524,307
Income tax expense	9	(5,327,238)	(2,577,156)
Profit for the year	10	23,743,311	13,947,151

	2019 RMB'000	2018 RMB'000
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures	(1,034,254)	(411,360)
Debt instruments classified as fair value through other comprehensive income:		
- Fair value changes during the year, net of deferred taxation	21,293	564,024
- Reclassification adjustment upon disposal, net of deferred taxation	-	16,847
Share of other comprehensive income of associates and joint ventures	208,202	1,313,801
Items that will not be reclassified subsequently to profit or loss:		
Equity instruments classified as fair value through other comprehensive income:		
- Fair value changes during the year, net of deferred taxation	(274,430)	(856,101)
Share of other comprehensive income (expense) of associates and joint ventures	135,152	(97,355)
Net actuarial loss on defined benefit plans of subsidiaries	(21,511)	(20,137)
Other comprehensive (expense) income for the year, net of tax	(965,548)	509,719
Total comprehensive income for the year	22,777,763	14,456,870
Profit for the year attributable to:		
Owners of the Company	14,817,684	9,691,960
Holders of Perpetual Capital Securities ("PCS") issued by a subsidiary	67,744	66,793
Holders of perpetual bonds issued by subsidiaries	834,199	802,090
Other non-controlling interests	8,023,684	3,386,308
	23,743,311	13,947,151
Total comprehensive income for the year attributable to:		
Owners of the Company	14,701,879	10,119,730
Holders of PCS issued by a subsidiary	67,744	66,793
Holders of perpetual bonds issued by subsidiaries	834,199	802,090
Other non-controlling interests	7,173,941	3,468,257
	22,777,763	14,456,870

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Investment properties	11	7,928,239	6,295,335
Property, plant and equipment	12	156,355,489	41,315,955
Right-of-use assets	13	46,345,567	-
Land use rights	14	-	12,356,225
Goodwill	15	9,444,034	7,948,009
Intangible assets	16	9,288,795	9,828,364
Interests in associates	17	184,333,168	160,508,075
Interests in joint ventures	18	14,010,121	12,887,152
Financial assets at fair value through profit or loss	19	25,452,522	23,952,474
Equity instruments at fair value through other comprehensive income	20	11,616,222	8,042,140
Debt instruments at fair value through other comprehensive income	21	108,281	94,181
Debt instruments at amortised cost	22	15,486,731	5,583,520
Financial assets held under resale agreements	23	2,421,261	5,277,749
Finance lease receivables	24	18,186,695	13,389,726
Other non-current assets	25	27,318,962	29,124,984
Deferred tax assets	26	1,684,173	1,191,237
		529,980,260	337,795,126
CURRENT ASSETS			
Inventories	27	16,963,892	3,819,433
Dividend receivables		888,654	439,695
Trade, bills and other receivables	28	22,013,480	13,134,227
Contract assets	28	7,983,048	9,284,822
Financial assets at fair value through profit or loss	19	150,732,317	104,941,794
Debt instruments at fair value through other comprehensive income	21	49,460,133	43,638,152
Debt instruments at amortised cost	22	94,601	47,587
Derivative financial instruments	29	1,807,060	1,153,275
Other current assets		765,783	152,517
Loans and advances to customers of securities dealing business	30	55,224,619	42,976,430
Deposits for securities dealing business	31	4,780,890	1,431,420
Financial assets held under resale agreements	23	33,574,599	28,488,738
Finance lease receivables	24	7,329,672	4,152,148
Bank balances held on behalf of customers	32	53,040,323	40,144,484
Bank deposits, bank balances and cash	33	64,158,036	39,448,515
		468,817,107	333,253,237
Non-current assets held for sale	34	188,404	115,356
		469,005,511	333,368,593

	NOTES	2019 RMB'000	2018 RMB'000
CURRENT LIABILITIES			
Trade, bills and other payables	35	88,922,311	71,496,523
Accounts payable to brokerage clients of securities dealing business	36	61,724,220	48,911,748
Placements from banks and other financial institutions	37	7,013,199	3,519,000
Financial assets sold under repurchase agreements	38	100,556,577	61,897,016
Borrowings - due within one year	39	131,102,952	92,782,065
Financial liabilities at fair value through profit or loss	40	9,332,079	7,804,967
Lease liabilities	41	2,945,029	-
Contract liabilities	42	365,147	281,347
Derivative financial instruments	29	2,223,010	1,308,309
		404,184,524	288,000,975
NET CURRENT ASSETS		64,820,987	45,367,618
TOTAL ASSETS LESS CURRENT LIABILITIES		594,801,247	383,162,744
NON-CURRENT LIABILITIES			
Borrowings - due after one year	39	186,154,378	117,010,581
Financial liabilities at fair value through profit or loss	40	2,157,877	2,404,123
Lease liabilities	41	7,238,818	-
Other non-current liabilities	43	38,867,496	21,780,531
Deferred tax liabilities	26	13,452,699	4,227,531
		247,871,268	145,422,766
NET ASSETS		346,929,979	237,739,978
CAPITAL AND RESERVES			
Share capital	44	15,467,445	15,467,445
Reserves		127,489,418	113,008,500
Equity attributable to owners of the Company		142,956,863	128,475,945
Non-controlling interests	59	203,973,116	109,264,033
TOTAL EQUITY		346,929,979	237,739,978

The consolidated financial statements on pages 7 to 176 were approved and authorised for issue by the Board of Directors on May 6, 2020 and are signed on its behalf by:

Hu Jianhua
DIRECTOR

Zhou Song
DIRECTOR

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Attributable to owners of the Company								Non-controlling interests				
	Share capital RMB'000	Capital reserve RMB'000	Other asset revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Equity transaction reserve RMB'000	Retained profits RMB'000 (Note i)	Sub-total RMB'000	PCS RMB'000 (note 46)	Perpetual bonds RMB'000 (Note ii)	Share of net assets of subsidiaries RMB'000	Sub-total RMB'000	Total RMB'000
At January 1, 2018	5,467,445	1,264,732	57,772	1,618,295	192,506	461,745	104,357,710	113,420,205	1,822,871	15,000,000	89,397,175	106,220,046	219,640,251
Profit for the year	-	-	-	-	-	-	9,691,960	9,691,960	66,793	802,090	3,386,308	4,255,191	13,947,151
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures	-	-	-	-	(714,152)	-	-	(714,152)	-	-	302,792	302,792	(411,360)
Share of other comprehensive income (expense) of associates and joint ventures	-	-	-	1,291,808	-	-	-	1,291,808	-	-	(75,362)	(75,362)	1,216,446
Net loss on fair value changes of debt/equity instruments at fair value through other comprehensive income, net of deferred taxation	-	-	-	(157,710)	-	-	-	(157,710)	-	-	(134,367)	(134,367)	(292,077)
Reclassification adjustment upon disposal of debt instruments as fair value through other comprehensive income	-	-	-	16,847	-	-	-	16,847	-	-	-	-	16,847
Net actuarial loss on defined benefit plans of subsidiaries	-	-	-	-	-	-	(9,023)	(9,023)	-	-	(11,114)	(11,114)	(20,137)
Total comprehensive income (expense) for the year	-	-	-	1,150,945	(714,152)	-	9,682,937	10,119,730	66,793	802,090	3,468,257	4,337,140	14,456,870
Capital contributed by non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	2,419,175	2,419,175	2,419,175
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(3,418,353)	(3,418,353)	(3,418,353)
Distributions to perpetual bonds holders	-	-	-	-	-	-	-	-	-	(802,090)	-	(802,090)	(802,090)
Distributions to PCS holders	-	-	-	-	-	-	-	-	(66,793)	-	-	(66,793)	(66,793)
Changes in interest in subsidiaries without lost of control (Note iii, iv and v)	-	-	-	1,675,312	23,980	-	(6,763,282)	(5,063,990)	-	-	899,238	899,238	(4,164,752)
Acquisition of subsidiaries (note 49)	-	-	-	-	-	-	-	-	-	-	183,639	183,639	183,639
Issuance of shares (note 44)	10,000,000	-	-	-	-	-	-	10,000,000	-	-	-	-	10,000,000
Obligation arising from a put option granted to non-controlling shareholders of non-wholly owned subsidiaries (note 43 (vii))	-	-	-	-	-	-	-	-	-	-	(507,969)	(507,969)	(507,969)
	10,000,000	-	-	1,675,312	23,980	-	(6,763,282)	4,936,010	(66,793)	(802,090)	(424,270)	(1,293,153)	3,642,857
As December 31, 2018	15,467,445	1,264,732	57,772	4,444,552	(497,666)	461,745	107,277,365	128,475,945	1,822,871	15,000,000	92,441,162	109,264,033	237,739,978

	Attributable to owners of the Company								Non-controlling interests				
	Share capital RMB'000	Capital reserve RMB'000	Other asset revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Equity transaction reserve RMB'000	Retained profits RMB'000 (Note i)	Sub-total RMB'000	PCS RMB'000 (note 46)	Perpetual bonds RMB'000 (Note ii)	Share of net assets of subsidiaries RMB'000	Sub-total RMB'000	Total RMB'000
At December 31, 2018, as previously reported	15,467,445	1,264,732	57,772	4,444,552	(497,666)	461,745	107,277,365	128,475,945	1,822,871	15,000,000	92,441,162	109,264,033	237,739,978
Adjustment (note 2.1)	-	-	-	-	-	-	58,029	58,029	-	-	(117,532)	(117,532)	(59,503)
At January 1, 2019, as restated	15,467,445	1,264,732	57,772	4,444,552	(497,666)	461,745	107,335,394	128,533,974	1,822,871	15,000,000	92,323,630	109,146,501	237,680,475
Profit for the year	-	-	-	-	-	-	14,817,684	14,817,684	67,744	834,199	8,023,684	8,925,627	23,743,311
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures	-	-	-	-	(380,136)	-	-	(380,136)	-	-	(654,118)	(654,118)	(1,034,254)
Share of other comprehensive income (expense) of associates and joint ventures	-	-	-	413,246	-	-	-	413,246	-	-	(69,892)	(69,892)	343,354
Net loss on fair value changes of debt/equity instruments at fair value through other comprehensive income, net of deferred taxation	-	-	-	(141,381)	-	-	-	(141,381)	-	-	(111,756)	(111,756)	(253,137)
Net actuarial loss on defined benefit plans of subsidiaries	-	-	-	-	-	-	(7,534)	(7,534)	-	-	(13,977)	(13,977)	(21,511)
Total comprehensive income (expense) for the year	-	-	-	271,865	(380,136)	-	14,810,150	14,701,879	67,744	834,199	7,173,941	8,075,884	22,777,763
Capital contributed by non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	22,132,308	22,132,308	22,132,308
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(3,035,243)	(3,035,243)	(3,035,243)
Issuance of other perpetual bonds to non-controlling equity holders of a subsidiary	-	-	-	-	-	-	-	-	-	2,159,937	-	2,159,937	2,159,937
Distributions to perpetual bonds holders	-	-	-	-	-	-	-	-	-	(834,199)	-	(834,199)	(834,199)
Distributions to PCS holders	-	-	-	-	-	-	-	-	(67,744)	-	-	(67,744)	(67,744)
Changes in interest in subsidiaries without lost of control (Note vi)	-	-	-	-	-	-	(312,406)	(312,406)	-	-	1,565,980	1,565,980	1,253,574
Acquisition of subsidiaries (note 49)	-	-	-	-	-	-	-	-	-	-	64,863,108	64,863,108	64,863,108
Deemed acquisition of additional interest in a non-wholly owned subsidiary by script dividends	-	-	-	-	-	-	33,416	33,416	-	-	(33,416)	(33,416)	-
	-	-	-	-	-	-	(278,990)	(278,990)	(67,744)	1,325,738	85,492,737	86,750,731	86,471,741
As December 31, 2019	15,467,445	1,264,732	57,772	4,716,417	(877,802)	461,745	121,866,554	142,956,863	1,822,871	17,159,937	184,990,308	203,973,116	346,929,979

Notes:

(i) Included in the balance of retained profits at the end of the reporting period is the sum of the People's Republic of China (the "PRC") statutory reserves and regulatory reserves of the Company's subsidiaries established in the PRC.

PRC statutory reserves are required by the relevant laws in the PRC applicable to the Company's subsidiaries established in the PRC, the allocation to which is mandatory at a rate of 10% of profit after taxation of the relevant subsidiary prepared under the PRC Generally Accepted Accounting Principles (commonly known as the "PRC GAAP") until the balance of the reserve reaches 50% of the contributed capital of the relevant subsidiary. Further allocation to the statutory reserves is arbitrary and at the discretion of the directors of the relevant subsidiary.

(ii) During the year ended December 31, 2017, China Merchants Securities Co., Ltd. ("CMS"), a non-wholly owned subsidiary of the Company, issued perpetual subordinated bonds ("PSB") of RMB15,000,000,000 with interest rates ranging from 5.15% to 5.65% per annum. The PSB is equity instruments issued by CMS since it has no contractual obligation to repay the bonds by cash or other financial instruments, and the redemption of the PSB, if any, are at the sole discretion of CMS.

During the year ended December 31, 2019, Diverse Success Limited, a wholly-owned subsidiary of the Company, issued certain perpetual bonds of United States Dollar ("USD")300,000,000, equivalent to RMB2,159,937,000, with interest rate of 4.35% per annum. The perpetual bonds are equity instruments issued by Diverse Success Limited since it has no contractual obligation to repay the bonds by cash or other financial instruments and the redemption of the perpetual bonds, if any, are at the sole discretion of the Group.

(iii) During the year ended December 31, 2018, 招商食品(深圳)有限公司, a wholly-owned subsidiary of the Company, has purchased the remaining 25% equity interest of Zhaolian (Beijing) Food Company Limited ("Zhaolian BJ") from the non-controlling shareholders of Zhaolian BJ at the consideration of RMB1 and Zhaolian BJ then becomes a wholly-owned subsidiary of the Company since then.

(iv) During the year ended December 31, 2018, the Group completed a material reorganisation in respect of two non-wholly owned subsidiaries, i.e. CMPH and China Merchants Port Group Co., Ltd. (formerly known as Shenzhen Chiwan Wharf Holdings Limited) ("CMPG") (the "Reorganisation") as follows:

(a) Disposal of interest in CMPG by CMPH in June 2018

Before June 2018, 33.58% interest in CMPG was held by CMPH through two wholly-owned subsidiaries of CMPH and 32.52% interest in CMPG was held by China Nanshan Development (Group) Incorporation ("Nanshan"), an associate of CMPH in which CMPH held 37.01%. Pursuant to an entrustment agreement previously entered, CMPH was entitled to exercise the voting rights attributable to the 32.52% interest in CMPG held by Nanshan. CMPG was accounted for as a non-wholly owned subsidiary of CMPH up to the date of disposal as below.

In June 2018, CMPH had disposed of its 33.58% interest in CMPG to another wholly-owned subsidiary of the Company at a cash consideration of approximately RMB4,422 million. Nanshan also disposed of its 32.52% interest in CMPG to another wholly-owned subsidiary of the Company at a cash consideration of approximately RMB5,081 million.

Accordingly, CMPG ceased to be a subsidiary of CMPH while it remained as a subsidiary of the Company.

Notes: - continued

(iv) - continued

(b) Acquisition of interest in CMPH by CMPG in December 2018

In December 2018, CMPG issued approximately 1.1 billion shares to CMID in exchange for CMID's 39.45% interest in CMPH at a total cash consideration of HK$24,650 million (equivalent to RMB21,598 million). Pursuant to an entrustment agreement entered into at the same time, CMPG is entitled to exercise the voting rights attributable to the 22.64% interest in CMPH held by CMU and CMPH becomes a non-wholly owned subsidiary of CMPG since then.

(v) During the year ended December 31, 2018, 2.59% equity interest in CMS has been acquired from CMSN at nil consideration.

(vi) During the year ended December 31, 2019, the Group's major changes in interest in subsidiaries without lost of control are as follows:

During the year ended December 31, 2019, CMS has repurchased its A Shares by means of centralised bidding transactions for the use of employee stock ownership scheme at a total consideration of RMB663,956,000. The aggregate number of A Shares repurchased by CMS during the year was 40,020,780, representing 0.5974% of CMS issued share capital. The repurchase transaction has resulted in the decrease of retained profits attributable to owners of the Company and non-controlling interest amounting to RMB31,392,000 and RMB632,562,000 respectively.

During the year ended December 31, 2019, CMPG issued 128,952,746 shares, representing 6.71% of the enlarged CMPG's issued share capital at a total consideration of RMB2,212,829,000. The transaction has diluted the Group's shareholding to 81.92% and resulted in the decrease of retained profits attributable to owners of the Company and the increase in non-controlling interest amounting to RMB620,158,000 and RMB2,228,118,000 respectively.

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	2019 RMB'000	2018 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	29,070,549	16,524,307
Adjustments for:		
Depreciation and amortisation	5,701,592	2,825,184
Net interest expenses	4,865,210	3,487,530
Dividend and interest income from investments	(5,423,834)	(3,999,782)
Net (gain) loss on disposal of:		
- property, plant and equipment	53,828	17,076
- associates	-	(1,956,653)
- joint ventures	(3,921)	-
- debt instruments at amortised cost	25,306	-
- debt instruments at FVTOCI	(186,727)	22,463
- subsidiaries	(272,587)	6,004
Net gain on remeasurement of previously held interests upon acquisition of a subsidiary	(532,335)	-
Share of results of:		
- associates	(17,404,309)	(15,831,416)
- joint ventures	(1,215,157)	(1,022,154)
Fair value changes of:		
- financial assets and liabilities at FVTPL	(4,703,575)	1,907,978
- derivative financial instruments	432,631	(38,426)
Net impairment loss recognised (reversed) in respect of:		
- trade, bills and other receivables	286,518	243,968
- contract assets	196,371	3,197,471
- intangible assets	3,556	2,296
- debt instruments at FVTOCI	4,120	3,198
- debt instruments at amortised cost	(542)	7,096
- financial assets held under resale agreements	128,427	60,270
- finance lease receivables	187,707	49,853
- loans and advances to customers of securities dealing business	(50,440)	59,038
- other non-current assets	1,587,708	-
- goodwill	2,911,158	-
- allowances for inventories	140,181	795,443
Operating cash flows before movements in working capital	15,801,435	6,360,744

	2019 RMB'000	2018 RMB'000
Increase in financial assets at FVTPL	(39,693,508)	(35,698,194)
Increase in trade, bills and other receivables	(3,339,128)	(4,329,929)
Increase in finance lease receivables and related deposits	(7,793,043)	(2,789,395)
Increase (decrease) in accounts payable to brokerage clients of securities dealing business	12,812,472	(2,183,587)
Decrease (increase) in contract assets	1,164,116	(2,127,615)
Increase in other non-current assets	(761,413)	(837,366)
Increase in derivative financial instruments	(171,715)	(363,395)
Increase in inventories	(3,524,087)	(438,535)
Increase in deposits for securities dealing business	(3,349,470)	(206,942)
Decrease in contract liabilities	(286,986)	(55,870)
Increase in restricted bank deposits for insurance business	(28,871)	(25,043)
(Increase) decrease in loans and advances to customers of securities dealing business	(12,197,749)	16,199,958
(Increase) decrease in financial assets held under resale agreements entered into by subsidiaries engaged in securities dealing business	(2,357,800)	3,834,002
(Increase) decrease in bank balances held on behalf of customers	(12,895,839)	2,381,578
Increase in financial liabilities at FVTPL	399,062	4,437,423
(Decrease) increase in trade, bills and other payables	(7,516,555)	5,460,380
Increase in financial assets sold under repurchase agreements entered into by subsidiaries engaged in securities dealing business	38,659,561	28,514,046
Decrease in placements from banks and other financial institutions	3,494,199	2,049,000
Decrease in restricted deposits placed with securities brokers	62,002	680,317
Decrease in clearing settlement funds held with clearing house for clients	1,757,796	143,640
Net cash (used in) from operations	(19,765,521)	21,005,217
Taxation paid	(2,946,491)	(1,696,681)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(22,712,012)	19,308,536

	NOTES	2019 RMB'000	2018 RMB'000
INVESTING ACTIVITIES			
Acquisition of debt instruments at FVTOCI		(41,527,444)	(50,780,481)
Deposit paid for acquisition of Liaoning Port as defined in note 25(i)		-	(20,000,000)
Investments in associates and joint ventures		(10,736,719)	(5,453,579)
Acquisition of subsidiaries (net of bank deposits, bank balances and cash acquired)	49	6,734,372	(4,571,949)
Consideration paid for acquisition of a subsidiary		-	(4,473,273)
Acquisition of property, plant and equipment		(20,418,466)	(2,923,436)
Acquisition of debt instruments at amortised cost		(6,649,759)	(2,913,756)
Placement of other restricted bank deposits		(1,022,621)	(1,022,072)
Placement of time deposits		(654,298)	(1,015,649)
Advances to joint ventures, net		(1,126,109)	(782,946)
(Advance to) repayment from associates, net		(1,478,131)	437,170
Acquisition of land use rights		(169,207)	(685,149)
Acquisition of equity instruments at FVTOCI		(647,783)	(555,250)
Placement of structured bank deposits		(2,625,327)	(106,646)
Acquisition of investment properties		(101,737)	(36,008)
Acquisition of intangible assets		(5,270)	(23,156)
Acquisition of assets through acquisition of a subsidiary (net of bank deposits, bank balances and cash acquired)	48	-	(8,555)
Proceeds from disposal of debt instruments at FVTOCI		35,929,007	29,038,268
Dividends received from associates		6,065,788	5,044,318
Repayments from ultimate holding company, fellow subsidiaries and other related parties, net		451,166	3,490,996
Dividends received from financial assets at FVTPL		4,481,543	3,342,939
Proceeds from disposal of associates and joint ventures		6,954	3,081,971
Interest received		9,031,975	2,384,823
Dividends received from joint ventures		1,784,678	968,232
Dividends received from equity instruments at FVTOCI		503,566	610,189
Proceeds from disposal of property, plant and equipment		197,631	233,889
NET CASH USED IN INVESTING ACTIVITIES		(21,976,191)	(46,719,110)

	NOTE	2019 RMB'000	2018 RMB'000
FINANCING ACTIVITIES			
Borrowings raised		122,718,195	189,434,547
(Repayment to) advances from ultimate holding company, immediate holding company and fellow subsidiaries, net		(7,931,997)	14,041,080
Proceeds from issuance of shares		-	10,000,000
Proceeds from issuance of other perpetual bonds		2,159,937	-
Repurchase of share		(663,956)	-
Capital contributed by non-controlling interests of subsidiaries		22,132,308	2,419,175
Issue of shares by a subsidiary		2,212,829	-
(Repayment to) advances from associates, net		(256,306)	172,521
Advances from non-controlling shareholders of subsidiaries, net		16,435	18,759
Repayments of borrowings		(66,492,235)	(179,165,566)
Interest paid		(2,979,777)	(3,553,843)
Consideration paid in respect of changes in interests in subsidiaries without lost of control		-	(4,164,752)
Dividends paid to non-controlling interests of subsidiaries		(3,225,267)	(3,557,896)
Advance from (repayment to) joint ventures, net		7,535	(51,821)
Distribution to PCS holders		(67,744)	(66,793)
Distributions to perpetual bonds holders		-	(802,090)
Repayments of lease liabilities		(523,665)	-
NET CASH FROM FINANCING ACTIVITIES		67,106,292	24,723,321
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		22,418,089	(2,687,253)
CASH AND CASH EQUIVALENTS AT JANUARY 1		27,298,235	29,316,937
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		434,411	668,551
CASH AND CASH EQUIVALENTS AT DECEMBER 31	33	50,150,735	27,298,235

1. GENERAL

The Company is a private limited company incorporated in Hong Kong. Its immediate holding company and ultimate holding company are China Merchants Steam Navigation Company, Limited ("CMSN") and China Merchants Group Limited ("CMG"), respectively, both of which are companies established in the People's Republic of China (the "PRC"). CMG is a PRC enterprise regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), which is controlled by the PRC government. The address of the registered office and principal place of business of the Company is 37/F, 39/F and 40/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and joint ventures are set out in notes 61, 62 and 63, respectively.

The functional currency of the Company is Hong Kong dollars ("HK$"). To facilitate the preparation of the consolidated financial statements of CMG, the directors of the Company have determined consolidated financial statements to be presented in Renminbi ("RMB").

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

2.1 HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after January 1, 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, January 1, 2019.

As at January 1, 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease- by-lease basis, to the extent relevant to the respective lease contracts:

i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

2.1 HKFRS 16 Leases - continued

As a lessee - continued

iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 2.69% to 5.26%.

	Note	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at December 31, 2018		3,340,790
Lease liabilities discounted at relevant incremental borrowing rates		1,736,700
Add: Lease liabilities resulting from lease modifications of existing leases	#	18,799
Extension options reasonably certain to be exercised		735,785
Less: Recognition exemption - short-term leases		(41,805)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16		2,449,479
Add: Obligations under finance leases recognised at December 31, 2018	(b)	577,077
Lease liabilities as at January 1, 2019		3,026,556
Analysed as		
Current		646,677
Non-current		2,379,879
		3,026,556

The Group renewed the leases of leasehold land and buildings, floating docks, harbour works and dockyard, furniture, equipment, plant and machinery commencing after date of initial application. They are accounted as lease modifications of the existing contracts upon application of HKFRS 16.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

2.1 HKFRS 16 Leases - continued

As a lessee - continued

The carrying amount of right-of-use assets as at January 1, 2019 comprises the following:

	Notes	RMB'000
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		2,239,331
Reclassified from land use rights	(a)	11,960,629
Reclassified from prepayments	(d)	42,560
Amounts included in property, plants and equipment as at December 31, 2018		
- Assets previously under finance leases	(b)	5,418,649
Less: Accrued lease liabilities relating to leases of properties at January 1, 2019	(c)	(8,211)
		19,652,958

(a) Upfront payments for leasehold lands in the PRC and Hong Kong for own used properties were classified as land use rights as at December 31, 2018. Upon application of HKFRS 16, land use rights amounting to RMB11,960,629,000 and RMB395,596,000 was reclassified to right-of-use assets and investment properties respectively.

(b) In relation to assets previously under finance leases, the Group recategorised the carrying amounts of the relevant assets which were still under lease as at January 1, 2019 amounting to RMB5,418,649,000 as right- of-use assets. In addition, the Group reclassified the obligations under finance leases previously under borrowings of RMB263,162,000 and RMB313,915,000 to leases liabilities as current and non-current liabilities, respectively, as at January 1, 2019.

(c) These relate to accrued lease liabilities for leases of several properties. The carrying amount of the accrued lease liabilities under trade, bills and other payables as at January 1, 2019 was adjusted to right-of-use assets at transition.

(d) The Group previously recognised prepayments relating to prepaid lease payment amounting to RMB42,560,000 were reclassified to rights-of-use assets.

(e) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied under other receivables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets. The discounting effect at transition is with insignificant impact.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

2.1 HKFRS 16 Leases - continued

As a lessee - continued

(f) Upon the initial application by applying HKFRS 16.C8(b)(i) transition, the difference of right-of-use assets and lease liabilities as at the date of initial application is adjusted in the opening retained profits with no restatement in comparative information. Any adjustments in opening retained profits have been allocated to owners of the Company and non-controlling interests as appropriate.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at December 31, 2018 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at January 1, 2019 RMB'000
Non-current Assets				
Property, plant and equipment	(b)	41,315,955	(5,284,279)	36,031,676
Right-of-use assets		-	19,652,958	19,652,958
Land use rights	(a)	12,356,225	(12,356,225)	-
Investment properties	(a)	6,295,335	395,596	6,690,931
Current Assets				
Trade, bills and other receivables	(d)	13,134,227	(42,560)	13,091,667
Capital and Reserves				
Reserves	(f)	113,008,500	58,029	113,066,529
Non-controlling interests	(f)	109,264,033	(117,532)	109,146,501
Current Liabilities				
Trade, bills and other payables	(c)	71,496,523	(24,486)	71,472,037
Borrowings - due within one year	(b)	92,782,065	(263,162)	92,518,903
Lease liabilities		-	646,677	646,677
Non-current liabilities				
Borrowings - due after one year	(b)	117,010,581	(313,915)	116,696,666
Lease liabilities		-	2,379,879	2,379,879

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended December 31, 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at January 1, 2019 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs that are mandatorily effective for the current year - continued

2.1 HKFRS 16 Leases - continued

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application.

(a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at January 1, 2019. The application has had no impact on the Group's consolidated statement of financial position at January 1, 2019. However, effective January 1, 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right- of-use assets and were adjusted to reflect the discounting effect at transition. As at January 1, 2019, the respective discounting effect is insignificant.

(c) Effective on January 1, 2019, the Group has applied HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year/impact to specify.

New and Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs in issue but not yet effective - continued

[1] Effective for annual periods beginning on or after January 1, 2021.
[2] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after January 1, 2020.

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after January 1, 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 17 *Insurance Contracts*

HKFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4 *Insurance Contracts*.

HKFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model will use current assumptions to estimate the amount, timing and uncertainty of future cash flows and it will explicitly measure the cost of that uncertainty, it takes into account market interest rates and the impact of policyholders' options and guarantees.

The implementation of HKFRS 17 is likely to bring significant changes to an entity's processes and systems, and will require much greater co-ordination between many functions of the business, including finance, actuarial and information technology.

The standard is effective for annual reporting periods beginning on or after January 1, 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. The International Accounting Standards Board ("IASB") proposed a one year deferral of the effective date for IFRS 17 and extend the temporary exemption for insurers to apply IFRS 9 *Financial Instruments*. The relevant amendments have not been finalised yet. Finalisation of the relevant amendments by the IASB is expected to have similar deferral on HKFRS 17 (the equivalent of IFRS 17).

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs in issue but not yet effective - continued

HKFRS 17 *Insurance Contracts* - continued

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the standard, and the transition date is the beginning of the period immediately preceding the date of initial application. The directors of the Company do not anticipate that the application of the standard in the future will have an impact on the Group's consolidated financial statements.

The directors of the Company anticipates that the new standard will result in an important change to the accounting policies for insurance contracts and is likely to have a material impact on the Group's profit and finance position, together with significant changes in presentation and disclosure. The Group has initiated the journey to adopt the new standard and it would be premature to disclose the impact of the new requirements at this stage when the assessment is still in progress.

Amendments to HKFRS 3 *Definition of a Business*

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs in issue but not yet effective - continued

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

Conceptual Framework for Financial Reporting 2018 (the "New Framework") and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after January 1, 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since January 1, 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Structured entities

The Group served as the manager of collective asset management schemes, funds and partnership. These collective asset management schemes, funds and partnership invest mainly in equities, debt securities, cash and cash equivalents and securities-backed lending under resales agreement. The Group's proportion ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such collective asset management schemes, funds and partnership, with control determined based on an analysis of the guidance in HKFRS 10 *Consolidated Financial Statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes, funds and partnership for cash. These are presented as "financial liabilities at FVTPL" in the consolidated statement of financial position.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.
- lease liabilities are recognised and measured at the present value of the remaining lease payments (as defined in HKFRS 16) as if the acquired leases were new leases at the acquisition date, except for leases for which (a) the lease term ends within 12 months of the acquisition date; or (b) the underlying asset is of low value. Right-of-use assets are recognised and measured at the same amount as the relevant lease liabilities, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Merger accounting for business combination involving businesses under common control

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

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU(s)") (or groups of CGUs) that is expected to benefit from the synergies of the combinations which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the cash-generating unit (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates and joint ventures - continued

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. For associates and joint ventures that use accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any assets, including goodwill, forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates and joint ventures - continued

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Non-current assets held for sale - continued

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of HKFRS 9, which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers - continued

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers - continued

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) - continued

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of machinery and equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight- line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of- use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets that do not meet the definition of investment property or inventory as a separate line item on the consolidated statement of financial position. Right-of-use assets that meet the definition of investment property and inventory are presented within "investment properties" and "properties for development".

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) - continued

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Group as a lessee (prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Group as a lessor - continued

Classification and measurement of leases - continued

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model. Upon application of HKFRS 16 on January 1, 2019, variable lease payments for operating leases that depend on an index or a rate are estimated and included in the total lease payments to be recognised on a straight-line basis over the lease term. Variable lease payments that do not depend on an index or a rate are recognised as income when they arise.

Interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies - continued

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Effective January 1, 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs and termination benefits

Payments to defined contribution retirement benefits plans, such as the Mandatory Provident Fund Scheme in Hong Kong, state-managed retirement benefits schemes in the PRC and other employee retirement benefits schemes of the respective governments in various jurisdictions where the Group operates, are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment or curtailment and a gain or loss on settlement is recognised when settlement occurs. When determining past service cost, or a gain or loss on settlement, an entity shall remeasure the net defined benefit liability or asset using the current fair value of plan assets and current actuarial assumptions, reflecting the benefits offered under the plan and the plan assets before and after the plan amendment, curtailment or settlement, without considering the effect of asset ceiling (i.e. the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Retirement benefits costs and termination benefits - continued

Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. However, if the Group remeasures the net defined benefit liability or asset before plan amendment, curtailment or settlement, the Group determines net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement using the benefits offered under the plan and the plan assets after the plan amendment, curtailment or settlement and the discount rate used to remeasure such net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period resulting from contributions or benefit payments.

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes to the same taxation entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes (other than freehold lands and properties under construction). Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

Buildings and leasehold land (classified as finance leases) in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which includes both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "right-of-use assets" (upon application of HKFRS 16) or "prepaid lease payments/(other to specify)" (before application of HKFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

Ownership interests in leasehold land and building - continued

Depreciation is recognised to write off the cost of assets (other than freehold land and construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the carrying amount of that item at the date of transfer is recognised as the cost of investment property.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Effective January 1, 2019, investment properties also include leased properties which are being recognised as right-of-use assets upon application of HKFRS 16 and subleased by the Group under operating leases.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

If an item of investment property becomes a property, plant and equipment because its use has changed as evidenced by commencement of owner-occupation, the carrying amount of that item at the date of transfer is recognised as the cost of property, plant and equipment.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Effective January 1, 2019, a leased property which is recognised as a right-of-use asset upon application of HKFRS 16 is derecognised if the Group as intermediate lessor classifies the sublease as a finance lease. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives (other than port operating rights) is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Port operating rights

Port operating right primarily resulting from the entering of agreement for the right to construct, operate, manage and develop container terminals is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using an economic usage basis which is based on the ratio of minimum guaranteed output volume compared to the total minimum guaranteed output volume over the periods in which the Group is granted the operating rights on the relevant container terminals. When the pattern of consumption of future economic benefits of the asset cannot be determined reliably, the straight-line method over the period in which the Group operates the relevant terminals is used. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being account for on a prospective basis.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset belongs.

In addition, corporates assets are allocated to individual CGUs when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the CGU or group of CGUs to which the corporate asset belongs, and is compared with the carrying amount of the relevant CGU or group of CGUs.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that CGU.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a CGU, the Group compares the carrying amount of a group of CGUs, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of CGUs, with the recoverable amount of the group of CGUs. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of CGUs. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of CGUs. An impairment loss is recognised immediately in profit or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on property, plant and equipment, right-of-use assets, and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) - continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU or a group of CGUs) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU or a group of CGUs) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Properties under development/properties for sale

Properties under development which are intended to be sold upon completion of development and properties for sale are classified as current assets. Except for the leasehold land element which is measured at cost model in accordance with the accounting policies of right-of-use assets upon the application of HKFRS 16, properties under development/properties for sale are carried at the lower of cost and net realisable value. Cost is determined on a specific identification basis including allocation of the related development expenditure incurred and where appropriate, borrowing costs capitalised. Net realisable value represents the estimated selling price for the properties less estimated cost to completion and costs necessary to make the sales.

Properties under development for sale are transferred to properties for sale upon completion.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since January 1, 2019. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application of HKFRS 9/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debts instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets - continued

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "net income and gains from other investments" in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net income and gains from other investments".

Impairment of financial assets

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (mainly including debt instruments at FVTOCI, debt instruments at amortised cost, financial assets held under resale agreements, finance leases receivables, dividend receivables, trade, bills and other receivables, contract assets, loans and advances to customers of securities dealing business, those under other current assets, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, balances and cash and those under other non-current assets) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

The Group always recognises lifetime ECL for trade receivables and finance lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. The expected credit losses on trade receivables are estimated using a provision matrix based on shared characteristics including historical credit loss experience, industry specific factors to the debtors, general economic conditions and the available and supportive forward-looking information, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(i) Significant increase in credit risk - continued

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, except as specified below, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit- impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since January 1, 2019) or HKAS 17 (prior to January 1, 2019).

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and finance lease receivables are each assessed on an individual basis and/or collectively as separate groups. Other finance assets are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets - continued

(v) Measurement and recognition of ECL - continued

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire , or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Perpetual bonds issued by the Group, representing PCS, PSB and other perpetual bond included in the non-controlling interests in consolidated statement of changes in equity, are recognised as equity instruments. Such perpetual bonds are with no contractual obligation to repay the bonds by cash or other financial instruments and the redemption of such perpetual bonds, if any, are at the sole discretion of the Group.

Financial liabilities
All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity - continued

Financial liabilities at FVTPL - continued

For financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. For financial liabilities that contain embedded derivatives, such as derivative financial instruments and structured bank deposits, the changes in fair value of the embedded derivatives are excluded in determining the amount to be presented in other comprehensive income. Changes in fair value attributable to a financial liability's credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

Financial liabilities at amortised cost

Financial liabilities (mainly including amounts due to related parties, trade, bills and other payables, accounts payable to brokerage clients of securities dealing business, placements from banks and other financial institutions, financial assets sold under repurchase agreements, bank borrowings, debentures and notes) are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Derivative financial instruments - continued

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

Insurance contracts

Classification

The Group issues contracts that transfer insurance risk. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party for the occurrence of a specified uncertain future event, is classified as an insurance contract.

Recognition and measurement

The insurance contracts issued by the Group are general insurance contracts. For these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of insurance coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of reporting period is reported as unearned premiums.

Insurance debts are recognised when the risk is accepted and measured upon initial recognition at the fair value of the consideration. Subsequent to initial recognition, insurance debtors are measured at amortised cost, using the effective interest rate method, less any identified impairment losses, as financial assets stated at amortised cost. The carrying value of insurance debts is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The accounting policy on impairment of insurance debts is similar to that on impairment of financial assets. The carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an insurance debt is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Insurance contracts - continued

Recognition and measurement - continued

Claims losses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damages by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of reporting period even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated on individual cases reported to the Group and management's analyses for the claims incurred but not reported.

Commission expenses are recognised as expenses when incurred.

Liability adequacy test

At the end of the reporting period, the Group assesses its recognised insurance liabilities to determine whether they are adequate, using current estimates of future cash flows under its insurance contracts. If the assessment shows that the carrying amounts of its insurance liabilities are inadequate in light of the estimated future cash flows, the entire deficiency is charged in profit or loss immediately.

Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts assumed by the Group and those that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under the reinsurance contracts held are recognised as reinsurance assets. The claims recoverable are recognised on the expected claims and benefits arising under related reinsurance contracts.

The Group assesses its reinsurance assets for impairment at the end of the reporting period. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over entities accounted for as subsidiaries

Certain entities are considered to be subsidiaries of the Company despite the interests therein are not more than 50% of the issued share capital of the relevant entities. The directors of the Company assess whether or not the Group has control over these entities based on the assessment of whether the Group has the practical ability to direct the relevant activities of these entities unilaterally. In making the judgement, the directors of the Company consider factors such as the Group's contractual power pursuant to the relevant shareholders' agreements between the Group and other investors and composition of the board of directors of these entities. The directors of the Company determine that the Group has sufficiently dominant voting interest to direct the relevant activities of these entities and therefore the Group has control over these entities. Particulars of the Group's principal subsidiaries at December 31, 2019 are set out in note 61.

The Group also serves as the manager and investor of certain collective asset management schemes, investment funds and limited partnerships. The directors of the Company consider the combination of investments the Group holds together with its remuneration and credit enhancement where the Group is exposed to variability of returns from the activities of these assets management schemes, investment funds and limited partnerships that is of such significance that it indicates that the Group is a principal, these asset management schemes, investment funds and limited partnerships are accounted for as subsidiaries of the Company and are consolidated.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU (or group of CGUs) to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at December 31, 2019, the carrying amount of goodwill is approximately RMB9,444 million (2018: RMB7,948 million) (net of accumulated impairment loss of approximately RMB2,950 million (2018: RMB38 million)). Details of the recoverable amount calculation for goodwill are disclosed in note 15.

Recognition of deferred taxation

As at December 31, 2019, the Group provided for deferred tax liabilities of approximately RMB2,265 million (2018: RMB1,634 million) in relation to the earnings expected to be distributed from the subsidiaries, associates and joint ventures. Deferred tax liabilities have not been provided on the distributable earnings of certain subsidiaries as the Group plans to retain the profits of the respective entities for their daily operations and future developments. In case where the actual distribution of earnings is larger than expected, a material tax liability may arise, which will be recognised in profit or loss in the period in which such profits are declared as dividends.

As at December 31, 2019, the Group recognised deferred tax assets of approximately RMB224 million (2018: RMB124 million) in respect of unused tax losses of approximately RMB20,795 million (2018: RMB4,152 million). No deferred tax assets have been recognised in respect of the unused tax losses of approximately RMB20,571 million (2018: RMB4,028 million) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are different from those currently expected, a material recognition of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a recognition takes place.

Classification of financial assets

The classification and measurement of financial assets depend on contractual cash flow test and business model test. The Group will consider all the relevant evidence in the business model test, including the way the performance of financial assets are evaluated and reported to the key management, the risk affected the performance of financial asset and how the risk are managed, as well as how the management are paid. The group also needs to judge whether the contractual cash flow generated by financial assets is only the payment of the principal and interest based on the principal outstanding.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Key sources of estimation uncertainty - continued

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (mainly including debt instruments at FVTOCI, debt instruments at amortised cost, financial assets held under resale agreements, finance leases receivables, dividend receivables, trade, bills and other receivables, contract assets, loans and advances to customers of securities dealing business, those under other current assets, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, bank balances and cash and those under other non-current assets).

Assessment are done based on the Group's historical credit loss experience, general conditions, internal credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The provision of ECL is sensitive to changes in estimates.

Estimated impairment of associates

As at December 31, 2019, in view of impairment indicators, the Group performed impairment assessment on associates. Determining whether impairment loss should be recognised requires an estimation of the recoverable amount of the relevant associates which is the higher of value in use and fair value less costs of disposal. The value in use calculation requires the management of the Group to estimate the present value of the estimated cash flows expected to arise from dividends to be received from the associates and the proceeds from the ultimate disposal of the investment taking into account. In cases where the actual cash flows are less or more than expected, or change in facts and circumstances which result in revision of future cash flows estimation, a material reversal or further recognition of impairment may arise, which would be recognised in profit or loss for the period in which such a reversal or further recognition takes place.

As at December 31, 2019, the carrying amount of the associates amounted to RMB184,333,168,000 (2018: RMB160,508,075,000), after taking into account accumulated impairment of RMB1,673,474,000 (2018: RMB1,325,657,000).

Fair value measurements and valuation processes upon the financial instruments

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the directors of the Company use their judgement in selecting an appropriate valuation technique for the financial instruments. Valuation techniques commonly used by the market practitioners are applied. Details are set out in note 51(c) for the fair value measurements for financial instruments, respectively.

5. REVENUE

(i) Disaggregation of revenue

	Total	
	2019	2018
	RMB'000	RMB'000
Types of goods or services		
Port and related operations		
Terminal handling charge	15,582,870	8,938,611
Shipping and related operations		
Construction of vessels and platforms	3,438,169	3,304,902
Maintenance services of vessels and platforms	1,411,625	1,281,875
Other shipping related services	619,669	493,796
	5,469,463	5,080,573
Logistic and related operations		
Trading of goods	7,355,650	9,161,455
Warehousing services income	402,332	353,648
	7,757,982	9,515,103
Financial services business		
Commission and brokerage income from securities dealing business	11,087,623	6,975,413
Regular management fees and performance fees from asset management services	855,508	760,680
Other financial services	116,558	356,190
	12,059,689	8,092,283
Property related business		
Property management services	40,356	-
Sales of properties	3,399	-
	43,755	-
Revenue from goods and services	40,913,759	31,626,570
Timing of revenue recognition of revenue from goods and services under HKFRS 15		
A point in time	7,359,049	9,161,455
Overtime	33,554,710	22,465,115
	40,913,759	31,626,570

5. REVENUE - continued

(ii) Performance obligations for contracts with customers

Terminal handling charge

The Group provides terminal handling services and other port related services. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue is recognised for these services based on the contract prices, net of discounts, if any. Refund liabilities are recognised at the end of each reporting period for expected discounts payable to customers in relation to sales.

Construction of vessels and platforms

The Group provides vessels and platforms construction services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue from these construction services is recognised based on the contract prices and the stage of completion of the contract.

Provision of shipping related service

The Group provides vessels and platforms maintenance and other services to customers. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from these services is recognised based on the contract prices and the stage of completion of the contract.

Trading of goods

Revenue from trading of goods is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer has full discretion over the manner of usage and consumption the goods, has the primary responsibility when on selling the goods and bears the risk of obsolescence and loss in relation to the goods.

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur.

5. REVENUE - continued

(ii) Performance obligations for contracts with customers - continued

Warehousing services

The Group provides warehousing services. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from these services is recognised based on the contract prices.

Financial services

The Group provides security dealing and brokerage, asset management services and other financial services to customers.

Commission income from securities brokerage business is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from securities brokerage business is recognised when the related services are rendered.

Regular management fees from asset management business is recognised periodically based on a predetermined fixed percentage of the asset value under the asset management agreement. Performance fees from asset management business is recognised when the performance fee is determinable based on actual performance measurement, as and when contingent criteria associated are met.

Revenue from other financial services is recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from these services is recognised based on the contract prices and the stage of completion of the contract.

Property related business

Revenue from property management services is recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from these services is recognised based on the contract prices and the stage of completion of the contract.

Revenue from sales of properties is recognised at a point in time when the completed property is transferred to customers, being at the point that the customer obtains the control of the completed property and the Group has present right to payment and collection of the consideration is probable.

5. REVENUE - continued

(iii) Leases

	Year ended 31.12.2019 RMB'000
For operating leases:	
Fixed lease payments	86,544
For finance leases:	
Finance income on the net investment in the lease	2,093,043
Total revenue arising from leases	2,179,587

6. FINANCE COSTS, NET

	2019 RMB'000	2018 RMB'000
Interest income	561,589	447,377
Interest expense on:		
- bank and other borrowings	(2,901,653)	(1,929,159)
- leases liabilities	(171,444)	-
- obligation under finance leases	-	(3,579)
- debentures	(2,089,071)	(1,324,542)
- amount due to related parties	(264,631)	(899,943)
	(5,426,799)	(4,157,223)
Less: Interest capitalised in the cost of qualifying assets	258,409	222,316
	(5,168,390)	(3,934,907)
Net interest expenses charged to profit or loss	(4,606,801)	(3,487,530)
Bank charges incurred	(239,760)	(139,126)
Net exchange losses	77,020	(512,492)
Finance costs, net	(4,769,541)	(4,139,148)

Save for the amount of finance costs disclosed above, an aggregate amount of interest expense of RMB7,936,786,000 (2018: RMB7,100,582,000) arising from the securities dealing business is also recognised in profit or loss in the period in which they are incurred and is included in direct costs.

Apart from the interest expense incurred on borrowings specifically for the purposes of obtaining qualifying assets, those incurred from the general borrowing pool used for the purpose of obtaining qualifying assets are also capitalised in the consolidated statement of financial position. Capitalisation rate of 4.12% (2018: 3.73%) per annum was applied, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

7. NET INCOME, GAINS AND LOSSES FROM OTHER INVESTMENTS

	2019 RMB'000	2018 RMB'000
Dividend and interest income from:		
- financial assets at FVTPL	4,885,981	3,384,640
- equity instruments at FVTOCI relating to investments held at the end of the reporting period	516,004	615,142
- debt instruments at FVTOCI	21,849	-
Fair value changes of:		
- financial assets and liabilities at FVTPL	4,703,575	(1,907,978)
- derivative financial instruments	(432,631)	38,246
Net gain (loss) on disposal of debt instruments at FVTOCI	186,727	(22,463)
Loss on disposal of a debt instrument at amortised cost	(25,306)	-
Gain on disposal of an associate	-	1,956,653
Gain on disposal of a joint venture	3,921	-
Gain (loss) on deregistration/disposal of subsidiaries	272,587	(6,004)
Net gain on remeasurement of previously held interests upon acquisition of a subsidiary (note 49)	532,335	-
Others	(15,282)	-
	10,649,760	4,058,236

8. OTHER GAINS AND LOSSES AND IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

(a) Other gains and losses, net

	2019 RMB'000	2018 RMB'000
Allowances for inventories	(140,181)	(795,443)
Impairment loss:		
- goodwill	(2,911,158)	-
- intangible assets	(3,556)	(2,296)
Net loss on disposal of property, plant and equipment	(53,828)	(17,076)
Gain on resumption of land parcels at QHSH (Note i)	4,193,314	-
Gain on resumption of land parcels at SLRC (Note ii)	606,960	-
Government subsidies	1,071,977	247,981
Indemnification form related parties (note 28(v))	488,493	-
Others	(109,384)	(118,912)
	3,142,637	(685,746)

8. OTHER GAINS AND LOSSES, NET/IMPAIRMENT LOSS UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL - continued

(b) Impairment loss, net of reversal

	2019 RMB'000	2018 RMB'000
Net impairment loss under ECL model recognised in respect of:		
- trade, bills and other receivables	(286,518)	(243,968)
- contract assets	(196,371)	(3,197,471)
- debt instruments at amortised cost	542	(7,096)
- debt instruments at FVTOCI	(4,120)	(3,198)
- financial assets held under resale agreements	(128,427)	(60,270)
- loans and advances to customers of securities dealing business	50,440	(59,038)
- finance lease receivables	(187,707)	(49,853)
- other non-current assets (note 25(v))	(1,587,708)	-
	(2,339,869)	(3,620,894)

Notes:

(i) During the year ended December 31, 2019, certain land parcels held by the Group and certain members (as set out in note 60(f)) of CMG and its subsidiaries at Qianhai, Shenzhen, the PRC were resumed by Shenzhen Qianhai Shenzhen-Hong Kong Modern Services Commission ("QHSH"), an authority established by the government of the PRC. The government compensation for the resumption of the land parcels at Qianhai held by the Group (excluding a piece of land at Dachan Bay Port Phase II, Shenzhen, the PRC, to be received by the Group as part of the compensation (note 25)) is cash of RMB5,693 million, resulting in a gain on the compensation of resumption of RMB4,193 million. Further details are set out in note 60(f).

(ii) Certain property, plant and equipment and land use rights located at Shantou, Guangdong Province, the PRC recognised as non-current assets held for sale as at December 31, 2018 were resumed by Shantou Land Reserve Center ("SLRC"), an authority established by the government of the PRC. The compensation for the resumption of the related assets at Shantou held by the Group is RMB205 million, resulting in a gain on the resumption of RMB607 million.

During the year ended December 31, 2019, certain land use rights classified under right-of-use assets and property, plant and equipment at Shantou, Guangdong Province, the PRC of a non-wholly-owned subsidiary of the Company were resumed by Shantou Land Reserve Center. The compensation for resumption of the related assets at Shantou held by the Group is RMB771 million resulting in a gain on the resumption of RMB538 million. Included in the compensation of RMB771 million, an amount of RMB521 million has not yet received as at December 31, 2019 and is included in other receivables to the consolidated financial statements.

The remaining land use rights classified under right-of-use assets and property, plant and equipment at Shantou, Guangdong Province as requested to be resumed by SLRC but not yet delivered by the Group are reclassified to non-current assets held for sale as at December 31, 2019 as set out in note 34.

9. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
The charge comprises:		
Current tax		
- Hong Kong Profits Tax (Note i)	707,675	887,949
- PRC Enterprise Income Tax ("EIT") (Note ii)	3,529,524	1,251,813
- other jurisdictions (Note iii)	69,351	67,783
	4,306,550	2,207,545
Overprovision in prior years		
- Hong Kong Profits Tax	(408)	(3,214)
- PRC EIT	(24,332)	(8,947)
	(24,740)	(12,161)
Deferred tax charge	1,045,428	381,772
	5,327,238	2,577,156

Notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2018 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

9. INCOME TAX EXPENSE - continued

Notes: - continued

(ii) The PRC

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Certain of the Group's subsidiaries are exempted from PRC EIT in the first five profit-making years and followed by a 50% reduction for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or January 1, 2008.

Certain of the Group's subsidiaries enjoy the preferential rate of 15% upon the fulfilment of the criteria of the relevant tax regulations.

Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors. For some PRC entities held by companies incorporated in certain places, including Hong Kong and Singapore, a preferential tax rate of 5% is applied according to the PRC tax regulations if such companies are the beneficial owners of over 25% of these PRC entities. Deferred tax liabilities are provided based on the undistributed earnings of certain subsidiaries, associates and joint ventures of the Group earned after January 1, 2008. For the remaining undistributed earnings, no deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

(iii) Other jurisdictions

Taxation arising in jurisdictions other than Hong Kong and the PRC is calculated at the rates prevailing in the respective jurisdictions.

9. INCOME TAX EXPENSE - continued

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2019 RMB'000	2018 RMB'000
Profit before taxation	29,070,549	16,524,307
Tax at the income tax rate of 25% (Note)	7,267,637	4,131,077
Tax effect of share of results of associates and joint ventures	(4,654,866)	(4,213,392)
Tax effect of expenses not deductible for tax purpose	349,464	605,404
Tax effect of income not taxable for tax purpose	(465,244)	(237,671)
(Over) underprovision in prior years	(24,740)	(12,161)
Tax effect of tax losses and deductible temporary differences not recognised	2,560,338	2,407,588
Tax effect of utilisation of tax losses and deductible temporary differences previously not recognised	(65,962)	(173,602)
Deferred tax on undistributed earnings of subsidiaries, associates and joint ventures	1,500,474	873,546
Effect of tax exemptions or concessionary tax rates granted to certain PRC subsidiaries	(440,630)	(524,469)
Effect of different tax rates applicable to subsidiaries operating in other jurisdictions	(427,440)	(380,905)
Others	(271,793)	101,741
Tax charge for the year	5,327,238	2,577,156

Note: The income tax rate used represents the applicable tax rate for PRC EIT.

10. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging:		
Depreciation and amortisation of:		
- investment properties	258,988	198,130
- property, plant and equipment	3,963,037	2,085,666
- right-of-use assets	1,238,047	-
- intangible assets	241,520	220,750
	5,701,592	2,504,546
Release of land use rights	-	320,638
Directors' remuneration		
- fee	-	-
- other emoluments	23,355	16,870
Employee benefits expenses (including directors' remuneration)	13,712,700	8,826,095
Research and development expenses	824,176	682,103
Auditors' remuneration (including fees for non-audit services)	28,653	22,224

11. INVESTMENT PROPERTIES

The Group leases out certain land and buildings and plant and equipment under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 month to 50 years. Majority of the lease contracts contain market review clauses in the event the lessee exercises the option to extend.

The Group is not exposed to foreign currency risk as a result of the lease arrangements, as all leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain residual value guarantee and/or lessee's option to purchase the property at the end of lease term.

	RMB'000
COST	
At January 1, 2018	6,747,393
Additions	36,008
Transfer from property, plant and equipment	1,793
Acquisition of assets through acquisition of a subsidiary (note 48)	11,366
Exchange adjustments	2,291
At December 31, 2018	6,798,851
Adjustments upon application of HKFRS 16	457,851
At January 1, 2019	7,256,702
Additions	94,783
Transfer from property, plant and equipment	15,445
Acquisition of assets through acquisition of a subsidiary (note 48)	1,383,846
Exchange adjustments	20,645
At December 31, 2019	8,771,421
DEPRECIATION	
At January 1, 2018, as restated	302,277
Provided for the year	198,130
Transfer from property, plant and equipment	1,253
Exchange adjustments	1,856
At December 31, 2018	503,516
Adjustments upon application of HKFRS 16	62,255
At January 1, 2019	565,771
Provided for the year	258,988
Transfer from property, plant and equipment	8,700
Exchange adjustments	9,723
At December 31, 2019	843,182
CARRYING VALUES	
At December 31, 2019	7,928,239
At December 31, 2018	6,295,335

The above investment properties are depreciated on a straight-line basis over 10 years to 50 years, or over the lease terms of the relevant land, if shorter.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Freehold land RMB'000	Floating docks, harbour works and dockyard RMB'000	Furniture, equipment, plant and machinery RMB'000	Vessels, ships and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At January 1, 2018	4,389,820	91,143	24,240,322	12,674,896	5,180,259	3,537,643	50,114,083
Additions	11,171	-	40,666	439,325	302,917	2,171,295	2,965,374
Arising from acquisition of subsidiaries (note 49)	6,228	-	1,086,055	538,040	5,080	357,603	1,993,006
Reclassifications	984,868	-	(1,313,775)	416,764	148,125	(235,982)	-
Transfer from inventories	-	-	-	-	1,819,639	-	1,819,639
Transfer to investment properties	(1,793)	-	-	-	-	-	(1,793)
Transfer to non-current assets held-for-sale	(48,917)	-	-	-	-	-	(48,917)
Disposals	(1,228)	-	(165,282)	(345,672)	(64,903)	-	(577,085)
Exchange adjustments	101,230	16,446	309,568	1,161	250,503	34,894	713,802
At December 31, 2018	5,441,379	107,589	24,197,554	13,724,514	7,641,620	5,865,453	56,978,109
Adjustments upon application of HKFRS 16	(133,331)	-	(5,094,351)	(262,585)	(38,350)	-	(5,528,617)
At January 1, 2019 (restated)	5,308,048	107,589	19,103,203	13,461,929	7,603,270	5,865,453	51,449,492
Additions	32,070	-	13,371,984	561,851	1,741,196	4,293,272	20,000,373
Arising from acquisition of subsidiaries (note 49)	9,717,808	-	43,638,203	9,269,522	3,934,436	35,947,108	102,507,077
Reclassifications	205,127	-	3,558,199	997,188	86,285	(4,846,799)	-
Transfer from inventories	-	-	-	-	1,862,667	-	1,862,667
Transfer from other non-current assets	-	-	-	53,461	-	-	53,461
Transfer to investment properties	(15,445)	-	-	-	-	-	(15,445)
Transfer to non-current assets held-for-sale	-	-	(65,069)	-	-	-	(65,069)
Disposals	(5,104)	-	(474,710)	(283,450)	(114,447)	-	(877,711)
Exchange adjustments	59,183	2,407	(15,214)	24,547	114,594	18,557	204,074
At December 31, 2019	15,301,687	109,996	79,116,596	24,085,048	15,228,001	41,277,591	175,118,919
DEPRECIATION AND IMPAIRMENT							
At January 1, 2018	1,566,001	-	4,665,030	6,889,756	830,801	-	13,951,588
Provided for the year	146,036	-	678,520	982,173	278,937	-	2,085,666
Eliminated on disposals	(761)	-	(95,592)	(269,842)	(48,700)	-	(414,895)
Transfer to investment properties	(1,253)	-	-	-	-	-	(1,253)
Transfer to non-current assets held-for-sale	(26,272)	-	-	-	-	-	(26,272)
Exchange adjustments	45,936	-	3,275	525	17,584	-	67,320
At December 31, 2018	1,729,687	-	5,251,233	7,602,612	1,078,622	-	15,662,154
Adjustments upon application of HKFRS 16	(6,256)	-	(79,533)	(130,448)	(28,101)	-	(244,338)
At January 1, 2019 (restated)	1,723,431	-	5,171,700	7,472,164	1,050,521	-	15,417,816
Provided for the year	404,470	-	1,479,266	1,526,156	553,145	-	3,963,037
Eliminated on disposals	(3,695)	-	(294,640)	(254,262)	(73,655)	-	(626,252)
Transfer to investment properties	(8,700)	-	-	-	-	-	(8,700)
Transfer to non-current assets held-for-sale	-	-	(22,043)	-	-	-	(22,043)
Exchange adjustments	10,583	-	5,099	12,011	11,879	-	39,572
At December 31, 2019	2,126,089	-	6,339,382	8,756,069	1,541,890	-	18,763,430
CARRYING VALUES							
At December 31, 2019	13,175,598	109,996	72,777,214	15,328,979	13,686,111	41,277,591	156,355,489
At December 31, 2018	3,711,692	107,589	18,946,321	6,121,902	6,562,998	5,865,453	41,315,955

12. PROPERTY, PLANT AND EQUIPMENT - continued

The above items of property, plant and equipment, other than freehold land and construction in progress where no depreciation is provided, are depreciated over their estimated useful lives, after taking into account their estimated residual values, on a straight-line basis under the following terms:

Land and buildings	5 years to 50 years, or over the lease terms of the relevant land, if shorter
Floating docks, harbour works and dockyard	8 to 99 years
Furniture, equipment, plant and machinery	3 to 20 years
Vessels, ships and motor vehicles	3 to 25 years

Management conducts reviews of the Group's property, plant and equipment at the end of the reporting period. Whenever there is an indication that those assets have been impaired, an impairment loss is recognised in profit and loss. No impairment loss has been recognised in respect of property, plant and equipment for both years.

The aggregate carrying amount of the Group's property, plant and equipment pledged to secure the Group's borrowings is set out in note 56.

13. RIGHT-OF-USE ASSETS

	Land and buildings RMB'000	Floating docks, harbor works and dockyard RMB'000	Vessels, ships and motor vehicles RMB'000	Furniture equipment, plant and machinery RMB'000	Others RMB'000	Total RMB'000
As at January 1, 2019						
Carrying amount	11,536,505	5,542,541	10,249	133,936	2,429,727	19,652,958
As at December 31, 2019						
Carrying amount	36,137,171	7,223,543	18,498	257,571	2,708,784	46,345,567
For the year ended December 31, 2019						
Depreciation charge	932,621	229,066	1,003	30,016	45,341	1,238,047
Expense relating to short-term leases						159,195
Total cash outflow for leases						854,304
Additions to right-of-use assets (Note)						30,657,342

Note: Amount includes right-of-use assets resulting from business combination, lease modification and exercise of extension options.

For both years, the Group leases land and buildings and plant and equipment for its operations. Lease contracts are entered into for fixed term of 6 months to 39 years. Certain leases of equipment were accounted for as finance leases during the year ended December 31, 2018 and carried interest ranged from 3.33% to 6.68%. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

13. RIGHT-OF-USE ASSETS - continued

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

Details of the lease maturity analysis of lease liabilities are set out in note 41.

14. LAND USE RIGHTS

The carrying values of the land use rights comprise:

	2018 RMB'000
Land use rights in:	
- Hong Kong	661,536
- the PRC	11,694,689
	12,356,225

The Group's land use rights are amortised over the lease terms of the relevant land.

The aggregate carrying amount of the Group's land use rights pledged to secure the Group's borrowings is set out in note 56.

As at December 31, 2018, the carrying amount of the Group's land use right amounting to RMB93 million is transferred to the Group's non-current assets held for sale as set out in note 34.

15. GOODWILL

	RMB'000
COST	
At January 1, 2018	3,892,293
Arising from acquisition of subsidiaries (note 49)	3,969,375
Exchange adjustments	124,682
At December 31, 2018	7,986,350
Arising from acquisition of subsidiaries (note 49)	5,112,204
Exchange adjustments	(704,831)
At December 31, 2019	12,393,723
IMPAIRMENT	
At January 1, 2018	39,199
Exchange adjustments	(858)
At December 31, 2018	38,341
Impairment loss recognised in the year	2,911,158
Exchange adjustments	190
At December 31, 2019	2,949,689
CARRYING VALUES	
At December 31, 2019	9,444,034
At December 31, 2018	7,948,009

15. GOODWILL - continued

For the purpose of impairment testing, goodwill has been allocated to individual CGUs that are expected to generate future economic benefits. The carrying amount of goodwill (net of accumulated impairment losses) allocated to these units are as follows:

	2019 RMB'000	2018 RMB'000
Fund management operations ("Unit A")	9,671	9,671
Port and port-related operations ("Unit B")	7,196,497	7,901,518
Trading operations under shipping and related operations of the Group ("Unit C")	16,768	16,768
Aluminium manufacturing operations under logistics and related operations of the Group ("Unit D")	20,052	20,052
Liaoning port operation ("Unit E")	1,689,274	-
Zhanjiang port operation ("Unit F")	418,345	-
AVIC ship design and building operation ("Unit G")	93,427	-
	9,444,034	7,948,009

Goodwill is allocated to the above CGUs in accordance with their respective business segments. The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts for each of the seven (2018: four) CGUs have been determined based on the higher of fair value less costs of disposal and value in use. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using weighted average growth rates which do not exceed the historical trend of the respective CGUs and the growth rates of the relevant industries. Management of the Company determines the financial budgets based on past performance and its expectations for market development, including the expected economic growth in developed and emerging economies in the short term and medium term, prospective GDP growth rates, future developments of the industries, among others.

Impairment testing for CGU Units E and G

As at December 31, 2019, the directors of the Company have determined impairment of goodwill related to Unit E and Unit G amounting to RMB1,479 million and RMB1,432 million respectively which was included in the other gains and losses line item. No other write-down of the assets is considered necessary.

No impairment losses have been recognised on other Group's CGUs as management believes that any reasonably possible change in any of the assumptions would not cause the aggregate carrying amount of any of the above CGUs to exceed the respective aggregate recoverable amounts.

During the year ended December 31, 2018, no impairment losses have been recognised on any of the Group's CGUs or groups of CGUs containing goodwill. Management believes that any reasonably possible change in any of the assumptions would not cause the aggregate carrying amount of any of the above CGUs to exceed the respective aggregate recoverable amounts.

16. INTANGIBLE ASSETS

	Trading rights RMB'000 (Note i)	Port operating rights RMB'000 (Note ii)	Brandnames RMB'000 (Note iii)	Sea areas and coastline use rights RMB'000 (Note iv)	Total RMB'000
COST					
At January 1, 2018	81,516	5,171,929	63	124,501	5,378,009
Arising from acquisition of subsidiaries (note 49)	-	4,855,494	412,532	-	5,268,026
Additions	-	20,655	8,776	-	29,431
Exchange adjustments	886	(342,566)	32,512	-	(309,168)
At December 31, 2018	82,402	9,705,512	453,883	124,501	10,366,298
Arising from acquisition of subsidiaries (note 49)	-	-	43,523	-	43,523
Additions	-	3,601	-	-	3,601
Exchange adjustments	431	(291,366)	(76,378)	-	(367,313)
At December 31, 2019	82,833	9,417,747	421,028	124,501	10,046,109
AMORTISATION AND IMPAIRMENT					
At January 1, 2018	61,337	336,214	13	7,780	405,344
Provided for the year	915	217,063	7	2,765	220,750
Impairment recognised for the year	2,296	-	-	-	2,296
Exchange adjustments	133	(90,589)	-	-	(90,456)
At December 31, 2018	64,681	462,688	20	10,545	537,934
Provided for the year	-	238,624	7	2,889	241,520
Impairment recognised for the year	3,556	-	-	-	3,556
Exchange adjustments	141	(25,836)	(1)	-	(25,696)
At December 31, 2019	68,378	675,476	26	13,434	757,314
CARRYING VALUES					
At December 31, 2019	14,455	8,742,271	421,002	111,067	9,288,795
At December 31, 2018	17,721	9,242,824	453,863	113,956	9,828,364

Notes:

(i) Trading rights represent the rights of trading securities and futures contracts on the relevant stock exchanges including the Shenzhen Stock Exchange, the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited, the Hong Kong Futures Exchange Limited and CME Group Inc., for the Group's securities dealing business. Amortisation is provided on a straight-line basis over 10 years.

16. INTANGIBLE ASSETS - continued

Notes: - continued

(ii) Included in port operating rights as at December 31, 2019 is an amount of approximately RMB4,147 million (2018: RMB3,834 million) related to a concession for the operation of a terminal in the Port of Lomé in Togo for a concession period of 35 years commenced in 2011 granted by the Government of Togolese Republic. The carrying amount of the concession represents the fair value at the date of the business combination under which the Group acquired the concession and the fair value of the construction services carried out to-date less its accumulated amortisation. Amortisation is provided for since 2015 and over the period in which the Group operates the relevant terminals on a straight-line basis. The relevant group entity recognises both construction revenue and cost in the amount of approximately RMB3 million (2018: RMB18 million) for the year ended December 31, 2019 by reference to the stage of completion of the construction of the terminal at the end of the reporting period and based on the proportion that contract costs incurred for work performed at the end of the reporting period relative to the estimated total contract costs.

Included in port operating rights as at December 31, 2019 is also an amount of RMB4,548 million (2018: RMB4,548 million) related to the concession for operation of a terminal in Brasil for an concession period of 50 years commencing from 1998 granted by the Brasilian Federal Government. The carrying amount of the concession represents the fair value as at the date of the business combination under which the Group acquired the concession less its accumulated amortisation. Amortisation is provided for over the period in which the Group operates the relevant terminals on an economic usage basis.

The remaining amount of port operating rights relates to a concession for operation of a terminal built in Colombo in Sri Lanka for a concession period of 35 years commenced from 2011 granted by the government of the Republic of Sri Lanka. The carrying amount of the concession represents the fair value as at the date of the acquisition of the relevant business by the Group less its accumulated amortisation, which is calculated using the economic usage basis. Further details are set out in notes 35(v) and 43(iv).

Included in brandnames as at December 31, 2019 is an amount of RMB369 million (2018: RMB445 million) related to the TCP Acquisition (as defined in note 49). The brandname is considered by the management of the Group as having an indefinite useful live because it is expected to contribute to the generation of net cash inflows to the Group indefinitely. It is tested for impairment annually and whenever there is an indication that they may have been impaired. No impairment loss of the trademark is recognised for the current year.

(iii) As at December 31, 2019, the amount relates to brandnames purchased from third parties under the Group's shipping and related operations. Amortisation is provided for over the useful life of the relevant brandnames.

(iv) Sea areas and coastline use rights represent the Group's rights to use certain sea areas and coastlines associated with the terminals managed and operated by the Group as granted by relevant PRC government authorities for specified periods up to 50 years. Amortisation is provided for over the period granted on a straight-line basis.

17. INTERESTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets of associates	157,067,474	132,895,242
Goodwill	28,939,168	28,938,520
Less: Accumulated impairment losses	(1,673,474)	(1,325,687)
	184,333,168	160,508,075
Fair value of listed associates	168,962,497	133,757,189

The Group's material associates at the end of the reporting period include China International Marine Containers (Group) Co., Ltd. ("CIMC"), China Merchants Bank Co., Ltd ("CMB") (see Note (ii) below) and Shanghai International Port (Group) Co., Ltd. ("SIPG"), all of which are listed entities. All of the Group's associates are accounted for using the equity method in these consolidated financial statements.

Summarised financial information in respect of each of the Group's material associates is set out below. Other associates invested by the Group are not individually material. The summarised financial information below represents the financial information of the material associates prepared in accordance with the accounting policies of the Group.

17. INTERESTS IN ASSOCIATES - continued

For the year ended December 31, 2019

	CIMC RMB'000	CMB RMB'000	SIPG RMB'000	深圳市招商前海實業發展有限公司 (A1 Company as defined below) RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income				
Revenue	85,815,341	269,703,000	36,101,207	36,249
Profit (loss) for the year, attributable to the equity holders of the associates	1,307,984	90,931,291	9,057,647	(39,386)
Other comprehensive income (expense) for the year, attributable to the equity holders of the associates	630,618	3,693,051	(164,518)	-
Total comprehensive income (expense) for the year, attributable to the equity holders of the associates	1,938,602	94,624,342	8,893,129	(39,386)
Dividends received from the associates by the Group during the year	405,280	3,513,933	955,195	-
Financial information of consolidated statement of financial position				
Non-current assets	80,857,252	3,878,620,714	102,917,083	56,704,993
Current assets	90,023,127	3,538,493,000	40,323,541	77,280,906
Current liabilities	(70,551,310)	(5,989,802,000)	(19,307,177)	(6,866,671)
Non-current liabilities	(46,518,233)	(809,731,000)	(34,250,913)	(17)
Net assets of the associates	53,810,836	617,580,714	89,682,534	127,119,211
Reconciliation to the carrying amounts of interests in the associates				
Net assets of the associates	53,810,836	617,580,714	89,682,534	127,119,211
Less: Non-controlling interests	(15,784,092)	(2,427,000)	(8,741,216)	(73,416,938)
Less: Perpetual debt capital	(4,007,545)	(3,979,000)	-	-
Net assets attributable to the equity holders of the associates	34,019,199	611,174,714	80,941,318	53,702,273
Proportion of the Group's interests in the associates (Note i)	24.57%	14.81%	26.77%	14.00%
Net assets attributable to the Group's interests in the associates	8,359,878	90,539,422	21,667,991	7,518,318
Goodwill	374,384	19,346,275	2,212,391	-
Add: Effect of fair value adjustments at acquisition	-	1,285,563	-	-
Less: Elimination of the unrealised profit or loss between the Group and the associate	-	-	-	(677,252)
Carrying amount of the Group's interests in the associates	8,734,262	111,171,260	23,880,382	6,841,066
Market value of the listed associates, valued based on the quoted prices in active markets for the identical asset directly, and categorised as Level 1of the fair value hierarchy of the Group's interests in the associates	5,733,765	125,890,480	35,788,784	N/A

17. INTERESTS IN ASSOCIATES - continued

For the year ended December 31, 2018

	CIMC RMB'000	CMB RMB'000	SIPG RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income			
Revenue	93,497,622	248,555,000	38,042,544
Profit for the year, attributable to the equity holders of the associates	3,191,427	78,629,925	9,041,123
Other comprehensive income for the year, attributable to the equity holders of the associates	62,313	8,608,197	303,044
Total comprehensive income for the year, attributable to the equity holders of the associates	3,253,740	87,238,122	9,344,167
Dividends received from the associates by the Group during the year	204,751	3,109,366	1,059,195
Financial information of consolidated statement of financial position			
Non-current assets	75,877,400	3,439,832,021	97,622,963
Current assets	81,902,959	3,305,830,000	47,696,406
Current liabilities	(73,536,161)	(5,624,543,000)	(31,680,619)
Non-current liabilities	(32,944,814)	(577,581,000)	(32,158,012)
Net assets of the associates	51,299,384	543,538,021	81,480,738
Reconciliation to the carrying amounts of interests in the associates			
Net assets of the associates	51,299,384	543,538,021	81,480,738
Less: Non-controlling interests	(15,077,989)	(2,329,000)	(6,802,305)
Less: Perpetual debt capital	(4,007,545)	(1,158,000)	-
Net assets attributable to the equity holders of the associates	32,213,850	540,051,021	74,678,433
Proportion of the Group's interests in the associates	24.58%	14.81%	26.77%
Net assets attributable to the Group's interests in the associates	7,918,164	80,003,158	19,991,417
Goodwill	374,384	19,346,275	2,158,342
Add: Effect of fair value adjustments at acquisition	-	1,318,109	-
Carrying amount of the Group's interests in the associates	8,292,548	100,667,542	22,149,759
Market value of the listed associates, valued based on the quoted prices in active markets for the identical asset directly, and categorised as Level 1of the fair value hierarchy of the Group's interests in the associates	4,725,022	94,151,351	32,129,272

17. INTERESTS IN ASSOCIATES - continued

Aggregate information of associates that are not individually material

	2019 RMB'000	2018 RMB'000
The Group's share of:		
Profit for the year	1,193,105	978,417
Other comprehensive income (expense)	70,599	(159,701)
Total comprehensive income	1,263,704	818,716
Aggregate share of net asset of the Group's interests in the associates	35,379,672	30,723,914
Less: Accumulated impairment losses	(1,673,474)	(1,325,187)
Aggregate carrying amount of the Group's interests in the associates	33,706,198	29,398,227

Notes:

(i) Dilution in CIMC

During the year ended December 31, 2019, the other shareholders of CIMC has capital injection of RMB2,729,045,000 into CIMC and diluted the proportion of shareholding of the Group, the Group's interest in CIMC was decreased from 24.58% to 24.57%.

(ii) During the year ended December 31, 2019, upon the acquisition of Liaoning Port as defined in note 25(i), the Group's interest in Dalian Port (PDA) Company Limited, which is a subsidiary of Liaoning Port, changed from 21.05% as an associate to a subsidiary. Dalian Port (PDA) Company Limited is principally engaged in the provision of terminal business. Details of the acquisitions are set out in note 49.

(iii) During the year ended December 31, 2019, upon the Group's participation in the development of the Qianhai-Shekou Free Trade Zone as set out in note 60(f), the Group has injected additional capital of RMB7,456 million to Shenzhen China Merchants Qianhai Assets Development Co., Ltd. ("A1 Company"), an associate of the Group.

(iv) Impairment loss recognised on interest in a listed associate

At December 31, 2018, the directors of the Company conducted a review of the Group's interest in listed associates with reference to its economic outlooks and determined its recoverable amount with reference to its value in use and fair value less cost of disposal. The recoverable amount is determined as the fair value less cost of disposal, of which the fair value is based on quoted prices in active markets for the identical asset directly and categorised as Level 1 of the fair value hierarchy (see note 3), and it is higher than the carrying amount of the Group's interest in the listed associates and no impairment loss is recognised during the year ended December 31, 2019 and 2018.

Particulars of the Group's principal associates at December 31, 2019 are set out in note 62.

18. INTERESTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets of unlisted joint ventures less accumulated impairment losses	14,148,862	12,847,757
Goodwill	-	44,587
Less: Accumulated impairment losses	(138,741)	(5,192)
	14,010,121	12,887,152

The Group's material joint venture at the end of the reporting period includes China Merchants Union (BVI) Limited ("CMU"), which is an unlisted entity.

All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements.

18. INTERESTS IN JOINT VENTURES - continued

Summarised financial information in respect of the Group's material joint venture is set out below. Other joint ventures invested by the Group are not individually material. The summarised financial information below represents the financial information of the material joint venture prepared in accordance with accounting policies of the Group.

	CMU	
	2019	2018
	RMB'000	RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	-	-
Profit for the year, attributable to equity holders of the joint venture	1,487,689	1,134,510
Other comprehensive (expense) income for the year, attributable to the equity holders of the joint venture	(461,320)	20,152
Total comprehensive income for the year, attributable to the equity holders of the joint venture	1,026,369	1,154,662
Dividends received from the joint venture by the Group during the year	1,270,969	529,814
Financial information of consolidated statement of financial position		
Non-current assets	33,635,262	31,228,738
Current assets	2,294,691	4,477,719
Current liabilities	(10,147,936)	(379,267)
Non-current liabilities	(6,214,936)	(15,618,565)
Net assets of the joint venture	19,567,081	19,708,625
Reconciliation to the carrying amount of interest in the joint venture		
Net assets of the joint venture	19,567,081	19,708,625
Less: Interest in an associate held by CMU which is under the control of and consolidated by the Group*	(17,756,700)	(17,039,475)
Net assets attributable to the equity holders of the joint venture	1,810,381	2,669,150
Proportion of the Group's interest in the joint venture	50.00%	50.00%
Net assets attributable to the Group's interest in the joint venture	905,191	1,334,575
Carrying amount of the Group's interest in the joint venture	905,191	1,334,575

* The assets and liabilities of CMU do not include its equity interest in a non-wholly owned subsidiary of the Company, which is accounted for as an associate by CMU.

18. INTERESTS IN JOINT VENTURES - continued

Aggregate information of joint ventures that are net individually material.

	2019 RMB'000	2018 RMB'000
The Group's share of:		
Profit for the year	471,313	454,899
Other comprehensive expense	(18,716)	(5,588)
Total comprehensive income	452,597	449,311
Aggregate carrying amount of the Group's interests in these joint ventures	13,104,930	11,552,577

Note: During the year ended December 31, 2019, upon the acquisition of additional interest in Zhanjiang Port (Group) Co., Ltd, as set out in note 49, the Group's interest in Zhanjiang Port (Group) Co., Ltd changed from 40.29% to 58.35% and Zhanjiang Port (Group) Co., Ltd. has become a subsidiary since then. Zhanjiang Port (Group) Co., Ltd is principally engaged in ports and container terminal business.

Particulars of the Group's principal joint ventures at December 31, 2019 are set out in note 63.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	2019 RMB'000	2018 RMB'000
Financial assets mandatorily at FVTPL:		
- Equity securities	28,448,450	30,187,136
- Debt securities	109,402,962	74,310,212
- Funds	30,143,347	21,205,644
- Others (Note)	8,190,080	3,191,276
	176,184,839	128,894,268
Analysed as:		
Non-current	25,452,522	23,952,474
Current	150,732,317	104,941,794
	176,184,839	128,894,268
Analysed as:		
Listed	21,900,665	7,781,532
Unlisted	154,284,174	121,112,736
	176,184,839	128,894,268

Note: Others in financial assets mandatorily at FVTPL mainly represent investments in fund and partnership-invested by the Group.

Details of the fair value measurements are set out in note 51(c).

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL") - continued

As at December 31, 2019, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities at FVTPL with total fair values of RMB1,054,100,000 (2018: RMB357,730,000). These securities continued to be recognised as financial assets of the Group.

20. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Unlisted securities	4,536,585	1,298,608
Listed securities (Note i)	21,828	20,925
Special accounts (Note ii)	7,057,809	6,722,607
	11,616,222	8,042,140

Notes:

(i) The listed equity investments are not held for trading but for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

As at December 31, 2019, there are perpetual contingent convertible securities of RMB21,828,000 (2018: RMB20,925,000). These securities are perpetual in nature but the issuers of the securities have an option but not obligation to redeem at a particular date and every multiples of 5 years after the first optional redemption dates. Issuers of these securities have sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any coupon payments that would otherwise be payable on any coupon payment date. When the issuers of these securities fails to meet certain capital standards imposed by the relevant regulators, these securities will automatically be converted into ordinary shares at a price pre-determined.

(ii) The balance is an investment in a special account managed by China Securities Finance Corporation Limited ("CSFCL"), an independent third party, that invests in publicly traded equity securities listed in the PRC. Pursuant to the agreements entered into by the Group with the CSFCL, the Group contributed an aggregate amount of RMB287,030,000 in July 2015 and September 2015 to the special account. The Group was entitled to the profit or loss derived from the special account in proportion to the funding portion contributed. Such balances are not held for trading but for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

The Company determines the fair value of the investment according to the valuation report provided by CSFCL. The Company elected to designate this investment as measured at FVTOCI.

21. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

	2019 RMB'000	2018 RMB'000
Bonds issued by policy banks	12,767,751	11,970,815
Government bonds	12,026,576	11,964,323
Bonds issued by commercial banks and other financial institutions	386,777	4,099,590
Other debt securities (Note)	24,387,310	15,697,605
	49,568,414	43,732,333
Analysed as:		
Non-current	108,281	94,181
Current	49,460,133	43,638,152
	49,568,414	43,732,333

Note: Other debt securities mainly comprise of corporate bonds, enterprise bonds and medium term notes. Included in the balance is an aggregate amount of RMB36,485,487,000 as at December 31, 2019 (2018: RMB28,832,628,000) that is held in custody in favour of the counterparties under repurchase agreements entered into by the Group at the end of the reporting period. Details of the repurchase agreements are set out in note 38.

Movements in the allowances for expected credit losses

	2019 RMB'000
At January 1, 2018	-
Impairment losses recognised under 12m ECL	4,230
Reversal of expected credit losses under 12m ECL	(1,032)
Exchange realignment	9
At December 31, 2018	3,207
Impairment losses recognised under 12m ECL	8,124
Reversal of expected credit losses under 12m ECL	(4,004)
Exchange realignment	29
At December 31, 2019	7,356

22. DEBT INSTRUMENTS AT AMORTISED COST

	2019 RMB'000	2018 RMB'000
Bonds	11,719,679	4,327,032
Entrusted loan	2,440,259	648,331
Assets-backed medium-term notes	442,201	180,208
Unsecured accounts receivable loan (Note)	94,601	47,587
Others	884,592	427,949
	15,581,332	5,631,107
Analysed as:		
Non-current	15,486,731	5,583,520
Current	94,601	47,587
	15,581,332	5,631,107

Note: As at December 31, 2019, customer loans receivable were charged at Libor plus 1.25% annually (December 31, 2018: at a fixed interest rate of 2.75%).

Included in the balance is an aggregate amount of RMB2,713,823,000 as at December 31, 2019 (2018: RMB471,239,000) that is held in custody in favour of the counterparties under repurchase agreements entered into by the Group at the end of the reporting period. Details of the repurchase agreements were set out in note 38.

Movements in the allowances for expected credit losses

	2019 RMB'000
At January 1, 2018	1,396
Expected credit losses recognised under 12m ECL	7,096
Exchange difference	110
At December 31, 2018	8,602
Expected credit losses reversed under 12m ECL	(542)
Exchange difference	76
At December 31, 2019	8,136

23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements include the following types of collaterals held by the Group:

	2019 RMB'000	2018 RMB'000
Equity securities	21,109,792	22,881,523
Debt securities	15,219,129	11,089,598
	36,328,921	33,971,121
Less: Allowance for credit losses	(333,061)	(204,634)
	35,995,860	33,766,487
Analysed by market (before allowance for credit losses):		
Stock exchanges (Note)	30,588,284	25,065,484
Interbank bond markets	5,423,880	8,203,112
Others	316,757	702,525
	36,328,921	33,971,121
Analysed for reporting purposes as:		
Non-current	2,421,261	5,277,749
Current	33,574,599	28,488,738
	35,995,860	33,766,487

Note: As at December 31, 2019, the fair value of securities held by the Group as collaterals amounted to RMB89,929,785,000 (2018: RMB69,527,116,000).

The Group purchases securities from qualified external investors under resale agreements and recognises the cost of purchasing such assets as financial assets held under resale agreements. Pursuant to the resale agreements, the investors have agreed to repurchase the same lots of securities at predetermined prices at predetermined future dates. The securities held by the Group are effectively collaterals for the advances made to the counterparties. The difference between the purchase and resale prices of the securities is recognised as interest income using the effective interest method over the term of the agreements.

At the end of the reporting period, management reviews the financial assets held under resale agreements for indications of impairment. As at December 31, 2019, an aggregate amount of RMB333,061,000 (2018: RMB204,634,000) has been impaired based on management's evaluation of the ability of the counterparties to repurchase the relevant financial assets at the predetermined prices as stipulated in the agreements, including the ageing of the relevant advances past the predetermined repurchase date of the securities and the past settlement history of the counterparties, and the liquidity and market value of the collaterals at the end of the reporting period.

23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS - continued

Movements in the allowances for expected credit losses

	2019 RMB'000
At January 1, 2018	143,866
Impairment losses recognised	60,270
Exchange realignment	498
At December 31, 2018	204,634
Impairment losses recognised	128,427
At December 31, 2019	333,061

	As at December 31, 2019						
	12m ECL		Lifetime ECL (non credit-impaired)		Lifetime ECL (credit-impaired)		
	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Total RMB'000
Impairment allowances	20,261,710	6,020	-	-	914,601	327,041	333,061

	As at December 31, 2018						
	12m ECL		Lifetime ECL (non credit-impaired)		Lifetime ECL (credit-impaired)		
	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Total RMB'000
Impairment allowances	32,774,321	94,638	486,130	16,755	710,270	93,241	204,634

24. FINANCE LEASE RECEIVABLES

Certain assets of the Group are leased out under finance leases. The average terms of finance leases entered into usually range from 8 months to 11 years. Interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
The finance lease receivables are receivable as follows:				
Within one year	8,547,597	4,974,366	7,351,920	4,120,591
In more than one year but not more than two years	6,670,001	4,458,608	5,835,707	3,871,947
In more than two years but not more than five years	10,368,817	7,648,251	8,915,341	6,641,899
In more than five years	3,685,275	3,346,371	3,413,399	2,907,437
Gross investment in the lease	29,271,690	20,427,596	25,516,367	17,541,874
Less: Unearned finance income	(3,755,323)	(2,885,722)	N/A	N/A
Present value of minimum lease payment receivables	25,516,367	17,541,874	25,516,367	17,541,874

24. FINANCE LEASE RECEIVABLES - continued

	2019 RMB'000	2018 RMB'000
Analysed for reporting purposes:		
Non-current	18,186,695	13,389,726
Current	7,329,672	4,152,148
	25,516,367	17,541,874

Effective interest rates of the above finance lease range from 3.60% to 8.85% (2018: 3.00% to 9.05%) per annum. The finance lease receivables are secured over the assets leased. The Group is not permitted to sell or repledge the collateral on the absence of default by the lessee.

Included in the carrying amounts of finance lease receivables as at December 31, 2019 is an accumulated impairment loss of RMB368,685,000 (2018: RMB129,589,000). The Group analyses the aging of each finance lease receivable based on the repayment terms stipulated in the finance lease agreements to determine the credit quality of the lessees. As a result, net impairment loss of RMB187,707,000 (2018: RMB49,853,000) was recognised in profit or loss during the year ended December 31, 2019.

As at December 31, 2019, present value of minimum lease payment receivables arising from finance lease agreements with fellow subsidiaries and joint ventures amounted to RMB379,889,000 (2018: RMB386,963,000) and RMB1,261,904,000 (2018: RMB1,031,704,000), respectively.

25. OTHER NON-CURRENT ASSETS

Included in other non-current assets are:

	2019 RMB'000	2018 RMB'000
Entrusted loans	2,119,151	293,265
Deposit paid for acquisition of Liaoning Port (Note i)	-	20,000,000
Time deposits (Note ii)	3,589,947	2,935,649
Advances to joint ventures (Note iii)	1,888,200	783,274
Advances to associates (Note iv)	2,662,613	772,017
Advances to finance lease lessees before the commencement of the lease term	194,801	563,958
Loan to Hongkong Haiheng International Group Limited ("Haiheng") (Note v)	937,137	2,418,276
Prepayments for acquisition of non-current assets	254,104	676,636
Prepayments for investment	536,224	-
Receivables from certain local governments for general infrastructure project	12,202,215	-
Right to receive a land use right from QHSH (Note vi)	916,884	-
Deposit paid for acquisition of a subsidiary (Note vii)	1,534,764	-

25. OTHER NON-CURRENT ASSETS - continued

Notes:

(i) On November 3, 2018, the Group through a non-wholly owned subsidiary entered into a sale and purchase agreement (the "Agreement") with the State-owned Assets Supervision and Administration Commission ("SASAC") of Liaoning Municipal, Dalian City and Yingkou City and 遼寧港口集團有限公司 Liaoning Ports Group Limited ("Liaoning Port"). Pursuant to the Agreement, the Group agreed to acquire 51.1% interest of equity of Liaoning Port at a total consideration of approximately RMB24,245 million. As at December 31 2018, the Group placed a deposit of RMB20,000 million for the acquisition of Liaoning Port and during the current year, the transaction is completed as set out in note 49.

(ii) The bank deposits bear fixed interest rates ranging from 3.3% to 5.5% (2018: 4.50% to 5.50%) with original maturities of 4 to 6 years.

(iii) Included the amount is RMB49,950,000 (2018: 783,274,000) as at December 31, 2019 is unsecured, interest-bearing at 8.5% (2018: 8%) per annum and repayable in 2 years (2018: 2 years). Accordingly, these amounts are classified as non-current.

(iv) Included the amount is an aggregate amount of RMB9,790,000 (2018: RMB9,773,000) as at December 31, 2019 that is interest-bearing at a rate of one-year Euro Interbank Offered Rate plus 50 basis point per annum and repayable in 2021.

Included the amount is an aggregate amount of RMB826,475,000 as at December 31, 2019 that is interest-bearing at a fixed rate of 5% per annum and repayable in 2022.

(v) On June 30, 2018, CMIH disposed the entire issued share capital of its wholly-owned subsidiaries, Well Target One Limited and Well Target Two Limited (the "Subsidiaries"), to an independent individual (the "Individual") with the consideration of US$2 (equivalent to RMB13) with net gain on disposal of subsidiaries of RMB6,004,000 recognised in net income and gains from investments. At the same transaction date, CMIH entered a debt restructuring agreement with the Individual who could exercise control over Haiheng. Pursuant to the debt restructuring agreement, CMIH's loan from the Subsidiaries has been assigned to Haiheng amounting US$377,595,000 (equivalent to RMB2,591 million), out of which amount of US$15,622,000 (equivalent to RMB107 million) has been partially waived. Haiheng will repay the remaining loan with principal of US$361,973,000 (equivalent to RMB2,484 million) over ten years in equal semi-annually instalments commencing from January 1, 2019 at interest of 4.04% per annum.

(vi) The amount represented the land use right for a land parcel in Shenzhen, the PRC, to be received from QHSH as part of the compensation for the resumption of certain land parcels at Qianhai, Shenzhen, the PRC. Upon receipt of the said land parcel, this amount will be reclassified and included in right-of-use assets. Further details of the transactions are set out in note 60(f).

(vii) China Merchants Financial Leasing (Hong Kong) Holdings Limited, a wholly-owned subsidiary of the Company, entered an agreement with ICIL Maritime Leasing (International) Company Limited ("ICIL") on December 23, 2019 to acquire ICIL's 100% interest capital in Hai Kuo Shipping 1601 Limited. The purchase price of USD220,000,000 has prepaid in advance on December 30, 2019. The transaction has been completed in January 2020 and the directors of the Company are in the process of assessing the financial impact.

26. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2019 RMB'000	2018 RMB'000
Deferred tax assets	(1,684,173)	(1,191,237)
Deferred tax liabilities	13,452,699	4,227,531
	11,768,526	3,036,294

The following is the major deferred tax liabilities (assets) recognised at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
Accelerated tax depreciation	193,014	226,750
Fair value adjustments on financial assets and liabilities	1,851,301	589,765
Undistributed earnings of subsidiaries, associates and joint ventures	2,265,312	1,634,065
Impairment losses recognised on assets	(316,146)	(199,908)
Tax losses	(55,261)	(33,001)
Fair value adjustments on acquisition of subsidiaries (note 49)	8,475,681	555,412
Others	(645,375)	263,211
	11,768,526	3,036,294

At the end of the reporting period, the Group has unused tax losses of approximately RMB20,795 million (2018: RMB4,152 million) available for offset against future profits. As at December 31, 2019, deferred tax asset has been recognised in respect of approximately RMB224 million of such losses (2018: RMB124 million). No deferred tax asset has been recognised in respect of the unused tax losses of approximately RMB20,571 million (2018: RMB4,028 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB18,047 million (2018: RMB2,087 million) that will expire in five years from the end of the respective reporting periods. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB24,800 million (2018: RMB10,532 million) for which no deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

27a. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials and consumables	910,632	586,401
Work in progress	3,023,240	2,458,601
Finished goods	1,194,049	774,431
	5,127,921	3,819,433

During the year ended December 31, 2019, the Group has provided net allowances of RMB140,181,000 (2018: RMB795,443,000) in respect of certain raw materials and consumables, work in progress and finished goods.

27b. PROPERTIES FOR/UNDER DEVELOPMENT/PROPERTIES FOR SALE

	2019 RMB'000	2018 RMB'000
Properties for development	6,812,810	-
Properties under development	4,081,305	-
Properties for sale	941,856	-
	11,835,971	-

Analysis of leasehold lands:

As at January 1, 2019	
Carrying amount	-
As at December 31, 2019	
Carrying amount	6,812,810
For the year ended December 31, 2019	
Additions upon acquisition of a subsidiary (note 49)	6,812,810

Effective from January 1, 2019, the carrying amount of leasehold lands is measured under HKFRS 16 at cost less any accumulated depreciation and any impairment losses. The residual values are determined as the estimated disposal value of the leasehold land component. No depreciation charge is made on the leasehold lands taking into account the estimated residual values as at December 31, 2019.

28. TRADE, BILLS AND OTHER RECEIVABLES/CONTRACT ASSETS

	2019 RMB'000	2018 RMB'000
TRADE, BILLS AND OTHER RECEIVABLES		
Trade receivables	7,923,343	4,782,313
Less: Allowance for credit losses (Note vi)	(915,385)	(387,212)
Trade receivables, net (Note i)	7,007,958	4,395,101
Insurance debtors (Note ii)	172,415	260,687
Total trade receivables, net	7,180,373	4,655,788
Bills receivables	1,051,825	38,306
Deposits, prepayments and other receivables		
- prepayments	1,516,762	870,177
- interest receivables	46,798	48,196
- amount due from the ultimate holding company (Note iii)	-	579,662
- amounts due from fellow subsidiaries (Note iii)	229,369	100,875
- amounts due from associates (Note iii)	68,105	1,582,288
- amounts due from joint ventures (Note iii)	22,257	1,074
- tax recoverable	297,224	105,612
- other tax recoverable	1,285,890	565,478
- advance to funds managed by the Group	584,338	784,223
- reinsurance assets (Note iv)	60,800	50,344
- receivables from certain local governments	2,352,070	-
- amounts due from clearing houses, brokers and dealers	1,682,144	1,954,839
- receivable upon resumption of land parcels of SLRC (note 8(ii))	521,246	-
- amount due from AVIC Dingheng Shipbuilding Co., Ltd (note 49)	1,250,364	-
- indemnification from related parties (Note v)	669,122	-
- other loan receivables	1,948,879	-
- others	5,833,534	2,025,494
Other receivables, gross	18,368,902	8,668,262
Less: Allowance for credit losses (note 51(b))	(4,587,620)	(228,129)
Other receivables, net	13,781,282	8,440,133
Trade, bills and other receivables, net	22,013,480	13,134,227

28. TRADE, BILLS AND OTHER RECEIVABLES/CONTRACT ASSETS - continued

Notes:

(i) Trade receivables

The following is an aging analysis of the trade receivables, net of allowance for credit losses debts, presented based on the invoice date:

	2019 RMB'000	2018 RMB'000
Within one year	6,217,434	4,337,191
More than one year	790,524	57,910
	7,007,958	4,395,101

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Credit sales are made to customers with an appropriate credit history. Credit limits attributed to customers and credit terms and credit period granted to customers in different business units are reviewed regularly taking into account industry customs and practices.

(ii) Insurance debtors

The amounts represent premiums receivables from the Group's insurance business. The credit terms are generally for a period of one month, extending up to five months for certain policyholders. Overdue balances are reviewed regularly by senior management of the relevant entity.

The Group has relevant credit control procedures for premiums receivables aged over the credit terms provided to the policyholders. The creditworthiness of these counterparties is considered by reviewing their financial strength prior to the finalisation of any contract and transaction. The Group maintains records of the payment history for significant contract holders with whom regular business is conducted.

(iii) Amounts due from related parties

	Contractual interest rate (for the interest-bearing balances)		Interest-bearing		Interest-free		Total	
	2019	2018	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Amount due from the ultimate holding company	N/A	4.00%	-	398,850	-	180,812	-	579,662
Amounts due from fellow subsidiaries	N/A	N/A	-	-	229,369	100,875	229,369	100,875
Amounts due from associates	N/A	Floating rate	-	1,029,478	68,105	552,810	68,105	1,582,288
Amounts due from joint ventures	N/A	N/A	-	-	22,257	1,074	22,257	1,074

The above amounts, except for those illustrated, are non-trade nature, unsecured and repayable on demand.

28. TRADE, BILLS AND OTHER RECEIVABLES/CONTRACT ASSETS - continued

Notes: - continued

(iv) Reinsurance assets

Amount mainly represents the share of outstanding claims and unearned premiums by reinsurers under the Group's insurance brokerage business.

(v) Amount represented the indemnification from the holding companies of a non-controlling shareholder of a subsidiary in connection with the operation of the relevant subsidiary.

	2019 RMB'000	2018 RMB'000
CONTRACT ASSETS		
Construction contracts	7,924,335	9,284,822
Vessel design services	58,713	-
	7,983,048	9,284,822

As at January 1, 2018, contract assets amounted to RMB10,180,575,000.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Construction contracts

The Group's construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

Vessel design services

The Group's vessel design service contract include payment schedules which require stage payments once certain specified milestones are reached. The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2019		2018	
	Assets	Liabilities	Assets	Liabilities
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Interest derivative instruments				
- Interest rate swaps	226,180	232,985	394,434	392,849
- Bond futures (Note i)	-	-	-	1,655
Equity derivative instruments				
- Equity return swaps	182,909	-	210,192	19,477
- Stock index futures (Note i)	-	-	-	18
- Options (Note ii)	246,616	851,656	49,823	166,537
Credit derivatives				
- Credit default swaps	534	5,413	489	1,123
Other derivative instruments				
- Commodity futures (Note i)	1,120,349	1,105,762	446,665	446,316
- Commodity swaps	16,373	2,971	10,486	264,023
- Commodity	12,381	22,254	38,143	12,205
- Forward contracts	1,718	1,969	3,043	4,106
	1,807,060	2,223,010	1,153,275	1,308,309

Notes:

(i) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures and commodity futures contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the year-end date.

(ii) Included in options are over-the-counter options, exchanged-traded options and embedded derivatives of notes.

30. LOANS AND ADVANCES TO CUSTOMERS OF SECURITIES DEALING BUSINESS

	2019 RMB'000	2018 RMB'000
Loans and advances to margin clients	55,318,037	43,119,093
Less: Accumulated impairment losses recognised	(93,418)	(142,663)
	55,224,619	42,976,430

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group.

Majority of loans and advances to margin clients are secured by the underlying pledged securities and cash collaterals as disclosed in note 36 and are interest-bearing. The credit limits granted to margin clients are determined by reference to the discounted market value of the collateral securities accepted by the Group. The Group maintains a list of approved securities for margin lending at a specified loan-to-collateral ratio. Any excess in the loan-to-collateral ratio will trigger a margin call upon which the margin clients are required to make up the difference.

The fair values of the collaterals received by the Group under margin financing and securities lending arrangements are presented as follows:

	2019 RMB'000	2018 RMB'000
Cash	7,086,437	5,123,777
Debt securities	1,067,353	7,718,425
Equity securities	166,883,077	109,524,319
Funds	1,193,700	1,412
	176,230,567	122,367,933

	As at December 31, 2019						
	12m ECL		Lifetime ECL (non credit-impaired)		Lifetime ECL (credit-impaired)		
	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Total RMB'000
Impairment allowances	55,185,388	33,655	-	-	132,649	59,763	93,418

	As at December 31, 2018						
	12m ECL		Lifetime ECL (non credit-impaired)		Lifetime ECL (credit-impaired)		
	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Total RMB'000
Impairment allowances	42,884,733	89,099	185,446	16,058	48,914	37,506	142,663

30. LOANS AND ADVANCES TO CUSTOMERS OF SECURITIES DEALING BUSINESS - continued

Movement in the accumulated impairment losses

	2019 RMB'000
At January 1, 2018	142,051
Exchange adjustments	612
At December 31, 2018	142,663
Exchange adjustments	(49,245)
At December 31, 2019	93,418

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

31. DEPOSITS FOR SECURITIES DEALING BUSINESS

The deposits have been placed in the following exchanges and non-bank financial institutions:

	2019 RMB'000	2018 RMB'000
Deposits with stock exchanges and clearing houses		
- China Securities Depository and Clearing Corporation Limited	803,393	446,899
- London Stock Exchange	222,572	409,310
- Shanghai Clearing House	279,848	70,109
- Hong Kong Securities Clearing Company Limited	76,942	44,169
- Hong Kong Stock Exchange	1,948	1,507
- China Beijing Equity Exchange	1,803	1,184
	1,386,506	973,178
Deposits with futures and commodity exchanges and financial institutions		
- Pingan Futures Co., Ltd.	270,627	190,051
- Yongan Futures Co., Ltd.	107,114	129,879
- CITIC Futures Co., Ltd.	109,641	59,549
- Jianxin Futures Co., Ltd.	115,422	22,889
- Hong Kong Futures Exchange	9,673	15,913
- Nanhua Futures Co., Ltd.	25,813	11,913
- China Financial Futures Exchange	1,360,274	10,057
- Shanghai Gold Exchange	43,598	7,972
- Huatai Futures Co., Ltd.	120,158	5,887
- Chicago Mercantile Exchange	3,488	3,432
- Intercontinental Exchange	363,232	-
- Others	865,344	700
	3,394,384	458,242
	4,780,890	1,431,420

32. BANK BALANCES HELD ON BEHALF OF CUSTOMERS

Bank balances held on behalf of customers represent monies deposited by clients and other institutions and held in custody of the Group in the course of conducting the regulated activities under the Group's securities dealing business. The monies of clients are held in one or more segregated bank accounts.

The Group has recognised the corresponding amount in accounts payable to brokerage clients of the securities dealing business as set out in note 36. The Group currently does not have a legally enforceable right to offset these payables with deposits placed.

33. BANK DEPOSITS, BANK BALANCES AND CASH

The bank deposits, bank balances and cash comprise:

	2019 RMB'000	2018 RMB'000
Bank balances and cash	43,779,480	23,200,114
Short-term time deposits with original maturity more than three months (Note i)	2,024,891	184,888
Clearing settlement funds held with clearing houses for house accounts (Note ii)	4,346,364	3,913,233
Cash and cash equivalents	50,150,735	27,298,235
Balances with central bank	756,045	-
Clearing settlement funds held with clearing house for clients (Note ii)	8,125,252	9,883,048
Restricted bank deposits for insurance business (Note iv)	1,073,953	1,045,082
Restricted deposits placed with securities brokers	430	62,432
Structured bank deposits (Note iii)	2,000,298	131,016
Other restricted bank deposits	2,051,323	1,028,702
	64,158,036	39,448,515

Notes:

(i) The amounts mainly represent deposits in banks operating in the PRC and Hong Kong. The deposits are denominated in RMB and are freely convertible into cash at any time requested by the entities with insignificant risk of changes in values. The directors of Company therefore consider the deposits as cash and cash equivalents. The bank deposits carry interest at fixed rates ranging from 1.9% to 3.61% (2018: 2.15% to 3.7%) per annum except for bank deposits of RMB55,000 carry interest at prevailing market rates (2018: RMB14,188,000).

33. BANK DEPOSITS, BANK BALANCES AND CASH - continued

Notes: - continued

(ii) These clearing settlement funds are held by the clearing houses for the Group and these balances carry interest at prevailing market interest rates.

(iii) As at December 31, 2019 and 2018, the structured bank deposits are mainly placed with CMB, an associate of the Group engaged in the provision of financial services. The deposits are principal-protected yield enhancement bank deposits and contain embedded derivatives, which represent the returns varying with the underlying investment portfolio of the structured bank deposits. The principal amount together with the investment return would be repaid to the Group anytime upon request. Management considers the amounts paid for the structured bank deposits approximate their fair values at the end of the reporting period and the fair values of the embedded derivatives in the structured bank deposits as of the same date are insignificant.

(iv) The funds are held under the direction of the Office of the Commissioner of Insurance of the Hong Kong Insurance Authority and carry variable interest rates of 4.3% (2018: 2.1%) per annum.

34. NON-CURRENT ASSETS HELD FOR SALE

During the year and December 31, 2018, the Group commenced the negotiation with a municipal PRC government, pursuant to which the Group agreed to dispose of, and the counter-party agreed to acquire a piece of land and harbour works, buildings and dockyard (previously included in the land use rights and property, plant and equipment respectively in the consolidated statement of financial position) in the Mainland China. The sale proceeds are expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised. The transaction has been completed in the current year.

During the current year, the Group commenced the negotiation with the same municipal PRC government, pursuant to which the counter-party agreed to resume another piece of land and harbour works, buildings and dockyard (previously included in rights-of-use assets and property, plant and equipment respectively in the consolidated statement of financial position) in the Mainland China. The compensation for resumption are expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised. This transaction is expected to be completed within one year from the date of this reclassification and the assets are therefore classified as held for sale as at December 31, 2019.

35. TRADE, BILLS AND OTHER PAYABLES

Included in trade, bills and other payables are:

	2019 RMB'000	2018 RMB'000
Trade payables (Note i)	12,872,567	6,511,965
Bills payable	1,438,453	339,625
Taxation payable	2,432,211	728,557
Business and other tax payables	715,167	554,472
Advances received from customers	1,873,940	243,102
Advance from other financial institutions	3,068,531	-
Salary and welfare payables	7,189,580	5,082,981
Interest payable for borrowings	73	804,425
Dividend payable to non-controlling interests of subsidiaries	1,304,069	659,894
Amount due to the ultimate holding company (Note ii)	40,373,700	47,821,845
Amount due to the immediate holding company (Note ii)	2,768,687	3,391,123
Amounts due to fellow subsidiaries (Note ii)	883,727	384,258
Amounts due to associates (Note ii)	239,806	496,112
Amounts due to joint ventures (Note ii)	24,299	16,764
Premium payables on reinsurance contracts	45,180	76,635
Outstanding claims and unearned premiums on insurance contracts (Note iii)	262,672	202,588
Net defined benefit obligations - within one year (Note iv)	77,613	6,086
Royalty and premium provision (Note v)	52,740	48,643
TCP Concession Liabilities (note 43(ii))	210,534	117,344
Policyholder contract deposits and other fund for insurance business	2,172,947	865,917
Put option liability (note 43(vii))	732,733	-
Penalty payable to Ecology and Environment Bureau of Panjin	1,995,905	-
Payable of construction projects	4,011,246	-
Deposits from banks and other financial institutions and customers	344,222	-
Commission and handling fee payables for financial services	189,461	88,257

Notes:

(i) Trade payables

The average credit period granted by suppliers ranges from 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

35. TRADE, BILLS AND OTHER PAYABLES - continued

Notes: - continued

(ii) Amounts due to related parties

	Contractual interest rates (for the interest-bearing balances)		Interest-bearing		Interest-free		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amount due to the ultimate holding company	N/A	N/A	-	-	40,373,700	47,821,845	40,373,700	47,821,845
Amount due to the immediate holding company	N/A	N/A	-	-	2,768,687	3,391,123	2,768,687	3,391,123
Amounts due to fellow subsidiaries	N/A	N/A	-	-	883,727	384,258	883,727	384,258
Amounts due to associates	N/A	Floating rate	-	241,927	239,806	254,185	239,806	496,112
Amounts due to joint ventures	N/A	N/A	-	-	24,299	16,764	24,299	16,764

The above amounts, except for those as illustrated, are non-trade in nature, unsecured and repayable on demand.

(iii) Outstanding claims and unearned premiums on insurance contracts

The amount represents outstanding claims and unearned premiums on insurance contracts under the Group's insurance brokerage business.

(iv) Net defined benefit obligations

The amount of RMB77,613,000 (2018: RMB6,086,000) represents the present value of the total defined benefit plan liability of RMB1,515,711,000 (2018: RMB381,411,000) that is due within one year after the end of the reporting period. Details of the measurement of the defined benefit obligation are set out in note 47(b).

(v) Royalty and premium provision

On August 12, 2011, the Group entered into a Build-Operate-Transfer Agreement ("BOT Agreement") with Sri Lanka Ports Authority through a non-wholly owned subsidiary of the Company for the rights to construct, operate, manage and develop the Colombo South Container Terminal for a period of 35 years. The initial recognition amount represents the minimum guaranteed royalty and premium provision under the BOT Agreement determined by discounting the future annual guaranteed cash flows at the then market rate. Except for the amount of RMB52,740,000 (2018: RMB48,643,000) which is due within one year from the end of the reporting period, the remaining balance is due after one year from the end of the reporting period and is included in other non-current liabilities as disclosed in note 43.

36. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS OF SECURITIES DEALING BUSINESS

	2019 RMB'000	2018 RMB'000
Client deposits for margin financing and securities lending	7,086,437	5,123,777
Client deposits for other brokerage business	54,637,783	43,787,971
	61,724,220	48,911,748

The amounts mainly represent monies received from and repayable to brokerage clients by the Group that are placed with banks and at the clearing houses, and are interest-bearing at the prevailing market interest rates.

The majority of the balance is repayable on demand, except for certain amounts arising from margin deposits received from clients for their trading activities under the normal course of the securities dealing business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

37. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2019 RMB'000	2018 RMB'000
Placement from banks (Note i)	2,500,000	1,500,000
Placement from other financial institutions (Note ii)	4,500,000	2,000,000
Interest accrued	13,199	19,000
	7,013,199	3,519,000

Notes:

(i) As at December 31, 2019, the amount is unsecured and interest-bearing at effective interest rate ranging from 2.73% to 3.25% (2018: 3%) per annum. The amount is repayable within seven days from the end of the reporting period.

(ii) As at December 31, 2019, the amount is unsecured and interest-bearing at effective interest rate ranging from 3.25% to 3.50% (2018: 4.80% to 5.10%). The amounts are repayable within three months from the end of the reporting period.

38. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements include the following types of collaterals held by the counterparties:

	2019 RMB'000	2018 RMB'000
Bonds	96,125,621	61,738,407
Gold	4,193,075	-
Others	237,881	158,609
	100,556,577	61,897,016

The collaterals are held in markets as follows:

Stock exchanges	43,775,212	31,847,196
Interbank bond market	56,409,765	29,832,432
Over-the-counter	133,719	58,779
Others	237,881	158,609
	100,556,577	61,897,016

Sales and repurchase agreements are mainly transactions in which the Group sell a security under repurchase agreements. Pursuant to the repurchase agreements, the Group has agreed to repurchase the same lot of securities at predetermined prices at predetermined future dates. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit and market risks and rewards of those securities and rights and interests sold. Accordingly, such securities are not derecognised from the consolidated statement of financial position and are regarded as "collaterals" for the liabilities because the Group retain substantially all the risk and rewards of these securities and margin loans.

The proceeds received are recognised as financial assets sold under repurchase agreements. The difference between the sale and repurchase prices of the securities is recognised as finance costs using the effective interest method over the term of the agreement. The ability of the Group to use the transferred securities during the term of the arrangement is restricted as the Group has sold the contractual rights to the cash flows of the securities under the repurchase agreements.

39. BORROWINGS

	2019 RMB'000	2018 RMB'000
Bank borrowings (Note i)	142,787,951	77,602,512
Obligations under finance leases (Note ii)	-	577,077
Debentures (Note iii)	134,504,725	98,398,831
Notes (Note iv)	13,022,291	20,051,050
Other borrowings from related parties (Note v)	5,542,619	5,895,940
Short-term financing bills payables (Note vi)	20,076,326	5,000,000
Other borrowings from third parties (Note vii)	1,323,418	-
Interest accrued	-	2,267,236
	317,257,330	209,792,646

39. BORROWINGS - continued

The carrying amounts of the above borrowings are repayable as follows:

	Bank borrowings			Other borrowings from third parties	Debentures	Short-term financing bills payables	Notes	Other borrowings from related parties	Interest accrued	Total
	Fixed-rate borrowings	Floating-rate borrowings	Sub-total							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2019										
On demand or within one year	23,254,298	57,772,953	81,027,251	729,638	15,395,391	20,076,326	13,022,290	852,056	-	131,102,952
More than one year, but not exceeding two years	3,247,055	20,112,198	23,359,253	593,780	4,452,896	-	-	901,581	-	29,307,510
More than two years, but not exceeding three years	1,501,596	21,782,092	23,283,688	-	35,128,243	-	-	-	-	58,411,931
More than three years, but not exceeding four years	383,046	3,424,002	3,807,048	-	15,983,085	-	-	3,467,481	-	23,257,614
More than four years, but not exceeding five years	5,189,613	2,880,815	8,070,428	-	35,131,897	-	-	321,503	-	43,523,828
More than five years	278,140	2,962,142	3,240,282	-	28,413,213	-	-	-	-	31,653,495
Total	33,853,748	108,934,202	142,787,950	1,323,418	134,504,725	20,076,326	13,022,290	5,542,621	-	317,257,330
Less: Amounts due within one year shown under current liabilities	(23,254,298)	(57,772,953)	(81,027,251)	(729,638)	(15,395,391)	(20,076,326)	(13,022,290)	(852,056)	-	(131,102,952)
Amounts shown under non-current liabilities	10,599,450	51,161,249	61,760,699	593,780	119,109,334	-	-	4,690,565	-	186,154,378

	Bank borrowings			Present value of minimum payments under finance leases	Debentures	Short-term financing bills payables	Notes	Other borrowings from related parties	Interest accrued	Total
	Fixed-rate borrowings	Floating-rate borrowings	Sub-total							
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018										
On demand or within one year	1,176,191	34,614,940	35,791,131	263,162	27,508,546	5,000,000	20,051,050	1,900,940	2,267,236	92,782,065
More than one year, but not exceeding two years	2,896,495	12,695,759	15,592,254	247,773	13,700,272	-	-	-	-	29,540,299
More than two years, but not exceeding three years	874,390	17,461,813	18,336,203	66,142	20,227,590	-	-	3,755,000	-	42,384,935
More than three years, but not exceeding four years	-	3,741,779	3,741,779	-	9,132,958	-	-	-	-	12,874,737
More than four years, but not exceeding five years	-	2,674,842	2,674,842	-	12,964,345	-	-	160,000	-	15,799,187
More than five years	25,000	1,441,303	1,466,303	-	14,865,120	-	-	80,000	-	16,411,423
Total	4,972,076	72,630,436	77,602,512	577,077	98,398,831	5,000,000	20,051,050	5,895,940	2,267,236	209,792,646
Less: Amounts due within one year shown under current liabilities	(1,176,191)	(34,614,940)	(35,791,131)	(263,162)	(27,508,546)	(5,000,000)	(20,051,050)	(1,900,940)	(2,267,236)	(92,782,065)
Amounts shown under non-current liabilities	3,795,885	38,015,496	41,811,381	313,915	70,890,285	-	-	3,995,000	-	117,010,581

Notes:

(i) Bank borrowings

	2019	2018
	RMB'000	RMB'000
Secured (note b)	64,618,360	52,212,797
Unsecured	78,169,591	25,389,715
	142,787,951	77,602,512

39. BORROWINGS - continued

Notes: - continued

(i) Bank borrowings - continued

Notes:

(a) The Group's borrowings carried at floating rates are linked to HIBOR and LIBOR for borrowings denominated in HK$ and US$, respectively.

(b) Details of the assets pledged to secure borrowings granted to the Group are set out in note 56.

(c) The Group's borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause in the loan agreements are classified as current liabilities.

(d) The range of effective interest rates on the Group's bank borrowings are as follows:

	2019	2018
Effective interest rates:		
Fixed-rate borrowings	1.00% to 10.00%	1.20% to 6.40%
Floating-rate borrowings	1.60% to 6.40%	1.25% to 5.78%

(ii) Obligations under finance leases

	Minimum lease payments 2018 RMB'000
The obligations under finance leases are repayable as follows:	
Within one year	287,995
More than one year, but not exceeding two years	261,200
More than two years, but not exceeding five years	68,808
	618,003
Less: Future finance charges	(40,926)
Present value of lease obligations	577,077

39. BORROWINGS - continued

Notes: - continued

(iii) Debentures

Particulars of the unsecured debentures of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Debentures comprise:		
Listed		
- 4.78% debentures due in 2019	-	4,500,000
- 5.45% debentures due in 2019	-	2,200,000
- 3.08% debentures due in 2020	712,345	-
- 3.30% debentures due in 2020	2,005,703	-
- 3.50% debentures due in 2020	1,414,333	1,369,419
- 3.94% debentures due in 2020	3,004,040	-
- 3.95% debentures due in 2020	1,004,935	1,000,000
- 4.08% debentures due in 2020	1,206,664	-
- 4.78% debentures due in 2020	3,121,523	3,060,000
- 5.24% debentures due in 2020	1,008,238	-
- 5.43% debentures due in 2020	1,505,895	-
- 5.60% debentures due in 2020	1,515,611	-
- 5.70% debentures due in 2020	2,216,427	-
- 3.70% debentures due in 2021	1,018,747	-
- 4.85% debentures due in 2021	3,030,335	1,000,000
- 3.94% debentures due in 2021	3,042,361	3,000,000
- 4.23% debentures due in 2021	1,821,094	1,800,000
- 4.38% debentures due in 2021	2,546,134	2,500,000
- 4.78% debentures due in 2021	1,025,093	1,000,000
- 4.98% debentures due in 2021	401,201	-
- 5.30% debentures due in 2021	2,422,341	-
- 5.35% debentures due in 2021	2,033,838	1,940,000
- 5.60% debentures due in 2021	995,234	-
- 3.45% debentures due in 2022	5,036,903	-
- 3.59% debentures due in 2022	1,540,556	-
- 4.20% debentures due in 2022	2,014,867	-
- 4.45% debentures due in 2022	514,588	-
- 4.50% debentures due in 2022	1,037,767	-
- 4.80% debentures due in 2022	1,101,904	-
- 5% debentures due in 2022	3,500,281	3,408,447
- 4.80% debentures due in 2022	2,482,669	-
- Brasilian Real 428 million, Brasil's National Consumer Price Index ("IPCA") +7.82% debentures due in 2022	810,151	715,740
- 4.38% debentures due in 2023	6,349,018	6,126,656
- 4.89% debentures due in 2023	2,522,356	-
- 5.15% debentures due in 2023	5,727,887	5,491,689
- 4.95% debentures due in 2024	2,796,154	-
- 6.50% debentures due in 2024	1,656,743	-
- 4.75% debentures due in 2025	3,541,255	3,414,652
- 5.08% debentures due in 2025	5,652,888	5,482,048
- 5% debentures due in 2028	4,218,875	4,062,553
	87,556,954	52,071,204

39. BORROWINGS - continued

Notes: - continued

(iii) Debentures - continued

	2019 RMB'000	2018 RMB'000
Unlisted		
- 2.97% debentures due in 2019	-	299,532
- 3.30% debentures due in 2019	-	685,830
- 3.40% debentures due in 2019	-	343,033
- 3.78% debentures due in 2019	-	3,000,000
- 3.79% debentures due in 2019	-	3,000,000
- 4.73% debentures due in 2019	-	200,000
- 4.75% debentures due in 2019	-	3,800,000
- 4.84% debentures due in 2019	-	5,900,000
- 5.20% debentures due in 2019	-	580,151
- 5.30% debentures due in 2019	-	3,000,000
- 3.50% debentures due in 2020	1,523,655	1,480,853
- 5.56% debentures due in 2020	1,728,436	1,640,000
- 5.70% debentures due in 2020	5,426,660	5,150,000
- 3.20% debentures due in 2021	3,638,891	3,552,218
- 3.30% debentures due in 2021	967,437	944,509
- 3.78% debentures due in 2021	4,089,892	-
- 3.85% debentures due in 2021	1,747,698	-
- 4.08% debentures due in 2021	2,056,114	-
- 4.15% debentures due in 2021	2,507,675	2,500,000
- 4.54% debentures due in 2021	1,542,306	-
- 5.15% debentures due in 2021	-	500,000
- 5.50% debentures due in 2021	911,322	1,148,317
- 5.85% debentures due in 2021	349,277	342,546
- 3.30% debentures due in 2022	637,252	608,758
- 3.40% debentures due in 2022	712,085	682,613
- 3.50% debentures due in 2022	352,708	342,649
- 3.75% debentures due in 2022	1,001,938	-
- 4% debentures due in 2022	3,704,942	-
- 4.20% debentures due in 2022	1,006,992	-
- 4.28% debentures due in 2022	4,117,729	-
- 4.30% debentures due in 2022	508,926	-
- 4.68% debentures due in 2022	1,555,126	-
- 4.89% debentures due in 2022	2,585,073	2,500,000
- 6% debentures due in 2022	909,441	874,751
- 4.60% debentures due in 2023	1,383,823	1,346,000
- 4.50% debentures due in 2025	266,120	259,415
- 4.70% debentures due in 2025	314,715	304,810
- 4% debentures due in 2026	288,568	276,399
- 4.20% debentures due in 2026	818,886	784,895
- 4.30% debentures due in 2027	294,084	280,348
	46,947,771	46,327,627
	134,504,725	98,398,831

The proceeds from the above debentures are used to finance the capital expenditure, re-finance existing debt obligations and for other general corporate purposes of the Group.

39. BORROWINGS - continued

Notes: - continued

(iv) Notes

The Group issued notes with fixed interest rates ranging from 2.90% to 3.15% (2018: 3.00% to 5.50%) per annum, or bear variable interest rates that link to certain stock indices. The interests are repayable upon maturity within one year. The notes at variable interest rates contain non-closely related derivatives as their returns are linked to the fluctuation of stock indices. Embedded derivatives are included in derivative financial instruments as set out in note 29 after being bifurcated from their respective host contracts.

(v) Other borrowings from related parties through banks and other financial institutions

Advances from related parties through banks and other financial institutions, which are unsecured, include:

	Contractual and effective interest rates			
	2019	2018	2019	2018
			RMB'000	RMB'000
Advances from the ultimate holding company	5.04% to 6.50%	5.04% to 8.00%	4,099,899	3,322,000
Advances from immediate holding company	5.04% to 5.90%	5.04% to 5.90%	1,442,720	1,130,000
Advance from a fellow subsidiary (note)	Nil	4.28% to 4.80%	-	1,443,940
			5,542,619	5,895,940

Note: The fellow subsidiary is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission. The balance was fully settled during the year ended December 31, 2019.

(vi) Short-term financing bills payables

As at December 31, 2019, the short-term financing bills payables were debt securities issued in the PRC Inter-Bank market by the Group and bore interest rates ranging from 2.98% to 5.97% (2018: 3.13% to 3.15%) per annum.

(vii) Other borrowings from third parties

The Group has entered transactions in the normal course of business by which it transferred the right to receive cash flows of certain financial assets to independent third parties. As the underlying financial assets did not meet the criteria of derecognition, the Group did not derecognise such finance assets and the consideration received was treated as other borrowings from third parties which is principal protected and with fixed interest rate and any difference between the returns from the financial assets and the fixed interest rate as agreed will be returned to or compensated by the Group. As at December 31, 2019, the Group's other borrowings from third parties bear fixed interest rate of 7.00% to 8.50%.

40. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019 RMB'000	2018 RMB'000
Financial liabilities held-for-trading comprise:		
- debt securities	6,922,045	7,519,530
- equity securities	147,189	105,660
- gold leasing	166,992	-
- others	285,317	152,363
	7,521,543	7,777,553
Financial liabilities designated at fair value through profit or loss of consolidated structured entities	3,968,413	2,431,537
	11,489,956	10,209,090
Analysed as:		
Non-current	2,157,877	2,404,123
Current	9,332,079	7,804,967
	11,489,956	10,209,090

Financial liabilities arising from consolidated structured entities are designated at FVTPL as the Group has the obligation to pay other investors upon maturity of the structured entities based on the net book value and related terms.

41. LEASE LIABILITIES

Minimum lease payments receivable on leases are as follows:

	2019 RMB'000
Lease liabilities payable:	
Within one year	2,945,029
Within a period of more than one year but not more than five years	4,375,661
Within a period of more than five years	2,863,157
	10,183,847
Less: Amount due for settlement with 12 months shown under current liabilities	(2,945,029)
Amount due for settlement after 12 months shown under non-current liabilities	7,238,818

Details of the lease maturity analysis of the Group's lease liabilities are set out in note 51(b).

42. CONTRACT LIABILITIES

	2019 RMB'000	2018 RMB'000
Amount received in advance from:		
- port and related operations	119,756	49,994
- logistic and related operations	187,625	231,353
- vessel design services	57,766	-
	365,147	281,347

As at January 1, 2018, contract liabilities amounted to RMB337,217,000.

All sales of goods and provision of services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

During the year ended December 31, 2019, the contract liabilities of RMB281,347,000 as at January 1, 2019 have been settled.

43. OTHER NON-CURRENT LIABILITIES

Included in other non-current liabilities are:

	2019 RMB'000	2018 RMB'000
Advance from the immediate holding company (Note i)	9,893,597	10,593,596
Advance from other financial institutions	5,405,500	-
TCP Concession Liabilities (Note ii)	3,233,851	3,260,547
Outstanding claims and unearned premiums on insurance contracts (Note iii)	11,292,365	2,558,061
Royalty and premium provision (Note iv)	828,500	823,361
Accrual for employee benefits - due after one year	787,540	787,540
Deferred income (Note v)	1,772,815	487,969
Deposits received from lessees under finance leases (Note vi)	1,068,571	715,735
Put option liability (Note vii)	-	579,195
Amounts due to non-controlling shareholders of subsidiaries (Note viii)	407,093	390,658
Net defined benefit obligation (Note ix)	1,438,098	375,325
Port construction dues received on behalf of the government (Note x)	576,334	36,062
Provision for business cessation (Note xi)	-	372,825
Payable for capital preservation fund (Note xii)	863,364	171,930

Notes:

(i) The amount represents advances from CMSN and was unsecured and interest-free. The amount is not required to be repaid within one year from the end of the reporting period. Accordingly, the amount was classified as non-current.

43. OTHER NON-CURRENT LIABILITIES - continued

Notes: - continued

(ii) The amount as at December 31, 2019 represents the liabilities arising from the concession arrangements for a port located in Brasil with the local port authority due by the TCP Group (the "TCP Concession Liabilities"). The relevant concession arrangement allows for operations in the relevant port for up to 2048. Pursuant to the said concession arrangements, including the amendments thereto, with the relevant authority, concession payment is payable on a monthly basis and is adjusted from time to time, among other conditions, with reference to an official inflation index in Brasil. The TCP Concession Liabilities are designated as FVTPL at initial recognition upon the completion of the TCP Acquisition as defined in note 49, and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss. The current portion of the TCP Concession Liabilities amounting to RMB117 million is included in trade, bills and other payables, as set out in note 35.

(iii) The amount represents outstanding claims and unearned premiums on insurance contracts under the Group's insurance brokerage business. The management expects that the amount would be settled after twelve months from the end of reporting period. Accordingly, the amount is classified as non-current.

(iv) The amount represents the minimum guaranteed royalty and premium provision under the BOT Agreement with Sri Lanka Parts Authority due by a non-wholly subsidiary, as set out in note 35 that is due one year after the end of the reporting period.

(v) The amounts mainly represent government subsidies received for the cost of construction of the Group's property, plant and equipment that are treated as deferred income and are transferred to profit or loss over the useful lives of the relevant assets when they are ready for use.

(vi) The amount represents deposits received from lessees under finance lease arrangements which will be settled at the end of the lease terms. As the respective lease terms will end after twelve months with the lessees from the end of the reporting period, the amounts are classified as non-current.

(vii) Amount represents gross obligation arising from a put option issued to non-controlling shareholders of subsidiaries ("Put Option Liability"). The excess of Put Option Liability over the fair value of the put option (as stated in note 49) amounting to RMB507 million at initial recognition was debited to the non-controlling interests. The amount is designated as FVTPL at initial recognition and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss and is exercisable in 2020 and has been reclassified as current liability as at December 31, 2019 as stated in note 35.

(viii) The amount represents loans from non-controlling shareholders of certain subsidiaries which are unsecured and interest-bearing at 4.65% (2018: 4.65%) per annum. The balances are not required to be repaid within twelve months from the end of the reporting period. Accordingly, the amounts are classified as non-current.

43. OTHER NON-CURRENT LIABILITIES - continued

Notes: - continued

(ix) As at December 31, 2019, the amount of RMB1,438,098,000 (2018: RMB375,325,000) represents the present value of the total defined benefit plan liability of RMB1,515,711,000 (2018: RMB381,411,000) that is due one year after the end of the reporting period. Details of the measurement of the defined benefit obligation are set out in note 47(b).

(x) The port construction due is a special government fund approved by the State Council for port construction. The Group is authorised to collect the port construction dues on behalf of the Ministry of Transport and the management expects that the amount would be settled after twelve months from the end of reporting period. Accordingly, the amount is classified as non-current.

(xi) The amount represents the provision for cessation of insurance brokerage business of a wholly-owned subsidiary as at December 31, 2018. The provision made represents management's best estimates of the Group's liabilities based on the actuarial valuation result of the pension liabilities and industry practice. The balance has been settled during the year 2019 with the cessation of insurance brokerage business.

(xii) The amount represents payable for capital preservation for China Merchants Great Wall Ocean Strategy & Technology Fund (the "Fund"). The Fund was established in 2017 by a wholly-owned subsidiary with an initial fund target of USD1 billion and with a tenor of 5 years. The fund primarily focuses on marine equipment, marine oil and gas production chain, automated manufacturing, logistics, marine technology research centers, marine industrial real assets and other frontier or profitable marine technology sectors. According to the agreement of the Fund, the Group has an obligation to guarantee 4.7% investment return as well as a preservation of capital to other investors in the Fund. Accordingly, the amount is classified as non-current.

44. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Issued and fully paid:		
At January 1, 2018	5,436,216,090	5,436,216
Issuance of shares (Note)	11,364,023,774	11,364,024
At December 31, 2018 and 2019	16,800,239,864	16,800,240

	RMB'000
Share capital as shown in the consolidated financial statements:	
At January 1, 2018 and December 31, 2018	5,467,445
Issuance of shares	10,000,000
At December 31, 2018 and 2019	15,467,445

Note: On December 31, 2018, the Group allotted 11,364,012,774 shares to CMSN at a consideration of HK$11,364,024,000 (equivalent to RMB10,000,000).

45. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved in structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether these structured entities are consolidated depending on whether the Group exercises control over these entities. The interests held by the Group in the unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group mainly include asset management schemes and partnerships. The purpose of such structured entities is to manage the investors' assets and collect management fees. These structured entities are financed through investment products issued to investors. The interests held by the Group in the unconsolidated structured entities mainly involve management fees and performance fees collected from structured entities managed or held by the Group.

As at December 31, 2019, the total assets of the unconsolidated structured entities sponsored by the Group amounted to approximately RMB705,517 million (2018: RMB729,590 million).

Investments and income derived from these unconsolidated structured entities held by the Group were not significant.

Structured entities sponsored by third party institutions

Unconsolidated structured entities sponsored by third party institutions include funds, asset management schemes, trust schemes, and wealth management products issued by banks or other financial institutions in which the Group holds an interest. The purpose of such structured entities is to generate fees from managing assets on behalf of the investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at December 31, 2019 and 2018, which are listed below:

	2019		
	Financial assets at FVTOCI	Financial assets at FVTPL	Total
	RMB'000	RMB'000	RMB'000
Funds	-	16,127,666	16,127,666
Trust schemes	-	1,239,484	1,239,484
Wealth management products	-	432,920	432,920
Others	7,057,809	11,432,144	18,489,953
	7,057,809	29,232,214	36,290,023

45. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES - continued

Structured entities sponsored by third party institutions - continued

	2018		
	Financial assets at FVTOCI RMB'000	Financial assets at FVTPL RMB'000	Total RMB'000
Funds	-	20,774,943	20,774,943
Wealth management products	-	459,694	459,694
Others	6,722,607	6,425,640	13,148,247
	6,722,607	27,660,277	34,382,884

46. PERPETUAL CAPITAL SECURITIES ("PCS")

On February 18, 2014, June 18, 2014, July 14, 2014, July 23, 2014 and December 31, 2014 (the "2014 Issue Dates"), CMID issued PCS denominated in US$ and Euro ("EUR") with an aggregate principal amount of US$2,522,000,000 (equivalent to RMB15,376,369,000) and EUR310,000,000 (equivalent to RMB2,572,218,000) respectively to CMU.

On April 30, 2015 (the "2015 Issue Date", together with the 2014 Issue Dates, collectively referred to as the "Issue Dates"), CMID further issued PCS denominated in HK$ with a principal amount of HK$400,000,000 (equivalent to RMB324,000,000) to CMU.

The PCS confer the holder a right to receive distributions (each, a "Distribution") from, and including, the Issue Dates at the rate of 4% per annum on the principal. Distributions shall be payable annually in arrears on December 31 in each year (each, a "Distribution Payment Date").

CMID may at its sole discretion elect to defer, in whole or in part, any Distribution (including any arrears of Distribution) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the holder. CMID shall have no obligation to pay any Distribution (including any arrears of Distribution) on any Distribution Payment Date if it elects not to do so. CMID may further defer any arrears of Distribution following the foregoing notice requirement and is not subject to any limits as to the number of times Distribution and arrears of Distribution can be deferred. Unless and until CMID (i) satisfies in full all outstanding arrears of Distribution and any additional distribution amount or (ii) is permitted to do so in writing by the holders, CMID shall not declare, pay or make any dividends, distribution or other payments is declared, paid or made on any of its ordinary shareholder or parity securities.

46. PERPETUAL CAPITAL SECURITIES ("PCS") - continued

As the PCS only impose contractual obligations on the Group to repay principal or to pay any Distributions under certain circumstances which are at the Group's discretion, they have in substance conferred the Group an unconditional right to avoid delivering cash or other financial assets to settle contractual obligations. Therefore, they do not meet the definition for classification as financial liabilities under HKAS 32. As a result, the whole instrument is classified as equity, and Distributions, if and when declared, are treated as distribution to non-controlling interests.

On February 12, 2018, CMID entered into a PCS transfer agreement with CMU and China Merchants Investments Limited ("CMI"), a wholly-owned subsidiary of the Company, pursuant to which CMU and CMID agreed to transfer the outstanding principal of EUR222,268,181 of PCS (equivalent to RMB1,822,871,000) to CMI. The terms of the PCS remained unchanged upon the completion of transfer from CMID to CMI on February 12, 2018.

During the year ended December 31, 2019, distributions amounting to RMB67,744,000 (2018: RMB66,793,000) have been declared to CMU.

47. RETIREMENT BENEFITS PLANS

(a) Defined contribution plans

(i) Hong Kong

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The ORSO Scheme is funded by monthly contributions from both employees and the Group. The employees contribute a fixed rate of 5% of the employees' basic salary, while the Group contributes at rates ranging from 5% to 12% of the employees' basic salary, depending on the length of service of the employees with the Group.

When employees leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. There were no material forfeited contributions utilised in this manner during both years. At the end of both reporting periods, there were no material forfeited contributions, which arose upon employees leaving the ORSO Scheme and which were available to reduce the contributions payable in future years.

For members of the MPF Scheme, the Group contributes the lower of (i) HK$1,500 or (ii) 5% of relevant monthly payroll costs to the MPF scheme, whose contribution is matched by the employees.

47. RETIREMENT BENEFITS PLANS - continued

(a) Defined contribution plans - continued

(ii) The PRC

Employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefits schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions.

(b) Defined benefits plans

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment and future salaries of plan participants. An increase in the life expectancy and future salaries of the plan participants will both increase the plan's liability.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at December 31, 2019 by an independent qualified professional valuer. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Of the expense for the year, approximately RMB18 million (2018: RMB11 million) has been included in administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

48. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

For the year ended December 31, 2018

In September 2018, a non-wholly-owned subsidiary of the Company completed the acquisition of an additional 80% equity interest in Shenzhen Haixing Xiaoyetian Logistics Development Company Limited ("Shenzhen Xiaoyetian") from an independent third party (the "Xiaoyetian Acquisition"). After the Xiaoyetian Acquisition, the Group's equity interest in Shenzhen Xiaoyetian has increased from 20% to 100%. Shenzhen Xiaoyetian was previously recognised as a financial asset at FVTPL. The total cash consideration is RMB133 million.

48. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY - continued

For the year ended December 31, 2018 - continued

The transaction is accounted for as acquisition of assets as the acquisition does not meet the definition of business combination.

	RMB'000
Consideration	
Cash	132,454
Fair value of previously held equity interest in Shenzhen Xiaoyetian	42,720
Total consideration	175,174
The net assets acquired in the Xiaoyetian Acquisition are as follows:	
Investment properties (note 11)	11,366
Land use right	38,125
Bank deposits, bank balances and cash	123,899
Trade, bills and other receivables	2,060
Trade, bills and other payables	(276)
Total identifiable net assets	175,174
Net cash outflow arising in the Xiaoyetian Acquisition:	
Cash consideration	132,454
Less: Bank deposits, bank balances and cash acquired	(123,899)
Total consideration paid	8,555

The fair value of trade, bills and other receivables at the date of acquisition amounted to RMB2 million which is also the gross contractual amount and best estimate contractual cash flow at the date of acquisition.

49. ACQUISITION OF SUBSIDIARIES

For the year ended December 31, 2019

Acquisition of AVIC

The Group through a wholly-owned subsidiary of the Company (as the purchaser) entered into a share purchase agreement with certain subsidiaries of Aviation Industry Corporation of China, Ltd. (中國航空工業集團有限公司) (the "AVIC") (as the seller), pursuant to which, the seller agreed to sell and the Group agreed to purchase interest of equity of certain subsidiaries of AVIC. AVIC and its subsidiaries are principally engaged in operation of ship-design service, shipbuilding project management and project financing services. Details of the transaction as disclosed below:

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2019 - continued

Acquisition of AVIC - continued

During the year ended December 31, 2019, the Group entered into equity transaction agreements with certain subsidiaries of AVIC to acquire 69.77% interest of equity in AVIC Weihai Shipyard Co., Ltd ("Weihai Shipyard"), 73.87% interest of equity in AVIC International Maritime Holdings Limited ("AVIC International") and 94.85% interest of equity in AVIC Dingheng Shipbuilding Co., Ltd ("AVIC Dingheng"), with the total consideration of cash of RMB1,108 million.

Taking into consideration the Group's power to direct the relevant activities of Weihai Shipyard and AVIC International, the acquisitions of Weihai Shipyard and AVIC International have been completed on December 31, 2019. The acquisition of AVIC Dingheng has been completed in January 2020 and the directors of the Company are in the process of assessing the financial impact.

In view of interdependence of above equity transaction agreements, the provision for acquisition of AVIC Dingheng of RMB266,931,000 has been included in the below net assets of Weihai Shipyard and AVIC International at the date of their acquisition.

	RMB'000
Cash consideration	
Shares of the acquirees	21,435
Loan assignment	997,092
Total consideration	1,018,527
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	1,068,822
Right-of-use assets	620,174
Intangible assets	43,523
Investment in associates/joint ventures	29,062
Derivative financial instruments	1,216
Equity instruments at fair value through other comprehensive income	896
Financial assets at fair value through profit or loss	767
Other non-current assets	300
Deferred tax assets	2,238
Inventories	952,399
Trade, bills and other receivables	2,250,459
Contract assets	58,713
Other current assets	99,969
Bank deposits, bank balances and cash	270,894
Trade, bills and other payables	(4,150,258)
Contract liabilities	(57,766)
Borrowings - due within one year	(1,828,227)
Other current liabilities	(952,092)
Lease liabilities	(45,916)
Other non-current liabilities	(354,751)
Deferred tax liabilities	(28,177)
Total identifiable net liabilities	(2,017,755)

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2019 - continued

Acquisition of AVIC - continued

	RMB'000
Goodwill arising on acquisition:	
Consideration for equity interests in the acquirees	21,435
Plus: Non-controlling interests	(514,652)
Less: Net liabilities assumed	2,017,755
Add: Others	1,127
Goodwill arising on acquisition	1,525,665
Net cash outflow on acquisition of Weihai Shipyard and AVIC International:	
Cash consideration	(1,018,527)
Less: Bank deposits, bank balances and cash acquired	270,894
	(747,633)

The fair value of trade, bills and other receivables at the date of acquisition amounted to RMB2,250 million which is also the gross contractual amount and best estimate contractual cash flow at the date of acquisition.

Acquisition of Liaoning Port

As set out in note 25 (i), the Group through a wholly-owned subsidiary of the Company agreed to acquire 51.1% interest of equity of Liaoning Port to the Group at a consideration of RMB24,245 million and the transaction has been completed on September 30, 2019.

LPG is principally engaged in operation of port facilities in Liaoning. Dalian Port (PDA) Company Limited, a subsidiary of Liaoning Port, was an associate of the Group before the acquisition of Liaoning Port.

	RMB'000
Consideration	
Cash	4,244,796
Deposit paid for acquisition of Liaoning Port in 2018 (note 25(i))	20,000,000
Fair value of previously held equity interest in Dalian Port (PDA) Company Limited	2,994,222
Total deemed consideration	27,239,018

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2019 - continued

Acquisition of Liaoning Port - continued

	RMB'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Investment properties (note 11)	1,320,372
Property, plant and equipment	91,805,061
Right-of-use assets	24,476,173
Investment in associates/joint ventures	9,492,080
Financial assets at fair value through profit or loss	1,974,460
Debt instruments at amortised cost	3,817,280
Equity instruments at fair value through other comprehensive income	3,172,470
Other non-current assets	13,930,543
Deferred tax assets	257,257
Trade, bills and other receivables	11,616,681
Inventories	10,627,779
Other current assets	716,018
Bank deposits, bank balances and cash	10,885,771
Trade, bills and other payables	(11,379,453)
Contract liabilities	(31,673)
Other current liabilities	(15,410,608)
Borrowings - due within one year	(12,413,422)
Lease liabilities	(1,779,208)
Borrowings - due after one year	(40,269,122)
Other non-current liabilities	(14,641,715)
Deferred tax liabilities	(3,936,345)
Total identifiable net assets	84,230,399

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2019 - continued

Acquisition of Liaoning Port - continued

	RMB'000
Goodwill arising on acquisition:	
Total deemed consideration	27,239,018
Plus: Non-controlling interests	60,159,575
Less: Net assets acquired	(84,230,399)
Goodwill arising on acquisition	3,168,194
Net cash inflow on acquisition of Liaoning Port:	
Cash consideration paid	(4,244,796)
Less: Bank deposits, bank balances and cash acquired	10,885,771
	6,640,975

The fair value of trade, bills and other receivables at the date of acquisition amounted to RMB11,617 million which is also the gross contractual amount and best estimate contractual cash flow at the date of acquisition.

Acquisition of Zhanjiang Port

In January 2019, the Group through a non-wholly-owned subsidiary of the Company entered into share purchase agreements with Sinotrans Guangdong Import & Export Co., Ltd ("Sinotrans"), whose ultimate shareholder is CMG and Zhanjiang Infrastructure Investment Group Company Limited ("ZJ Infrastructure") respectively for the Group to purchase certain equity interest of Zhanjiang Port (Group) Co., Ltd ("ZJG"), with the total consideration of RMB3,375 million.

ZJG is principally engaged in operation of port facilities in Zhanjiang.

The transactions were completed on February 3, 2019. Since then the Group has held 58.3549% interest of equity in ZJG and has the right to appoint the majority of board members to the board of directors of ZJG which is the authority of the power to direct the relevant activities of ZJG. Accordingly, ZJG is accounted for as a subsidiary of the Group.

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2019 - continued

Acquisition of Zhanjiang Port - continued

	RMB'000
Consideration	
Cash	3,375,334
Fair value of previously held equity interest in ZJG	2,812,815
Total deemed consideration	6,188,149

	RMB'000
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	9,633,194
Right-of-use assets	4,871,365
Investment properties (note 11)	63,474
Investment in associates/joint ventures	172,686
Financial assets at fair value through profit or loss	36,456
Other non-current assets	1,755,659
Deferred tax assets	41,992
Inventories	43,042
Dividend receivables	10,234
Trade, bills and other receivables	789,075
Other current assets	85,652
Bank deposits, bank balances and cash	4,216,364
Trade, bills and other payables	(993,993)
Borrowings - due within one year	(4,161,845)
Other current liabilities	(892,169)
Borrowings - due after one year	(2,162,537)
Lease liabilities	(857,877)
Other non-current liabilities	(1,067,603)
Deferred tax liabilities	(595,180)
Total identifiable net assets	10,987,989

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2019 - continued

Acquisition of Zhanjiang Port - continued

	RMB'000
Goodwill arising on acquisition:	
Consideration transferred	6,188,149
Plus: Non-controlling interests	5,218,185
Less: Net assets acquired	(10,987,989)
Goodwill arising on acquisition	418,345
Net cash inflow on acquisition of Zhanjiang Port:	
Cash consideration	(3,375,334)
Less: Bank deposits, bank balances and cash acquired	4,216,364
Total	841,030

The fair value of trade, bills and other receivables at the date of acquisition amounted to RMB789 million which is also the gross contractual amount and best estimate contractual cash flow at the date of acquisition.

For the year ended December 31, 2018

On September 4, 2017, the Group through a non-wholly owned subsidiary (as the purchaser) entered into a share purchase agreement with TCP Participações S.A. (as the intervening party) ("TCP", together with its subsidiaries, the "TCP Group") and several independent third parties who are the original shareholders of TCP (as the seller) (the "Selling Shareholders"), pursuant to which, the Selling Shareholders agreed to sell and the Group agreed to purchase 7,271,233 issued shares of TCP (the "Initial Sale Shares") which were originally owned by the Selling Shareholders. The sale of the Initial Sale Shares to the Group will accelerate the vesting of the stock options granted by TCP (the "TCP Stock Option Plan"). The Selling Shareholders agreed to cause the beneficiaries of the TCP Stock Option Plan to exercise their rights to subscribe for 340,100 shares of TCP under the TCP Stock Option Plan (the "Individual Seller Shares") and to sell all the Individual Seller Shares to the Group (the "TCP Acquisition"). The Initial Sale Shares and the Individual Sellers Shares collectively represent 90% of the issued share capital of TCP. The cash consideration for the acquisition of the Initial Sale Shares and the Individual Sellers Shares is Brasilian Real 2,812 million (equivalent to approximately RMB5,468 million).

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2018 - continued

Pursuant to the shareholders' agreement, a put option was granted by the Group to the non-controlling equity holders of TCP Group (the "Option Holders") exercisable 2 years after February 23, 2018. The Option Holders have the right to sell to, and require the Group to acquire all of the Option Holders' remaining equity interest of TCP Group after February 23, 2018 at a cash consideration. At initial recognition, the fair value of the put option as at acquisition date amounted to US$24 million (equivalent to RMB154 million). The Group was also granted with a call option to acquire all of the Option Holders' remaining equity interest of TCP Group, where the fair value of the call option was determined as negligible at initial recognition.

TCP Group is principally engaged in operation of port facilities in Brasil.

The transaction was completed on February 23, 2018. Since then, the Group has the right to appoint the majority of board members to the board of directors of TCP, which is the authority of the power to direct the relevant activities of TCP. Accordingly, TCP Group is accounted for as subsidiaries of the Group.

Further details of the TCP Acquisition are set out below:

	RMB'000
Consideration	
Cash	5,468,066
Fair value of identifiable assets acquired and liabilities assumed:	
Intangible assets (note 16)	5,268,026
Property, plant and equipment (note 12)	1,993,006
Bank deposits, bank balances and cash	896,117
Trade, bills and other receivables	207,130
Other current assets	32,507
Deferred tax assets	31,600
Inventories	459
Other non-current liabilities	(3,500,666)
Borrowings - due within one year	(2,204,789)
Deferred tax liabilities	(597,012)
Trade, bills and other payables	(289,986)
Total identifiable net assets	1,836,392

The fair values of the above intangible assets acquired in the TCP Acquisition and the value of put option have been determined by a group of professional valuers, Greater China Appraisal Limited. Fair values of the identifiable assets acquired and liabilities assumed are determined by reference to valuations performed by Greater China Appraisal Limited based on asset-based approach. Significant assumptions of the valuations include the growth rates, discount rates and expected future cash inflows/outflows of TCP Group.

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2018 - continued

	RMB'000
Net cash outflow arising in the TCP Acquisition:	
Cash consideration	5,468,066
Less: Bank deposits, bank balances and cash acquired	(896,117)
Net cash outflow during the year ended December 31, 2018	4,571,949

Trade receivables acquired with a fair value of RMB109 million at the date of acquisition had gross contractual amounts of RMB113 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB3 million.

The non-controlling interests in TCP Group recognised were measured by reference to the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

Acquisition-related costs amounting to RMB3 million (2017: RMB31 million) have been excluded from the consideration transferred and has been recognised as general and administrative expenses in the consolidated statement of profit or loss in both years.

Goodwill arising on the TCP Acquisition:

	RMB'000
Cash consideration	5,468,066
Add: Put option granted to non-controlling interests	154,062
Add: Non-controlling interests	183,639
Less: Fair values of identifiable net assets acquired	(1,836,392)
Goodwill arising on acquisition	3,969,375

Goodwill arose in the acquisition of TCP Group because the cost of the acquisition included a control premium. In addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies as a result of the new presence in Latin America region which will further strengthen the Group's port and related business. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit and revenue of the Group for the year ended December 31, 2018 were net profit of RMB90 million and revenue of RMB1,159 million generated by TCP Group.

Had the TCP Acquisition been completed on January 1, 2018, revenue and profit to the Group for the year ended December 31, 2018 amounting RMB45,138 million and RMB16,541 million, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the TCP Acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

49. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2018 - continued

In determining the 'pro-forma' revenue and profit of the Group had the TCP Acquisition been completed at the beginning of the current year, the directors have:

- calculated depreciation of property, plant and equipment and amortisation of intangible assets acquired on the basis of the fair values arising in the accounting for the acquisition rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the acquisition.

50. CAPITAL RISK MANAGEMENT

The Group maintains a strong capital base so as to sustain future business development and ensure that entities in the Group will be able to continue as a going concern. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance the overall capital structure through advances from holding companies as well as the issue of new debts or the redemption of existing debts.

Certain group entities regulated by the Securities and Futures Commission ("SFC") and the China Securities Regulatory Commission (中國証券監督管理委員會) are required to comply with certain minimum capital requirements according to the Securities and Futures Ordinance of Hong Kong and the corresponding regulatory regulations of the PRC. Management monitors, on a daily basis, the liquid capital of the relevant group entities to ensure they meet the minimum liquid capital requirement in accordance with the relevant rules and regulations.

In addition to capital risk management, there is a concentration of location risk of net assets owned by the Group. The Group's net assets are principally situated in the PRC and accordingly, they are subject to a concentration of assets realisation risk in the local municipalities and provinces, where they are located. The Group's ability to realise the majority of its assets is related to the economic conditions of the PRC as a whole and the local areas in which it operates. Management manages this exposure by maintaining a portfolio of assets in different municipalities and provinces with different risk profiles.

The entities of the Group which were established in the PRC maintained RMB-denominated bank balances. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

51. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets		
FVTPL		
Mandatorily measured at FVTPL	176,184,839	128,894,268
Derivative financial instruments	1,807,060	1,153,275
Equity instruments at FVTOCI	11,616,222	8,042,140
Debt instruments at FVTOCI	49,568,414	43,732,333
Financial assets at amortised costs/loans and receivables		
- debt instruments at amortised cost	15,581,332	5,631,107
- other non-current assets	11,197,048	7,202,480
- financial assets held under resale agreements	35,995,860	33,766,487
- dividend receivables	888,654	439,695
- trade, bills and other receivables (net of allowances for credit losses)	11,526,785	10,758,394
- contract assets	7,983,048	9,284,822
- loans and advances to customers of securities dealing business	55,224,619	42,976,430
- deposits for securities dealing business	4,780,890	1,431,420
- bank balances held on behalf of customers	53,040,323	40,144,484
- bank deposits, bank balances and cash	64,158,036	39,448,515
	260,376,595	191,083,834
Financial liabilities		
FVTPL		
- Held-for-trading	7,521,543	7,777,553
- Designated at FVTPL	3,968,413	2,431,537
	11,489,956	10,209,090
Derivative financial instruments	2,223,010	1,308,309
At amortised cost		
- trade, bills and other payables	73,060,702	68,527,262
- amounts payable to brokerage clients of securities dealing business	61,724,220	48,911,748
- placements from banks and other financial institutions	7,013,199	3,519,000
- financial assets sold under repurchase agreements	100,556,577	61,897,016
- borrowings	317,257,330	206,948,333
- other non-current liabilities	10,300,690	10,984,255
	569,912,718	400,787,614

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies

The Group's major financial instruments mainly include amounts due from (to) related parties, financial assets at FVTPL, equity instruments at FVTOCI, debt instruments at FVTOCI, financial assets held under resale agreements, dividend receivables, trade, bills and other receivables, contract assets, debt instruments at amortised cost, derivative financial instruments, loans and advances to customers of securities dealing business, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, bank balances and cash, trade, bills and other payables, accounts payable to brokerage clients of securities dealing business, placements from banks and other financial institutions, financial assets sold under repurchase agreements, bank borrowings and financial liabilities at FVTPL.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The risks associated with the financial instruments of the Group and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

(i) Currency risk

The majority of the subsidiaries of the Company operate in Hong Kong and the PRC with most of the transactions denominated in either RMB, HK$, US$ and EUR. RMB is not freely convertible into other foreign currencies as the conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Certain subsidiaries of the Company have foreign currency transactions, mainly arising from the sale of goods, purchase of materials and plant and equipment from overseas suppliers, expenses and borrowings. The Group considers that its foreign currency exposure is mainly arising from the exposure of RMB against US$, HK$ and EUR, or US$, HK$ and EUR against RMB.

The Group also regularly reviews the portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign currency risk. The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable low level from time to time.

It is the policy of the Group to draw borrowings in the currencies of which income is expected to be generated for future repayments.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risks - continued

(i) Currency risk - continued

The carrying amounts of the Group's major monetary assets and monetary liabilities at the end of the respective reporting periods which are denominated in currencies other than the functional currencies of the relevant group entities, are as follows:

	Assets		Liabilities	
	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000
US$	21,809,657	13,127,135	93,161,315	37,701,876
HK$	867,645	1,479,376	6,322,944	1,488,021
RMB	1,305,399	2,533,695	4,225,804	3,646,722
EUR	705,004	723,259	2,312,341	2,221,429

The Group is also exposed to foreign currency risks arising from foreign currency forward contracts.

The following table details the Group's sensitivity to a 5% (2018: 5%) increase and decrease in the relevant foreign currencies against the relevant functional currencies of the respective group entities. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 5% (2018: 5%) change in the foreign currency rates. A positive (negative) number below indicates an increase (a decrease) in profit for the year where the relevant foreign currencies strengthen 5% (2018: 5%) against the relevant functional currencies of the respective group entities. For a corresponding weakening of the foreign currencies against the relevant functional currencies of the respective group entities, there would be an equal and opposite impact on the profit for the year.

	US$ impact		HK$ impact		RMB impact (Note)		EUR impact	
	2019	2018	2019	2018	2019	2018	2019	2018
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit for the year	(3,567,583)	(1,228,737)	(272,765)	(432)	(146,020)	(55,651)	(80,367)	(74,909)

Note: For monetary items denominated in RMB held by group entities whose functional currencies are not RMB.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risks - continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to financial assets held under resale agreements, loans and advances to customers of securities dealing business, financial assets sold under repurchase agreements, amounts due from (to) related parties, bank borrowings, debentures, lease liabilities and structured notes that are arranged at fixed interest rates.

The Group is also exposed to cash flow interest rate risks in relation to bank balances held on behalf of customers, bank deposits and balances, deposits for securities dealing business, amounts due from (to) related parties, accounts payable to brokerage clients of securities dealing business, placements from banks and bank borrowings that are arranged at variable interest rates.

In order to mitigate the interest rate risk, the Group adopts a policy of maintaining an appropriate mix of fixed-rate and variable-rate borrowings, which is achieved primarily through the contractual terms of the borrowings.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates determined by the People's Bank of China, HIBOR and LIBOR.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 (2018: 10) basis points and 50 (2018: 50) basis points increase or decrease for financial assets and financial liabilities, respectively, are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

For financial assets carried at amortised cost, if interest rates had been 10 (2018: 10) basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2019 would increase/decrease by RMB119,952,000 (2018: RMB81,868,000).

For financial liabilities carried at amortised cost, if interest rates had been 50 (2018: 50) basis points higher/lower and all variables were held constant, the Group's profit for the year ended December 31, 2019 would decrease/increase by RMB888,358,000 (2018: RMB626,516,000).

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risks - continued

(iii) Other price risk

Certain of the Group's investment in financial liabilities held-for-trading, debt instruments at FVTOCI, equity instruments of FVTOCI, equity instruments to FVTOCI, financial assets mandatorily at FVTPL and derivative financial instruments (2018: financial liabilities held-for-trading, debt instruments at FVTOCI, equity instruments of FVTOCI, equity instruments to FVTOCI, financial assets mandatorily at FVTPL and derivative financial instruments) are exposed to equity price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles and in different stock exchange markets.

The Group monitors the price risk and will consider hedging the risk exposure should need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the end of reporting period.

If the prices of the respective instruments had been 20% (2018: 20%) higher/lower:

- profit of the Group for the year ended December 31, 2019 would increase/decrease by RMB4,209,692,000 (2018: RMB1,489,464,000) as a result of the changes in equity price of financial assets at FVTPL, financial liabilities held-for-trading and derivative financial instruments (2018: financial assets at FVTPL, financial liabilities held-for-trading and derivative financial instruments); and

- investment revaluation reserve for the year ended December 31, 2019 would increase/decrease by RMB227,305,000 (2018: RMB23,021,000) as a result of the changes in fair values of equity instruments at FVTOCI and debt instruments at FVTOCI.

In management's opinion, the sensitivity analysis in respect of debt instruments at FVTOCI, equity instruments at FVTOCI, financial assets mandatorily at FVTPL, financial liabilities held-for-trading and derivative financial instruments (2018: debt instruments at FVTOCI, equity instruments at FVTOCI, financial assets mandatorily at FVTPL, financial liabilities held-for-trading and derivative financial instruments) of the Group is not necessarily representative of the inherent price risk as the year end exposure does not reflect the exposure during the year.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group' s credit risk is primarily attributable to debt instruments at FVTOCI, debt instruments at amortised cost, financial assets held under resale agreements, finance leases receivables, dividend receivables, trade, bills and other receivables, contract assets, loans and advances to customers of securities dealing business, those under other current assets, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, bank balances and cash and those under other non-current assets.

Management has a credit policy in place and the exposures to these credit risks are managed by management of the individual business units and monitored by the Group's management on a group basis. As at December 31, 2019, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in note 55.

The policies on the management of credit risks arising from the Group's financial services business are set out below:

(i) For credit risks arising from margin financing, securities lending and securities repurchase businesses, the Group has established a multi-level authorisation system for business management and a comprehensive system for risk management that covers the whole business process including due diligence investigation of clients, approval of credit grant, post-loan evaluation including evaluation of loan to collateral ratio of each client, dynamic adjustment to collaterals, mark-to-market system, mandatory liquidation and disposal on default.

(ii) For credit risks arising from debt instruments, the Group has developed an internal credit rating mechanism to control risks of default and downgrading of debt securities and default of counterparties. The Group sets the minimum rating requirements for various types of investments and counterparties by the business authorisation system and minimises the loss arising from different types of investments and default of counterparties through diversification.

(iii) For credit risks arising from the trading of over-the-counter derivatives, the Group has formed a set of management measures and rules to determine the eligibility of investors, due diligence of clients, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collaterals and follow-up measures on default of clients.

(iv) For credit risks arising from brokerage trading business, the trading of securities by domestic clients where the Group acts as an agent is settled by full margin. With regard to the trading of securities by overseas clients, the Group has effectively controlled the relevant credit risk by strengthening the monitoring of credit grant and margin ratio.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Trade, bills and other receivables and contract assets

In order to minimise the credit risk arising from trade, bills and other receivables and contract assets, the management of each business unit has set up internal policies for their respective industries according to industry practices and business environments of the businesses. The respective credit teams determine credit limits, credit approvals and other monitoring procedures to ensure that the receivables are recoverable. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. For trade debtors spotted as of higher credit risks, management of the Group also implemented measures such as tightened credit terms and closer monitoring of the settlement patterns.

In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2018: ECL model) on the balances individually or based on provision matrix. To measure the ECL of trade receivables and contract assets, the management are assessed collectively using provision matrix based on shared characteristics including historical credit loss experience, industry specific factors to the debtors, general economic conditions and the available and supportive forward-looking information, including time value of money where appropriate. In this regard, the management considers that the Group's credit risk is significantly reduced.

Regarding amounts due from related parties, the management of the Group assesses the recoverability by reviewing the financial position and results of the related parties periodically and considers the credit risk to be insignificant.

The Group accounts for its credit risk on bills and other receivables by performing credit evaluation and appropriately providing expected credit losses on a timely basis. Under ECL model upon application of HKFRS 9 (2018: ECL model), the management makes periodic collective assessment as well as individual assessment on the recoverability of all loans and receivables, based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of other loans and receivables falls within the recorded allowances. In this regard, the management consider that the Group's credit risk is significantly reduced.

The Group has no other significant concentration of credit risk with exposure spread over a number of counterparties and customers, and industries. The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and the PRC.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Debt instruments at FVTOCI

Debt securities measured at FVOCI are invested or placed with counterparties and financial institutions with sound credit quality. To mitigate the risk of non-recovery of investments in debt securities and their related concentration risk, the Group maintains portfolio which comprises mainly of investment grade products, constituents of defined world indices and instruments issued by state owned or controlled enterprises. The Group closely monitors the credit quality and financial positions of counterparties and considers appropriate action if the market value of the securities declines by a predetermined threshold.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from debt instruments at FVTOCI are set out in note 21 to these financial statements.

Bank balances held on behalf of customers and bank deposits, bank balances and cash

Substantially all of the Group's cash and cash equivalents are banks with high credit ratings assigned by international credit-rating agencies. Therefore, the Group performs impairment assessment under 12m ECL model upon application of HKFRS 9 (2018: ECL model) on collective basis. Management does not expect any losses from non-performance by these counterparties.

In addition, there is also concentration of credit risk on liquid funds deposited by the Group in CMB, an associate of the Group. Given the close relationship of the associate of the ultimate holding company with the Group and its good credit history, the directors of the Company consider that the credit risk associated with the funds deposited with the associate is low. Other than the above, the Group does not have any other significant concentration of credit risk.

Other financial assets from securities dealing business

The Group is primarily exposed to four types of credit risk arising from the Group's financial services business, including:

a. risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchases;
b. risk of losses of principal and interests for investments in debt securities, trust products and other credit products due to default of the issuers or borrowers;
c. risk arising from default of a counterparty to meet its payment obligation in trading of over the counter ("OTC") derivatives such as equity swaps, interest rate swap and OTC futures; and
d. risk arising from the default of customers in brokerage business in respect of trading of securities, futures and other financial products, when there was shortfall of funds after liquidation of client's accounts on settlement dates.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Other financial assets from securities dealing business - continued

On the basis of credit rating of counterparties, qualification assessment on borrowers, and the quantitative management of collaterals, the Group fully considers the customer portfolio of each credit related transaction, the amount of a single debt, the term of borrowing, the maintenance of collateral ratio and the degree of collateral concentration, etc., and makes sure the above factors are reflected in parameters such as probability of default (PD), loss given default (LGD) and maturity (M) of borrowers. The potential default losses of credit business are measured on a transaction-to-transaction basis, then the Group's overall credit risk exposure are aggregated, with stress tests and sensitivity analysis as supplement to measurement of credit risks.

The Group uses expected credit loss model to measure the expected credit losses for applicable financial assets. Factors considered in the assessment using the expected credit loss model mainly includes asset categories, probability of default, loss given default, exposure, discount rate and adjustment factors, whether there are significant increase in credit risks and judgment on low risk assets, and the loss provision in respect of fixed-income financial assets are determined on the basis of the projected future cash inflow.

The probability of default will be adjusted in the light of macroeconomic environment and the specific situation of bonds, and determined after considering prospective adjustment factors and adjustment factors of specific bonds. The prospective adjustment factors are evaluated mainly based on analysing the relationship between the default rate and the long-term average default rate under different economic environments (or macroeconomic factors) in China and other countries, and determined through forecasting economic environment; the adjustment factors in respect of bonds are depend on different industries, specific bonds and risk mitigation measures, which will be adjusted based on specific situations or the need of change.

The loss given default is estimated based on historical data and subject to a prospective adjustment.

Other than the concentration of the credit risk on trade, bills and other receivables, finance lease receivables, bank balances held on behalf of customers and bank deposits, bank balances and cash, the Group do not have any other significant concentration of credit risk.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity. Management monitors rolling forecasts of the Group's liquidity reserve, which comprise undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows. The Group aims to maintain flexibility in funding by keeping a mix of committed and uncommitted credit lines available.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms or the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following tables also detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative financial instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial liabilities is prepared based on the contractual maturities as management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand or less than 1 year RMB'000	1 - 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at December 31, 2019 RMB'000
2019						
Non-derivative financial liabilities						
Trade, bills and other payables	-	28,770,483	-	-	28,770,483	28,770,483
Accounts payable to brokerage clients of securities dealing business	-	61,724,220	-	-	61,724,220	61,724,220
Placement from banks and other financial institutions	1.09	7,089,749	-	-	7,089,749	7,013,199
Financial assets sold under repurchase agreements	-	100,556,577	-	-	100,556,577	100,556,577
Amounts due to related parties						
- non-interest bearing	-	44,290,219	9,893,597	-	54,183,816	54,183,816
- interest-bearing (fixed-rate)	0.17	1,057,132	5,156,395	-	6,213,527	5,542,619
Amounts due to non-controlling shareholders of subsidiaries	4.65	-	-	501,742	501,742	407,093
Bank borrowings						
- fixed-rate	5.50	25,116,254	11,931,182	316,385	37,363,821	33,853,749
- variable-rate	3.70	61,803,518	51,799,954	3,358,526	116,961,998	108,934,202
Debentures	2.28	31,475,194	95,994,289	16,072,592	143,542,075	134,504,725
Short term finance bills payable	-	20,076,326	-	-	20,076,326	20,076,326
Notes	-	13,022,291	-	-	13,022,291	13,022,291
Other borrowings from third parties	7.79	832,732	640,035	-	1,472,767	1,323,418
Financial liabilities held-for-trading	-	7,521,543	-	-	7,521,543	7,521,543
Financial liabilities designated at FVTPL	-	3,968,413	-	-	3,968,413	3,968,413
Leases liabilities	3.98	3,176,863	4,885,407	3,688,762	11,751,032	10,183,847
		410,481,514	180,300,859	23,938,007	614,720,380	591,586,521
Financial guarantee contracts		2,260,968	-	-	2,260,968	N/A
Derivatives - net settlement						
Interest rate swaps	-	232,985	-	-	232,985	232,985
Bond futures	-	22,254	-	-	22,254	22,254
Equity return swaps	-	1,969	-	-	1,969	1,969
Stock index futures	-	-	-	-	-	-
Options	-	851,656	-	-	851,656	851,656
Credit default swap	-	2,971	-	-	2,971	2,971
Commodity futures	-	1,105,762	-	-	1,105,762	1,105,762
Commodity swaps	-	-	-	-	-	-
Commodity	-	-	-	-	-	-
Forward contracts	-	5,413	-	-	5,413	5,413
		2,223,010	-	-	2,223,010	2,223,010

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity and interest risk tables - continued

	Weighted average effective interest rate %	On demand or less than 1 year RMB'000	1 - 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at December 31, 2018 RMB'000
2018						
Non-derivative financial liabilities						
Trade, bills and other payables	-	16,227,024	-	-	16,227,024	16,227,024
Accounts payable to brokerage clients of securities dealing business	-	48,911,748	-	-	48,911,748	48,911,748
Placement from banks and other financial institutions	1.06	3,528,275	-	-	3,528,275	3,519,000
Financial assets sold under repurchase agreements	7.13	66,399,018	-	-	66,399,018	61,897,016
Amounts due to related parties						
- non-interest bearing	-	62,651,908	-	-	62,651,908	62,651,908
- interest-bearing (fixed-rate)	5.30	2,041,170	4,070,382	97,976	6,209,528	5,895,940
- interest-bearing (variable-rate)	5.00	254,024	-	-	254,024	241,927
Amounts due to non-controlling shareholders of subsidiaries	4.65	-	-	481,486	481,486	390,658
Bank borrowings						
- fixed-rate	3.11	1,330,772	3,918,415	26,943	5,276,130	4,972,076
- variable-rate	1.69	35,844,037	37,848,624	1,529,516	75,222,177	72,630,436
Obligations under finance leases	4.04	287,995	330,008	-	618,003	577,077
Debentures	4.67	32,105,313	65,035,318	14,865,120	112,005,751	98,398,831
Short term finance bills payable	3.14	5,156,900	-	-	5,156,900	5,000,000
Notes	5.50	20,390,366	-	-	20,390,366	20,051,050
Financial liabilities held-for-trading	-	7,777,553	-	-	7,777,553	7,777,553
Financial liabilities designated at FVTPL	-	2,431,537	-	-	2,431,537	2,431,537
		305,337,640	111,202,747	17,001,041	433,541,428	411,573,781
Financial guarantee contracts	-	4,841,787	-	-	4,841,787	N/A
Derivatives - net settlement						
Interest rate swaps	-	392,849	-	-	392,849	392,849
Bond futures	-	1,655	-	-	1,655	1,655
Equity return swaps	-	19,477	-	-	19,477	19,477
Stock index futures	-	18	-	-	18	18
Options	-	166,537	-	-	166,537	166,537
Credit default swap	-	1,123	-	-	1,123	1,123
Commodity futures	-	446,322	-	-	446,322	446,316
Commodity swaps	-	264,023	-	-	264,023	264,023
Commodity	-	12,205	-	-	12,205	12,205
Forward contracts	-	4,100	-	-	4,100	4,106
		1,308,309	-	-	1,308,309	1,308,309

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements.

51. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee, which is a function of the likelihood that the financial receivables held by the counterparties which are guaranteed suffer any credit losses.

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, management uses judgement in selecting an appropriate valuation technique for the financial instruments. Valuation techniques commonly used by the market practitioners are applied, which include reference to the fair value of another financial instrument that is substantially the same, discounted cash flow analysis and option pricing models.

When valuation techniques are used, observable inputs from the market are adopted. In cases where market observable inputs cannot be obtained, management estimates the inputs by calibrating market observable data as closely as possible, or uses inputs based on management's best estimates. The inputs used in the valuation techniques mainly include risk-free and benchmark interest rates, credit spreads and foreign exchange rates.

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Mandatorily measured at FVTPL	21,900,665	121,547,074	32,737,100	176,184,839
Derivative financial instruments (not under hedge accounting)	1,233,743	439,561	133,756	1,807,060
	23,134,408	121,986,635	32,870,856	177,991,899
Equity instrument at FVTOCI	21,828	7,636,723	3,957,671	11,616,222
Debt instrument at FVTOCI	1,114,697	45,556,002	2,897,715	49,568,414
Financial Liabilities at FVTPL				
Designated at FVTPL	-	3,968,413	-	3,968,413
Held-for-trading	570,636	5,541,614	1,409,293	7,521,543
Derivative financial instruments (not under hedge accounting)	1,515,313	260,179	447,518	2,223,010
	2,085,949	9,770,206	1,856,811	13,712,966

	2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Mandatorily measured at FVTPL	7,781,532	91,665,377	29,447,359	128,894,268
Derivative financial instruments (not under hedge accounting)	488,766	664,509	-	1,153,275
	8,270,298	92,329,886	29,447,359	130,047,543
Equity instrument at FVTOCI	20,925	7,234,753	786,462	8,042,140
Debt instrument at FVTOCI	94,181	41,642,341	1,995,811	43,732,333
Financial Liabilities at FVTPL				
Designated at FVTPL	-	2,431,537	-	2,431,537
Held-for-trading	258,023	6,839,015	680,515	7,777,553
Derivative financial instruments (not under hedge accounting)	564,955	743,354	-	1,308,309
	822,978	10,013,906	680,515	11,517,399

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Financial assets at FVTPL						
Debt securities						
- Traded on stock exchanges	5,987,935	2,024,410	Level 1	Quoted closing prices in an active market.	N/A	N/A
	-	536,057	Level 2	Based on the adjusted quoted price for the factor of discount for lack of marketability	Discount for lack of marketability.	The higher the discount, the lower the fair value.
	29,980,155	22,086,234	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.		
	399,999	-	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	Expected future cash flows. Discounted rates that correspond to the expected risk level.	The higher the future cash flow, the higher the fair value. The lower the discount rate, the higher the fair value.
- Traded on inter-bank market	62,927,449	44,770,677	Level 2	Discounted cash flows with future cashflows that are estimated based on yield curves of different securities.	N/A	N/A
	171,793	-	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	Expected future cash flows. Discounted rates that correspond to the expected risk level.	The higher the future cash flow, the higher the fair value. The lower the discount rate, the higher the fair value.

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Financial assets at FVTPL - continued						
Debt securities - continued						
-Unlisted	835,902	-	Level 2	Measured at fair value based on broker quoted price.	N/A	N/A
	70,095	51,056	Level 3	Discounted cash flows with future cashflows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	Credit risk spread.	The higher the credit risk spread, the lower the fair value.
	-	3,071,460	Level 3	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Net asset value or net fund asset value	The higher the net asset value, the higher the fair value.
	-	1,548,930	Level 3	Adjusted recent transaction prices.	Recent transaction price/liquidity discount	The higher the recent transaction price, the higher the fair value.
	-	164,697	Level 3	Adjusted recent transaction prices.	Recent transaction price	The higher the recent transaction price, the higher the fair value.
	9,029,634	22,002	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates.	Liquidity discount	The higher the liquidity discount, the lower the fair value.
	-	34,689	Level 3	Determined with reference to market multiples, prices of listed securities in similar nature, volatilities and coupon rate of similar securities that are traded in a public market with an adjustment of discount for lack of marketability.	Discount for lack of marketability	The higher the discount rate, the lower the fair value.

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Financial assets at FVTPL - continued						
Equity securities						
- Traded on stock exchanges	12,128,091	4,526,005	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Traded on National Securities Exchange and Quotation System	4,629,852	402,179	Level 2	Bid prices made by market dealers.	N/A	N/A
	55,646	-	Level 2	Bid prices or negotiated prices.	N/A	N/A
	558,639	-	Level 2	Last observable transaction prices	N/A	N/A
	-	82,561	Level 3	Adjusted quoted prices.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
- Traded on stock exchanges (inactive)	3,523	112,661	Level 2	Adjusted quoted closing prices for stocks suspended for trading.	N/A	N/A
- Restricted shares traded on stock exchange	1,647,376	1,388,589	Level 2	Adjusted quoted prices.	N/A	N/A
- Unlisted	-	1,628,033	Level 3	Adjusted recent transaction prices.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
	1,265,301	-	Level 3	Comparable companies analysis valuation.	Liquidity discount.	The higher the discount, the lower the fair value.
	799,968	-	Level 3	Discounted amount based on simple repurchase interest rate.	Repurchase interest rate.	The higher the interest rate, the higher the fair value.
	208,506	-	Level 3	Backsolve method, annual multiple movement approach, price to sales ratio.	Liquidity discount.	The higher the discount, the lower the fair value.
	878,868	6,698,665	Level 3	Based on Guideline Publicly Traded Company method, determined with reference to market multiples, share prices of listed enterprises in similar industries, volatilities and dividend yields of similar companies that are traded in a public market with an adjustment of discount for lack of marketability.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
	6,151,336	14,730,763	Level 3	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Net asset value or net fund asset value.	The higher the net asset value, the higher the fair value.
	-	472,207	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and bond yield rates	Bond yield rate.	The higher the bond yield rate, the lower the fair value.
	121,344	145,473	Level 3	Based on net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Financial assets at FVTPL - continued						
Funds						
- Listed	3,197,391	1,119,929	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Unlisted	13,969,157	20,085,715	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	12,976,799	-	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	Credit risk spread.	The higher the credit risk spread, the lower the fair value.
Others						
- Wealth management and trust products and others	587,248	111,188	Level 1	Quoted closing prices in an active market.	N/A	N/A
	5,079,589	2,283,265	Level 2	Based on the net asset values of the investment, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	1,859,786	-	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different products	Discount rate.	The higher the discount rate, the lower the fair value.
	146,598	27,147	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
	516,859	769,676	Level 3	Comparable companies analysis valuation.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
Debt instruments at FVTOCI						
- Traded on stock exchanges	1,114,697	94,181	Level 1	Quoted closing prices in an active market.	N/A	N/A
	21,330,163	20,790,141	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
- Trade on interbank market	24,111,636	20,852,200	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
- Unlisted	114,203	-	Level 2	Measured at fair value based on broker quoted price.	N/A	N/A
	2,897,715	1,995,811	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	Expected future cash flows. Discounted rates that correspond to the expected risk level.	The higher the future cash flow, the higher the fair value. The lower the discount rate, the higher the fair value.

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Equity instruments at FVTOCI						
- Unlisted securities	578,914	512,146	Level 2	Based on net assets values of the investment, determined with reference to observable (quoted) prices or underlying investment portfolio and adjustment to related expenses.	N/A	N/A
	3,957,671	786,462	Level 3	Based on Guideline Publicly Traded Company (the "GPTC") method whereas the key inputs to the valuation models include the market multiples, share prices, volatilities and dividend yields of similar companies that re traded in a public market, discount of lack of marketability with reference to the share prices of listed enterprises in similar industries.	N/A	N/A
- Listed securities	21,828	20,925	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Special accounts	7,057,809	6,722,607	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Derivative financial instruments - assets						
- Interest rate swaps	226,180	394,434	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
- Equity return swaps	182,909	210,192	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
- Commodity swaps	16,373	10,486	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Commodity futures (Note)	1,120,349	446,665	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Options	113,394	42,101	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Over-the-counter options	-	7,722	Level 2	Option pricing model.	N/A	N/A
	133,222	-	Level 3	Option pricing model.	Historical volatility of the share prices of the securities.	The higher the historical volatility, the higher the fair value.
- Forward contracts	1,718	3,043	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
- Commodity	12,381	38,143	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Credit default swap	-	489	Level 2	Discounted cash flows with future cash flows that are calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	N/A	N/A
	534	-	Level 3	Discounted cash flows with future cash flows that are calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	Discounted cash flow with future cash flows that are estimated based on contract terms.	The higher the discount rate, the lower the fair value.

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Derivative financial instruments - liabilities						
- Interest rate swaps	232,985	392,849	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the Reporting Period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
- Equity return swaps	-	19,477	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
- Stock index futures (Note)	-	18	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Treasury bond futures (Note)	-	1,655	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Commodity swaps	2,971	264,023	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Commodity futures (Note)	1,105,762	446,316	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Options	409,551	116,966	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Over-the-counter options	-	49,571	Level 2	Option pricing model.	N/A	N/A
	442,105	-	Level 3	Option pricing model.	Historical volatility of the share prices of the securities.	The higher the historical volatility, the higher the fair value.
- Forward contracts	1,164	1,482	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the Reporting Period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
	805	2,624	Level 2	Measured at fair value based on brokers quoted price- Market brokers' quoted price.	N/A	N/A
- Commodity	22,254	12,205	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2019 RMB'000	2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Derivative financial instruments - liabilities - continued						
- Credit default swaps	-	1,123	Level 2	Discounted cash flows with future cash flows that are Calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	N/A	N/A
	5,413	-	Level 3	Discounted cash flows with future cash flows that are calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	Discounted cash flow with future cash flows that are estimated based on contract terms.	The higher the discount rate, the lower the fair value.
Financial liabilities at FVTPL						
- Designated at FVTPL	3,968,413	2,431,537	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
- Financial liabilities held-for-trading	570,636	258,023	Level 1	Quoted closing prices in an active market.	N/A	N/A
	5,541,614	6,839,015	Level 2	Discounted cash flows with future cash flows, that are estimated based on yield curves of different securities.	N/A	N/A
	1,409,293	680,515	Level 3	Discounted cash flows with future cashflows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures and commodity futures contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the year-end date.

51. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(ii) Reconciliation of Level 3 fair value measurements

	2019						
	Financial assets at FVTPL	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Financial liabilities at FVTPL	Derivative financial instruments		
					Assets	Liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2019	29,447,359	786,462	1,995,811	(680,515)	-	-	31,549,117
Net gains for the year recognised in profit or loss	909,756	29,795	-	(17,765)	-	(210,825)	710,961
Net loss for the year recognised in other comprehensive income	3,102	4,388	43,506	(790)	-	-	50,206
Purchases	8,402,494	3,295,696	2,259,583	(1,390,738)	133,756	(236,693)	12,464,098
Sales and settlements	(4,940,692)	(158,670)	(1,401,185)	680,515	-	-	(5,820,032)
Unrealised fair value loss recognised in profit or loss	77,600	-	-	-	-	-	77,600
Transfer at of level 3	(1,160,919)	-	-	-	-	-	(1,160,919)
Exchange adjustments	(1,600)	-	-	-	-	-	(1,600)
As at December 31, 2019	32,737,100	3,957,671	2,897,715	(1,409,293)	133,756	(447,518)	37,869,431

	2018				
	Financial assets at FVTPL	Equity instruments at FVTOCI	Debt instruments at FVTOCI	Financial liabilities at FVTPL	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at January 1, 2018, as previously reported	1,900,994	-	-	-	1,900,994
Effect of initial application of HKFRS 9	1,515,045	-	-	-	1,515,045
As at January 1, 2018, as restated	3,416,039	-	-	-	3,416,039
Net gains for the year recognised in profit or loss	691,399	-	-	-	691,399
Purchases	32,466,567	786,462	1,995,811	(680,515)	34,568,325
Sales and settlements	(7,049,979)	-	-	-	(7,049,979)
Unrealised fair value loss recognised in profit or loss	(63,200)	-	-	-	(63,200)
Transfers into level 3	23,137	-	-	-	23,137
Transfer at of level 3	(18,204)	-	-	-	(18,204)
Exchange adjustments	(18,400)	-	-	-	(18,400)
As at December 31, 2018	29,447,359	786,462	1,995,811	(680,515)	31,549,117

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

52. TRANSFERS OF FINANCIAL ASSETS

Financial assets held under repurchase agreements

As set out in note 38, the Group entered into repurchase agreements with certain counterparties to sell Group's securities and interests in margin loans and the proceeds are presented as financial assets sold under repurchase agreements. In accordance with the terms of the repurchase agreements, the legal title of those securities and interests in margin loans are not transferred to the counterparties during the year and both parties simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retain substantially all the risks and rewards of these securities and rights and interest in margin loans.

The summary of the carrying amounts related to the transferred financial assets and the carrying amounts of the associated liabilities is as follows:

As at December 31, 2019

	Debt instruments at amortised costs RMB'000	Financial assets at FVTPL RMB'000	Debt instrument at FVTOCI RMB'000	Securities held under securities borrowing agreements RMB'000	Others RMB'000	Total RMB'000
Carrying amount of transferred assets	459,778	62,642,843	31,677,046	5,255,033	2,849,891	102,884,591
Carrying amount of associated liabilities	(449,078)	(61,185,015)	(30,939,856)	(5,132,737)	(2,849,891)	(100,556,577)
Net position	10,700	1,457,828	737,190	122,296	-	2,328,014

As at December 31, 2018

	Debt instruments at amortised costs RMB'000	Financial assets at FVTPL RMB'000	Debt instrument at FVTOCI RMB'000	Securities held under securities borrowing agreements RMB'000	Others RMB'000	Total RMB'000
Carrying amount of transferred assets	930,185	32,208,680	22,850,421	6,870,858	158,609	63,018,753
Carrying amount of associated liabilities	(921,864)	(31,629,612)	(22,439,602)	(6,747,329)	(158,609)	(61,897,016)
Net position	8,321	579,068	410,819	123,529	-	1,121,737

Securities lending arrangements

As set out in note 19, the Group lends securities classified as financial assets held at FVTPL with carrying amounts of RMB855,997,000 (2018: RMB357,730,000) to clients under securities lending arrangements, which are secured by the client's securities and deposits held as collaterals. As stipulated in the securities lending agreements, the legal ownership of these securities is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognised these securities in the consolidated financial statements.

52. TRANSFERS OF FINANCIAL ASSETS - continued

Securities borrowing arrangements

The Group borrows securities from banks through interbank securities markets that are platforms for transactions of financial assets sold under repurchase agreements and securities short-selling, and simultaneously offers debt securities classified as financial assets at FVTPL, debt instruments at FVTOCI and debt instruments at amortised costs as collaterals to the counterparties. As the Group has the obligations to return those borrowed securities to the banks at specified future dates upon expiry of the period of borrowing, the securities held by the Group are not recognised as assets in the consolidated statement of financial position.

As at December 31, 2019, the Group borrowed treasury bonds, local government bonds and policy bank debt with fair values of RMB5,547,770,000 (2018: RMB4,988,382,000), RMB1,536,264,000 (2018: RMB514,808,000) and RMB5,316,155,000 (2018: RMB9,458,056,000), respectively, from banks through interbank securities markets trading platforms for the purpose of selling financial assets under repurchase agreements as disclosed in note 38.

The securities borrowing transactions as at December 31, 2019 are due before April 24, 2020 (2018: May 16, 2019).

As at December 31, 2019 and 2018, securities of the Group pledged for the securities borrowing arrangements comprise corporate bonds that are classified as follows:

	2019 RMB'000	2018 RMB'000
Financial assets at FVTPL	5,808,028	6,190,055
Debts instruments at FVTOCI	4,808,442	5,982,207
Debts instruments at amortised cost	419,999	80,527
	11,036,469	12,252,789

53. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000
Land and buildings	
Within one year	648,798
In the second to fifth year inclusive	1,164,303
Over five years	1,525,260
	3,338,361
Plant and equipment	
Within one year	1,363
In the second to fifth year inclusive	1,066
	2,429
	3,340,790

Operating lease payments represent rentals payable by the Group for land and for port-operating office premises, warehouse, staff quarters and equipment. Leases are negotiated for terms of one to thirty-five years, and rentals are fixed.

The Group as lessor

All of the land and office premises, warehouses and staff quarters, and plant and equipment held for rental purposes have committed lessees.

Minimum lease payments receivable on leases are as follows:

	2019 RMB'000
Within one year	810,510
In the second year	674,064
In the third year	465,878
In the fourth year	298,528
In the fifth year	161,208
After five years	426,385
	2,836,573

53. OPERATING LEASES - continued

The Group as lessor - continued

The Group had contracted with lessees for the following future minimum lease payments:

	2018 RMB'000
Land and buildings	
Within one year	241,058
In the second to fifth year inclusive	437,182
Over five years	259,125
	937,365
Plant and equipment	
Within one year	319,369
In the second to fifth year inclusive	815,267
Over five years	-
	1,134,636
	2,072,001

54. CAPITAL COMMITMENTS

	2019 RMB'000	2018 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
- investments in subsidiaries, joint ventures and associates	528,452	291,455
- acquisition of property, plant and equipment and intangible assets	6,009,611	5,063,914
- acquisition of port projects	6,758,564	4,250,287
	13,296,627	9,605,656

55. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had the following significant contingent liabilities:

	2019 RMB'000	2018 RMB'000
Financial guarantees given to banks in respect of banking facilities granted to:		
- fellow subsidiaries (Note i)	1,580,447	4,723,157
- associates (Note ii)	198,704	118,630
- joint ventures (Note iii)	481,817	-
Potential litigation claims (Note iv)	274,300	323,559
	2,535,268	5,165,346

55. CONTINGENT LIABILITIES - continued

Notes:

(i) As at December 31, 2019, the Group issued financial guarantees to banks in respect of banking facilities granted to fellow subsidiaries. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. As at December 31, 2019, RMB1,580 million has been utilised by the fellow subsidiaries, out of which RMB270 million which has also been secured by certain of Group's land use right as set out in note 56.

(ii) As at December 31, 2019, the other shareholder of an associate of which a non-wholly owned subsidiary of the Company held as to 49% of its issued share capital provided corporate guarantees to the full amount for certain loan facilities granted by banks to and other obligations borne by the relevant associate. A counter indemnity in favour of the other shareholder of the associate is executed pursuant to which a non-wholly owned subsidiary of the Company undertakes to indemnify the other shareholder 49% of the liabilities in the aggregate amount of approximately RMB80 million arising from the above loan facilities and other obligations.

In addition to the above amounts, the Group also provides guarantees for banking facilities granted to and other obligations borne by associates of the Group. The total amount guaranteed by the Group is approximately RMB201 million and the aggregate amount utilised by the relevant associates amounted to approximately RMB118 million.

The directors of the Company assessed the risk of default of the associate in serving the aforesaid loan facilities and other obligations at the end of the reporting period and considered the risk to be insignificant and it is not likely that any guaranteed amount will be claimed.

(iii) As at December 31, 2019, the Group issued financial guarantees to banks in respect of banking facilities granted to joint ventures. The amount disclosed above represents the aggregate amounts that could be required to be paid if the guarantees were called upon in entirety. As at December 31, 2019, RMB482 million has been utilised by the joint ventures, out of which RMB13 million has also been secured by certain of Group's land use right as set out in note 56.

(iv) As at December 31, 2019 and 2018, TCP Group has significant contingent liabilities arising from pending legal proceedings in Brasil in respect of disputes with local tax authorities, employees or former employees of TCP Group and other parties, amounting to RMB274 million and RMB324 million respectively, which, based on the latest estimates of the management of the Group, is not probable that outflows of resources embodying economic benefits will be required to settle these obligations. Accordingly, no provision for litigation claims in respect of the above cases has been made in the consolidated financial statements. A counter indemnity in favour of the Group is executed by the Selling Shareholders as defined in note 49 pursuant to which the latter indemnify to the Group for the above contingent liabilities for and up to predetermined amounts and specified length of time.

56. PLEDGE OF ASSETS

Save as disclosed elsewhere, Certain of the Group's borrowings are secured by assets of the Group, the carrying amounts of assets pledged at the end of the reporting period are:

	2019 RMB'000	2018 RMB'000
Investment properties	721,734	745,384
Property, plant and equipment	668,037	5,868,686
Right-of-use assets	1,501,289	-
Land use rights	-	161,408
Inventories	415,673	-

At December 31, 2019 and 2018, the entire shareholdings in certain subsidiaries, associates and joint ventures owned by the Group are also pledged to various banks for bank facilities granted to those subsidiaries.

57. SHARE-BASED PAYMENT TRANSACTIONS

A subsidiary of the Company, CMPH, which is listed on The Stock Exchange of Hong Kong Limited, has adopted a share option scheme for the purpose of providing CMPH with flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to employees and directors of CMPH, its subsidiaries and associates, as well as employees and directors of the Company.

The existing share option scheme was approved by the shareholders' resolutions of the Company and adopted on December 9, 2011 (the "New Scheme"), under which the Company's directors may, at their discretion, grant to any director or employee of the Company, the intermediate holding company of the Company or any of its subsidiaries or associates at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the HKSE on the date of the offer of grant; and (ii) the average closing price of shares as stated in the daily quotation sheets of the HKSE for the five trading days immediately preceding the date of the offer of grant. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the old scheme and any other share option schemes adopted must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The New Scheme is valid and effective for a period of 10 years.

Upon termination of the old scheme on December 9, 2011, no further options will be granted thereunder. However, the rules of the old scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to its termination, or otherwise to the extent as may be required in accordance with the rules of the old scheme. All options granted under the old scheme prior to its termination will continue to be valid and exercisable in accordance with the rules of the old scheme. The terms of the New Scheme and the old scheme are generally similar.

No share options have been granted under the New Scheme since its adoption nor outstanding during the year upon the expiry of the old scheme.

58. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Interest payable RMB'000	Amounts due to group companies RMB'000	Amounts due to associates RMB'000	Amounts due to joint ventures RMB'000	Amount due to non-controlling interests of subsidiaries RMB'000	Dividend payable to non-controlling interests of subsidiaries RMB'000	Leases liabilities RMB'000	Total RMB'000
At January 1, 2018	186,001,786	2,504,761	43,452,086	323,591	68,585	371,899	799,437	-	233,522,145
Financing cash flows	10,268,981	(3,553,843)	14,041,080	172,521	(51,821)	18,759	(3,557,896)	-	17,337,781
Non-cash changes									
Exchange realignment	3,117,924	-	-	-	-	-	-	-	3,117,924
Finance cost	35,990	3,898,917	-	-	-	-	-	-	3,934,907
Arising from acquisition of subsidiaries	2,204,789	-	-	-	-	-	-	-	2,204,789
Interest capitalised	-	222,316	-	-	-	-	-	-	222,316
Reclassification	-	(2,267,236)	-	-	-	-	-	-	(2,267,236)
Declaration of dividends	-	-	-	-	-	-	3,418,353	-	3,418,353
At December 31, 2018	201,629,470	804,915	57,493,166	496,112	16,764	390,658	659,894	-	261,490,979
Adjustment upon application of HKFRS 16	(577,077)	-	-	-	-	-	-	3,026,556	2,449,479
At January 1, 2019 (restated)	201,052,393	804,915	57,493,166	496,112	16,764	390,658	659,894	3,026,556	263,940,458
Financing cash flows	56,225,960	(2,808,333)	(7,931,997)	(256,306)	7,535	16,435	(3,225,267)	(695,109)	41,332,918
Non-cash changes									
Exchange realignment	(9,384,686)	-	-	-	-	-	-	-	(9,384,686)
Finance cost	2,985,891	2,261,900	7,564	-	-	-	-	171,444	5,426,799
New lease entered	-	-	-	-	-	-	-	4,997,955	4,997,955
Arising from acquisition of subsidiaries	60,835,153	-	-	-	-	-	-	2,683,001	63,518,154
Interest capitalised	-	(258,409)	-	-	-	-	-	-	(258,409)
Declaration of dividends	-	-	-	-	-	-	3,869,442	-	3,869,442
At December 31, 2019	311,714,711	73	49,568,733	239,806	24,299	407,093	1,304,069	10,183,847	373,442,631

59. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Proportion of voting rights/ ownership interests held by non-controlling interests		Profit (loss) attributable to non-controlling interests		Accumulated non-controlling interests	
	2019	2018	2019 RMB'000	2018 RMB'000 (restated)	2019 RMB'000	2018 RMB'000 (restated)
CMS (Note i)	55.65%/55.65%	55.91%/55.91%	4,435,605	2,866,510	51,841,737	51,841,737
CMPG (Note ii)	30.65%/30.65%	20.31%/20.31%	5,835,263	1,618,295	70,753,619	44,271,250
Individually immaterial subsidiaries with non-controlling interests			(1,324,460)	(229,614)	81,606,850	13,151,046
Total			8,946,408	4,255,191	204,202,206	109,264,033

Notes:

(i) As explained in Note (vi) to the consolidated statement of changes in equity, the Group acquired its equity interest in CMS by 0.26% from the non-controlling shareholder.

(ii) As explained in Note (iv) to the consolidated statement of changes in equity, before the Reorganisation and as at December 31, 2018, CMPG was a non-wholly owned subsidiary of CMPH that financial information of CMPG has been consolidated in CMPH.

After the Reorganisation and as at December 31, 2019, CMPH became a non-wholly owned subsidiary of CMPG that the financial information of CMPH has been consolidated in CMPG.

59. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

Summarised financial information in respect of subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	CMS	
	2019 RMB'000	2018 RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	23,306,962	18,060,189
Other income and gains, net	3,234,147	926,832
Expenses and taxation	(19,227,826)	(14,540,759)
Profit for the year	7,313,283	4,446,262
Other comprehensive income	350,269	186,911
Total comprehensive income for the year	7,663,552	4,633,173
Profit for the year, attributable to:		
Equity holders of the Company	2,877,678	1,579,752
Non-controlling interests of the Group	4,435,605	2,866,510
	7,313,283	4,446,262
Total comprehensive income for the year, attributable to:		
Equity holders of the Company	3,032,113	1,662,162
Non-controlling interests of the Group	4,631,439	2,971,011
	7,663,552	4,633,173
Dividends paid to non-controlling interests of the Group	1,811,828	2,105,427
Financial information of consolidated statement of financial position		
Non-current assets	67,805,372	61,675,950
Current assets	313,966,516	243,254,755
Current liabilities	(243,482,537)	(186,132,561)
Non-current liabilities	(53,161,501)	(38,005,790)
	85,127,850	80,792,354
Equity attributable to:		
Equity holders of the Company	31,111,157	28,950,617
Non-controlling interests of the Group	54,016,693	51,841,737
	85,127,850	80,792,354
Financial information of consolidated statement of cash flows		
Net cash inflow from operating activities	9,988,553	34,165,708
Net cash outflow from investing activities	(1,799,098)	(18,268,029)
Net cash inflow (outflow) from financing activities	4,760,169	(21,082,665)
Net cash inflow	12,949,624	(5,184,986)

59. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

	CMPG	
	2019	2018
	RMB'000	RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	12,123,829	9,703,395
Other income and gains, net	4,781,275	4,024,008
Expenses and taxation	(8,738,187)	(10,841,488)
Profit for the year	8,166,917	2,885,915
Other comprehensive (loss) income	(1,096,286)	204,603
Total comprehensive income for the year	7,070,631	3,090,518
Profit for the year, attributable to:		
Equity holders of the Company	2,331,654	1,267,620
Non-controlling interests of the Group	5,835,263	1,618,295
	8,166,917	2,885,915
Total comprehensive income for the year, attributable to:		
Equity holders of the Company	4,615,516	1,958,321
Non-controlling interests of the Group	2,455,115	1,132,197
	7,070,631	3,090,518
Dividends paid to non-controlling interests of the Group	2,049,058	1,312,926
Financial information of consolidated statement of financial position		
Non-current assets	141,662,074	117,483,628
Current assets	15,034,843	10,534,457
Current liabilities	(21,968,172)	(9,910,429)
Non-current liabilities	(39,738,538)	(37,690,729)
	94,990,207	80,416,927
Equity attributable to:		
Equity holders of the Company	24,236,588	36,145,677
Non-controlling interests of the Group	70,753,619	44,271,250
	94,990,207	80,416,927
Financial information of consolidated statement of cash flows		
Net cash inflow from operating activities	5,501,873	4,288,575
Net cash outflow from investing activities	(1,936,991)	(15,148,562)
Net cash (outflow) inflow from financing activities	(1,233,703)	8,875,199
Net cash outflow	2,331,179	(1,984,788)

60. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related party transactions

Other than disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties during the year:

Related party	Nature of transaction	2019 RMB'000	2018 RMB'000
Ultimate holding company	Interest expense	188,998	552,308
	Trading income	31,053	423
	Service fee income	21,434	10,728
	Management fee expense	70	-
Immediate holding company	Interest expense	93,542	56,310
	Trading expense	5,290	5,063
	Service fee income	236	-
Fellow subsidiaries	Rental income	45,499	25,506
	Rental expense	-	102,320
	Lease payment (Note)	60,162	-
	Interest income	160,029	73,798
	Interest expense	161,007	93,166
	Port income	122,452	64,846
	Port services expenses	71,050	8,448
	Logistics income	9,297	9,935
	Logistics services expenses	8,154	3,766
	Management fee expense	94,726	69,773
	Management fee income	20,515	6,724
	Trading income	1,525,227	665,241
	Trading expense	1,601	26
	Construction income	470,531	569,589
	Construction expense	5,657	12,347
	Service fee income	239,708	39,014
	Other operating expenses	209,292	-
Associates	Rental income	5,035	8,133
	Rental expense	-	90,015
	Lease payment (Note)	75,169	-
	Commission income	225,198	284,477
	Interest income	503,918	433,625
	Dividend income	3,148,937	2,813,944
	Interest expense	251,658	198,159
	Construction income	1,478,177	1,377,648
	Port services income	29,051	32,783
	Port service expenses	59,399	1,080
	Management fee expense	36,052	7,164
	Service fee expense	543,604	443,602
Joint ventures	Service fee income	-	5,226
	Interest income	4	34,488
	Trading income	8	1,378
	Port income	277,628	127,620
	Port services expense	23,529	15,359
	Rental income	5,877	-

Note: The Group rented certain vessels and properties from and leased office premises and residential units to the entities within CMG Group. Lease payments were received or charged at a fixed amount per month in accordance with respective tenancy agreements.

60. SIGNIFICANT RELATED PARTY DISCLOSURES - continued

(b) Related party balances

Other than disclosed elsewhere in the consolidated financial statements, the Group had the following material balances with CMB, an associate of the Group:

Related party	Nature of transaction	2019 RMB'000	2018 RMB'000
CMB	Bank deposits placed	29,703,934	16,836,563
	Structured bank deposits placed	1,103,838	116,300
	Placements from banks received	700,272	1,500,625
	Placements with banks and other financial institutions	355,602	-
	Bank borrowings granted	10,550,371	5,997,548
	Debentures	1,919,009	-

(c) Contingent liabilities

Details of contingent liabilities in respect of guarantees given to related companies are set out in note 55.

(d) Compensation of key management personnel

The remuneration of directors of the Company, being the key management personnel of the Group, during the year was as follows:

	2019 RMB'000	2018 RMB'000
Short-term benefits	20,998	14,230
Post-employment benefits	2,357	2,640
	23,355	16,870

(e) Transactions/balances with government-related entities in the PRC

The Group itself is part of a larger group of companies under CMG which is controlled by the PRC government. Thus, the directors of the Company consider that the Group is ultimately controlled by the PRC government. In addition, the Group operates in an economic environment currently predenominated by entities controlled, jointly controlled or significantly influenced by the PRC government (the "PRC government-related entities"). Apart from the transactions with related parties set out in (a) to (d) above, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business. The Group's restricted bank deposits, bank deposits and bank borrowings are entered into with certain banks which are PRC government-related entities in its ordinary course of business. In addition, the Group entered into various transactions, including purchases of land use rights, construction of properties and other operating expenses with other PRC government-related entities in the ordinary course of business. In view of the nature of those transactions, the directors of the Company are of the opinion that separate disclosures would not be meaningful.

60. SIGNIFICANT RELATED PARTY DISCLOSURES - continued

(f) Pursuant to the relevant agreements entered into between the Group, QHSH and the Group's certain fellow subsidiaries, the Group participated in the development of the Qianhai-Shekou Free Trade Zone.

During the year ended December 31, 2019, certain land parcels held by two subsidiaries of the Group in Qianhai, Shenzhen, the PRC, were disposed of to QHSH through a subsidiary of an associate of the Group (i.e. A1 Company) in exchange for a cash consideration of RMB5,693 million and a piece of land located in Dachan Bay Port Phase II, Shenzhen, the PRC (the "Land").

QHSH has assigned the Land to a subsidiary of an associate of the Group, A1 Company (as to 14% held by the Group and as to 86% held by the Group's fellow subsidiaries) and the Group has received the compensation in cash of RMB5,693 million from the subsidiary of A1 Company. As at December 31, 2019, the Group has not received the Land.

61. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2019 and 2018 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2019	2018	2019	2018	
AVIC International Maritime Holdings Limited 中航國際船舶控股有限公司 (Listed in Singapore)	Hong Kong	-	-	73.87%	-	Provision of ship-design services, shipbuilding project management
Best Winner Investment Limited	BVI	-	-	100%	100%	Securities trading
China Merchants Aluminium Manufacturing (Chongqing) Limited 招商局鋁業(重慶)有限公司	The PRC	-	-	100%	100%	Manufacturing of aluminium and related products
China Merchants Capital Investment Co., Ltd	The PRC	-	-	100%	100%	Private equity
China Merchants Finance Holdings Company Limited 招商局金融集團有限公司	Hong Kong	100%	100%	-	-	Investment holding in companies carrying on insurance brokerage, security brokerage, fund investment and asset management businesses
China Merchants Heavy Industrial (Jiang Su) Co., Ltd 招商局重工(江蘇)有限公司	The PRC	-	-	100%	100%	Manufacturing of offshore platforms and ships and provision of ship repairs services
China Merchants Hoi Tung Trading Company Limited 招商局海通貿易有限公司 (Note iii)	Hong Kong	100%	99.99%	-	-	Trading of marine machineries, accessories and food products
China Merchants Industry Holdings Company Limited 招商局工業集團有限公司	Hong Kong	100%	100%	-	-	Investment holding in companies carrying on offshore platforms and ship manufacturing and repairs businesses
China Merchants International Finance Company Limited 招商局國際財務有限公司	Hong Kong	100%	100%	-	-	Provision of finance and treasury services to group companies
China Merchants Investment Development Company Limited 招商局投資發展有限公司	BVI	87.33%	87.33%	-	-	Investment holding
China Merchants Port Holdings Company Limited 招商局港口控股有限公司 (Listed in Hong Kong) (Notes i, ii and iii)	Hong Kong	-	-	40.91%	42.76%	Ports operation, bonded logistics operation and property investment
China Merchants Securities Co. Ltd. ("CMS") 招商証券股份有限公司 (Listed in Hong Kong and A shares listed in the PRC) (Notes i and iii)	The PRC	-	-	44.35%	44.09%	Securities dealing
Guangdong Yide Port Limited 廣東頤德港口有限公司 (Note ii)	The PRC	-	-	51%	51%	Port operations
Hambantota International Port Group (Private) Limited (Note ii)	Republic of Sri Lanka	-	-	85%	85%	Port development, management and operation
深圳市招商平安資產管理有限責任公司	The PRC	-	-	51%	51%	Provision of asset management service
招商局仁和人壽保險股份有限公司 (Notes i)	The PRC	-	-	20%	20%	Provision of insurance service
Lomé Container Terminal S.A. (Notes i and ii)	Togolese Republic	-	-	35%	35%	Provision of container terminal services
Mega Shekou Container Terminals Limited (Note ii)	BVI	-	-	80%	80%	Investment holding

61. PRINCIPAL SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation/ establishment	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2019	2018	2019	2018	
Shekou Container Terminals Ltd. 蛇口集裝箱碼頭有限公司 (Note ii)	The PRC	-	-	100%	100%	Operation of berths No. 1 and 2 in Shekou, the PRC
Shekou Container Terminals (Phase II) Company Limited 深圳聯運捷集裝箱碼頭有限公司 (Note ii)	The PRC	-	-	100%	100%	Operation of berths No. 3 and 4 in Shekou, the PRC
Shekou Container Terminals (Phase III) Company Limited 安迅捷集裝箱碼頭(深圳)有限公司 (Note ii)	The PRC	-	-	100%	100%	Operation of berth No. 5 to No. 9 in Shekou, the PRC
Shenzhen China Merchants Qianhaiwan Property Company Limited 深圳市招商前海灣置業有限公司 (Note ii)	The PRC	-	-	100%	100%	Property holding
Shenzhen Jinyu Rongtai Investment Development Company Limited 深圳金域融泰投資發展有限公司 (Note ii)	The PRC	-	-	100%	100%	Property holding
China Merchants Port Group Co., Ltd. ("CMPG") 招商局港口集團股份有限公司 (A and B shares listed in the PRC) (Notes i, ii and iii)	The PRC	-	-	81.92%	87.81%	Ports operations
Liaoning Port Group Co., Ltd. 遼寧港口集團有限公司 (note 49)	The PRC	-	-	51%	-	Ports operations
Shenzhen Haixing Harbour Development Company Ltd. 深圳海星港口發展有限公司 (Note ii)	The PRC	-	-	67%	67%	Provision of container terminal services
Shenzhen Mawan Port Service Co., Ltd. 深圳媽灣港務有限公司 (Note ii)	The PRC	-	-	100%	100%	Operation of berth No. 5 in Mawan, Shenzhen, the PRC
Shenzhen Mawan Terminals Co., Ltd. 深圳媽灣倉碼有限公司 (Note ii)	The PRC	-	-	100%	100%	Operation of berths No. 6 and 7 in Mawan, Shenzhen, the PRC
Shenzhen Mawan Wharf Co., Ltd. 深圳媽灣港航有限公司 (Note ii)	The PRC	-	-	100%	100%	Operation of berth No. 0 in Mawan, Shenzhen, the PRC
Yiu Lian Dockyards Limited 友聯船廠有限公司	Hong Kong	-	-	100%	100%	Provision of ship repairs services
Zhangzhou China Merchants Port Co., Limited 漳州招商局碼頭有限公司 (Note ii)	The PRC	-	-	60%	60%	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province, the PRC
Zhanjang Port (Group) Co., Ltd. 湛江港(集團)股份有限公司 (note 49)	The PRC	-	-	58.35%	-	Ports operations

61. PRINCIPAL SUBSIDIARIES - continued

Notes:

(i) These entities are considered to be subsidiaries of the Company despite the fact that the Group holds less than half of the equity interest therein as the Group (1) is entitled to exercise the management rights and has the power to direct the voting rights of more than half of the total issued share capital of the entity by virtue of agreements with other investors, and/or (2) has control over the board of directors of the relevant entities.

(ii) These entities are held through certain non-wholly owned subsidiaries of the Company and the percentage presented above represents the shareholding interest held by the non-wholly owned subsidiaries.

(iii) These entities have changed the proportion of ownership interests, the financial impacts of which are shown in consolidated statement of changes in equity for the year ended December 31, 2019.

The above table only lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

62. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at December 31, 2019 and 2018 are as follows:

Name of associate	Place of incorporation/ establishment and operation	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2019	2018	2019	2018	
Asia Airfreight Terminal Company Limited 亞洲空運中心有限公司 (Note i)	Hong Kong	-	-	20%	20%	Airfreight services
Bosera Asset Management Co., Ltd. 博時基金管理有限公司 (Note i)	The PRC	-	-	49%	49%	Fund investment
China Merchants Bank Co., Ltd 招商銀行股份有限公司 (Listed in Hong Kong and A shares listed in the PRC)	The PRC	-	-	14.81%	14.81%	Provision of corporate and personal banking services conducting treasury business, provision of asset management and other financial services.
China International Marine Containers (Group) Co., Ltd. 中國國際海運集裝箱(集團)股份有限公司 (Listed in Hong Kong and B shares listed in the PRC)	The PRC	-	-	24.57%	24.58%	Design, manufacture and sales of dry freight containers and refrigerated containers, road transportation vehicle, energy, chemical and food equipment and offshore engineering
China Merchants China Direct Investments Company Limited 招商局中國基金有限公司 (Listed in Hong Kong)	Hong Kong	-	-	27.59%	27.59%	Fund investment

62. PRINCIPAL ASSOCIATES - continued

Name of associate	Place of incorporation/ establishment and operation	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2019	2018	2019	2018	
China Merchants Fund Management Co., Ltd. 招商基金管理有限公司 (Note i)	The PRC	-	-	45%	45%	Fund investment
China Nanshan Development (Group) Incorporation 中國南山開發(集團)股份有限公司 (Note i)	The PRC	-	-	37.01%	37.01%	Investment holding
Dalian Port (PDA) Company Limited 大連港股份有限公司 (Listed in Hong Kong and A shares listed in the PRC) (Note ii)	The PRC	-	-	-	21.05%	Provision of terminal business And logistic service
Modern Terminals Limited 現代貨箱碼頭有限公司 (Note i)	Hong Kong	-	-	27.01%	27.01%	Provision of container terminal services and warehouse services
Port de Djibouti S.A. (Note i)	Republic of Djibouti	-	-	23.50%	23.50%	Operations of seaports and terminals and port related business in Djibouti
Shanghai International Port (Group) Co., Ltd. 上海國際港務(集團)股份有限公司 (A shares listed in the PRC) (Note i)	The PRC	-	-	26.77%	26.77%	Port and container terminal business and related services
Shenzhen China Merchants Qianhai Assets Development Co., Ltd. 深圳市招商前海實業發展有限公司	The PRC	-	-	14%	14%	Investment holding
Terminal Link SAS (Note i)	French Republic	-	-	49%	49%	Operations of container terminals in Europe, Mediterranean Basil, Africa, Americas and Asia
Tin-Can Island Container Terminal Ltd. (Note i)	Federal Republic of Nigeria	-	-	28.50%	28.50%	Provision of container terminal services

Notes:

(i) These entities are held through certain non-wholly owned subsidiaries of the Company.
(ii) The entity has been accounted for as a subsidiary of the Group during the year ended December 31, 2019 as set out in note 17(ii). Details of the acquisition are set out in note 49.

The above table only lists the associates of the Group which, in the opinion of the directors of the Company, principally affect the results or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

63. PRINCIPAL JOINT VENTURES

Details of the Group's principal joint ventures at December 31, 2019 and 2018 are as follows:

Name of joint venture	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
	Directly		Indirectly		
	2019	2018	2019	2018	
China Merchants Union (BVI) Limited	50%	50%	-	-	Investment holding
PONI Corporate Trust Group (Note i)	-	-	50%	50%	Management of port operation and port development
PONI Property Trust Group (Note i)	-	-	50%	50%	Provision of finance of port operation and property development
Euro-Asia Oceangate S.ar.l (Note i)	-	-	40%	40%	Ports and container terminal business
Ningbo Daxie China Merchants International Terminals Co., Ltd. 寧波大榭招商國際碼頭有限公司 (Note i)	-	-	45%	45%	Ports and container terminal business
Qingdao Port Dongjiakon Ore Terminal Co., Ltd. 青島港董家口礦石碼頭有限公司 (Note i)	-	-	25%	25%	Ports and bulk cargo terminal business
Qingdao Qianwan United Container Terminal Co., Ltd. 青島前灣聯合集裝箱碼頭有限責任公司 (Note i)	-	-	50%	50%	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd. 青島前灣西港聯合碼頭有限責任公司 (Note i)	-	-	49%	49%	Ports and bulk cargo terminal business
Zhanjiang Port (Group) Co., Ltd. 湛江港(集團)股份有限公司 (Note ii)	-	-	-	40.29%	Ports and container terminal business

Notes:

(i) These entities are held through certain non-wholly owned subsidiaries of the Company.
(ii) The entity had been accounted for as a subsidiary of the Group during the year ended December 31, 2019 as set out in note 18. Details of the acquisitions are set out in note 49.

The above table only lists the joint ventures of the Group which, in the opinion of the directors of the Company, principally affect the results or form a substantial portion of the net assets of the Group. To give details of other joint ventures would, in the opinion of the directors of the Company, result in particulars of excessive length.

64. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere, the Group has the following events subsequent to the end of the reporting period:

(i) China Merchants Capital Investment Co., Ltd. ("CM Capital"), a wholly-owned subsidiary of the Company, is preparing to introduce strategic investors. GLP China Holdings Limited ("GLP China"), through its subsidiary GLP Capital Investment 5 (HK) Limited ("GLP HK"), signed a capital increase agreement with Shenzhen Zhaorong Investment Holdings Co., Ltd. (" Shenzhen Zhaorong"), the immediate holding of CM Capital, involving an amount of RMB4,763 million injection.

Upon the completion of the transaction in March 2020, each of Shenzhen Zhaorong and GLP HK would hold 50% interest of equity of CM Capital. The directors of the Company are in the process of assessing the financial impacts.

(ii) In 2020, the outbreak of Coronavirus disease 2019 ("COVID-19 outbreak") has certain impacts on the business operation and overall economy in some areas or industries around the world, including in China. The degree of the impact depends on the situation of the epidemic preventive measures, the duration of the epidemic and the implementation of regulatory policies, which remains unclear at present. The financial impact cannot be reliably estimated as at the date of approving these consolidated financial statements. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial statements and operating results of the Group going forward.

65. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS		
Investment properties	123,134	7,534
Property, plant and equipment	83,150	70,759
Land use rights	-	117,016
Intangible assets	32,230	39,204
Investments in subsidiaries	38,975,414	31,757,895
Investment in a joint venture	4,343,311	4,243,703
Other non-current assets	13,195,040	2,705,570
	56,752,279	38,941,681
CURRENT ASSETS		
Other receivables	1,146,858	12,200,158
Bank balances and cash	1,209,402	95,275
	2,356,260	12,295,433
CURRENT LIABILITIES		
Other payables	9,068,745	8,998,964
Borrowings - due within one year	15,646,917	3,360,984
	24,715,662	12,359,948
NET CURRENT LIABILITIES	(22,359,402)	(64,515)
TOTAL ASSETS LESS CURRENT LIABILITIES	34,392,877	38,877,166
NON-CURRENT LIABILITY		
Borrowings - due after one year	8,273,644	13,797,899
	26,119,233	25,079,267
CAPITAL AND RESERVES		
Share capital	15,467,445	15,467,445
Reserves	10,651,788	9,611,822
	26,119,233	25,079,267

65. STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Notes:

(a) The movements of the Company's reserves are as follows:

	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At January 1, 2018	31,374	335,238	6,365,589	6,732,201
Profit for the year	-	-	2,276,345	2,276,345
Exchange differences arising on translation	-	603,276	-	603,276
Total comprehensive income for the year	-	603,276	2,276,345	2,879,621
At December 31, 2018	31,374	938,514	8,641,934	9,611,822
Profit for the year	-	-	477,580	477,580
Exchange differences arising on translation	-	562,386	-	562,386
Total comprehensive income for the year	-	562,386	477,580	1,039,966
At December 31, 2019	31,374	1,500,900	9,119,514	10,651,788

(b) The profits of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Revenue	19,790	15,037
Direct costs	(6,521)	(7,560)
Gross profit	13,269	7,477
General and administrative expenses	(511,432)	(471,594)
Finance costs, net	(691,690)	(716,249)
Net income and gains from investments	1,666,334	529,814
Net other gains	1,099	3,184,618
Profit before taxation	477,580	2,534,066
Income tax expense	-	(257,721)
Profit for the year	477,580	2,276,345

INDEPENDENT AUDITOR'S REPORT

TO THE SOLE MEMBER OF
CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Merchants Holdings (Hong Kong) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 7 to 187, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
April 30, 2019

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	NOTES	2018 RMB'000	2017 RMB'000 (restated)
Revenue	5		
- Goods and services		31,626,570	44,403,122
- Lease income		1,436,310	675,039
- Interest income		8,637,554	6,718,349
- Gross insurance written premiums and policy fee		3,329,752	628,284
		45,030,186	52,424,794
Direct costs		(30,322,735)	(37,876,715)
Gross profit		14,707,451	14,548,079
Distribution and selling expenses		(4,708,502)	(4,245,453)
General and administrative expenses		(5,940,660)	(5,097,935)
Finance costs, net	6	(4,139,148)	(2,118,025)
Share of results of:			
- associates		15,831,416	10,643,381
- joint ventures		1,022,154	572,550
Gain on deemed disposal of an available-for-sale investment	16(ii)	-	44,565,513
Net income, gains and losses from other investments	7	4,058,236	6,322,711
Other gains and losses, net	8(a)	(685,746)	(5,977,595)
Impairment losses, net of reversal	8(b)	(3,620,894)	(503,709)
Profit before tax		16,524,307	58,709,517
Income tax expense	9	(2,577,156)	(2,300,174)
Profit for the year	10	13,947,151	56,409,343
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures		(411,360)	(189,334)
Debt instruments classified as fair value through other comprehensive income:			
- Fair value changes during the year, net of deferred taxation		564,024	-
- Reclassification adjustment upon disposal, net of deferred taxation		16,847	-
Available-for-sale investments:			
- Fair value changes during the year, net of deferred taxation		-	18,210,645
- Reclassification adjustment upon deemed disposal, net of deferred taxation		-	(33,943,294)
- Reclassification adjustment upon disposal, net of deferred taxation		-	316,257
Cash flow hedges:			
- Fair value changes on effective hedging instruments arising during the year, net of deferred taxation		-	15,438
Associates and joint ventures:			
- Share of other comprehensive income		1,313,801	90,477

	2018 RMB'000	2017 RMB'000 (restated)
Items that will not be reclassified subsequently to profit or loss:		
Equity instruments classified as fair value through other comprehensive income:		
- Fair value changes during the year, net of deferred taxation	(856,101)	-
Associates and joint ventures:		
- Share of other comprehensive expense	(97,355)	-
Net actuarial (loss) gain on defined benefit plans of subsidiaries	(20,137)	23,085
Other comprehensive income (expense) for the year, net of tax	509,719	(15,476,726)
Total comprehensive income for the year	14,456,870	40,932,617
Profit for the year attributable to:		
Owners of the Company	9,691,960	49,388,557
Holders of Mandatory Convertible Securities ("MCS") issued by a subsidiary	-	132,112
Holders of Perpetual Capital Securities ("PCS") issued by a subsidiary	66,793	71,137
Holders of Perpetual Subordinated bonds ("PSB") issued by a subsidiary	802,090	592,196
Other non-controlling interests	3,386,308	6,225,341
	13,947,151	56,409,343
Total comprehensive income for the year attributable to:		
Owners of the Company	10,119,730	33,394,181
Holders of MCS issued by a subsidiary	-	132,112
Holders of PCS issued by a subsidiary	66,793	71,137
Holders of PSB issued by a subsidiary	802,090	592,196
Other non-controlling interests	3,468,257	6,742,991
	14,456,870	40,932,617

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2018

	NOTES	December 31, 2018 RMB'000	December 31, 2017 RMB'000 (restated)	January 1, 2017 RMB'000 (restated)
NON-CURRENT ASSETS				
Investment properties	11	6,295,335	6,445,116	6,519,303
Property, plant and equipment	12	41,315,955	36,162,495	24,491,935
Land use rights	13	12,356,225	12,034,730	7,812,310
Goodwill	14	7,948,009	3,853,094	3,318,572
Intangible assets	15	9,828,364	4,972,665	4,858,692
Interests in associates	16	160,508,075	146,983,775	47,642,190
Interests in joint ventures	17	12,887,152	9,178,855	11,203,984
Financial assets at fair value through profit or loss	18	23,952,474	-	-
Equity instruments at fair value through other comprehensive income	19	8,042,140	-	-
Debt instruments at fair value through other comprehensive income	20	94,181	-	-
Debt instruments at amortised cost	21	5,583,520	-	-
Available-for-sale investments	22	-	34,188,775	100,127,651
Financial assets held under resale agreements	23	5,277,749	9,298,958	-
Finance lease receivables	24	13,389,726	11,802,197	593,000
Other non-current assets	25	29,124,984	5,006,887	4,358,204
Deferred tax assets	26	1,191,237	1,128,257	1,346,463
		337,795,126	281,055,804	212,272,304
CURRENT ASSETS				
Inventories	27	3,819,433	16,182,100	23,796,064
Dividend receivables		439,695	393,041	410,315
Trade, bills and other receivables	28	13,134,227	17,328,237	16,627,930
Contract assets	28	9,284,822	-	-
Financial assets at fair value through profit or loss	18	104,941,794	73,346,509	48,457,218
Debt instruments at fair value through other comprehensive income	20	43,638,152	-	-
Debt instruments at amortised cost	21	47,587	-	-
Derivative financial instruments	29	1,153,275	1,024,979	1,111,841
Available-for-sale investments	22	-	18,512,117	-
Other current assets		152,517	104,776	32,800
Loans and advances to customers of securities dealing business	30	42,976,430	59,235,426	53,351,538
Deposits for securities dealing business	31	1,431,420	1,224,478	540,442
Financial assets held under resale agreements	23	28,488,738	28,361,801	19,678,061
Finance lease receivables	24	4,152,148	2,613,239	-
Bank balances held on behalf of customers	32	40,144,484	42,526,062	50,326,986
Bank deposits, bank balances and cash	33	39,448,515	41,137,413	39,832,464
		333,253,237	301,990,178	254,165,659
Non-current assets held for sale	34	115,356	-	-
		333,368,593	301,990,178	254,165,659

	NOTES	December 31, 2018 RMB'000	December 31, 2017 RMB'000 (restated)	January 1, 2017 RMB'000 (restated)
CURRENT LIABILITIES				
Trade, bills and other payables	35	71,496,523	59,720,464	54,331,473
Accounts payable to brokerage clients of securities dealing business	36	48,911,748	51,095,335	67,581,720
Placements from banks and other financial institutions	37	3,519,000	1,470,000	1,500,000
Financial assets sold under repurchase agreements	38	61,897,016	33,382,970	19,398,988
Borrowings - due within one year	39	92,782,065	107,947,675	42,855,414
Financial liabilities at fair value through profit or loss	40	7,804,967	5,492,509	4,439,956
Contract liabilities	41	281,347	-	-
Derivative financial instruments	29	1,308,309	1,588,990	1,864,348
		288,000,975	260,697,943	191,971,899
NET CURRENT ASSETS		45,367,618	41,292,235	62,193,760
TOTAL ASSETS LESS CURRENT LIABILITIES		383,162,744	322,348,039	274,466,064
NON-CURRENT LIABILITIES				
Borrowings - due after one year	39	117,010,581	86,874,111	97,843,806
Financial liabilities at fair value through profit or loss	40	2,404,123	-	-
Other non-current liabilities	42	21,780,531	13,163,620	11,591,156
Deferred tax liabilities	26	4,227,531	2,761,081	7,282,212
		145,422,766	102,798,812	116,717,174
NET ASSETS		237,739,978	219,549,227	157,748,890
CAPITAL AND RESERVES				
Share capital	43	15,467,445	5,467,445	5,467,445
Reserves		113,008,500	107,985,068	74,809,461
Equity attributable to owners of the Company		128,475,945	113,452,513	80,276,906
Non-controlling interests	63	109,264,033	106,096,714	77,471,984
TOTAL EQUITY		237,739,978	219,549,227	157,748,890

The consolidated financial statements on pages 7 to 187 were approved and authorised for issue by the Board of Directors on April 30, 2019 and are signed on its behalf by:

Fu Gangfeng
DIRECTOR

Zhou Song
DIRECTOR

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Attributable to owners of the Company									Non-controlling interests					
	Share capital RMB'000 (note 43)	Capital reserve RMB'000	Other asset revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Equity transaction reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000 (Note i)	Sub-total RMB'000	MCS RMB'000 (note 44)	PCS RMB'000 (note 45)	PSB RMB'000 (Note ii)	Share of net assets of subsidiaries RMB'000	Sub-total RMB'000	Total RMB'000
At January 1, 2017, as previously reported	5,467,445	1,264,732	57,772	16,286,829	148,689	680,319	(15,438)	53,284,060	77,174,408	4,049,228	5,548,066	-	67,867,276	77,464,570	154,638,978
Business combination under common control	-	-	-	2,281,902	-	-	-	820,596	3,102,498	-	-	-	7,414	7,414	3,109,912
At January 1, 2017, as restated	5,467,445	1,264,732	57,772	18,568,731	148,689	680,319	(15,438)	54,104,656	80,276,906	4,049,228	5,548,066	-	67,874,690	77,471,984	157,748,890
Profit for the year, as restated	-	-	-	-	-	-	-	49,388,557	49,388,557	132,112	71,137	592,196	6,225,341	7,020,786	56,409,343
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures, as restated	-	-	-	-	43,817	-	-	-	43,817	-	-	-	(233,151)	(233,151)	(189,334)
Share of other comprehensive (expense) income of associates and joint ventures, as restated	-	-	-	(2,482,789)	-	-	-	-	(2,482,789)	-	-	-	2,573,266	2,573,266	90,477
Net gain (loss) on fair value changes of available-for-sale investments, net of deferred taxation, as restated	-	-	-	19,919,485	-	-	-	-	19,919,485	-	-	-	(1,708,840)	(1,708,840)	18,210,645
Reclassification adjustment upon on deemed disposal of an available-for-sale investment, net of deferred taxation (Note 16(ii))	-	-	-	(33,943,294)	-	-	-	-	(33,943,294)	-	-	-	-	-	(33,943,294)
Reclassification adjustment upon on disposal of other available-for-sale investments	-	-	-	446,973	-	-	-	-	446,973	-	-	-	(130,716)	(130,716)	316,257
Net actuarial gain on defined benefit plans of subsidiaries	-	-	-	-	-	-	-	5,994	5,994	-	-	-	17,091	17,091	23,085
Gain on cash flow hedges, net of deferred taxation	-	-	-	-	-	-	15,438	-	15,438	-	-	-	-	-	15,438
Total comprehensive (expense) income for the year	-	-	-	(16,059,625)	43,817	-	15,438	49,394,551	33,394,181	132,112	71,137	592,196	6,742,991	7,538,436	40,932,617
Capital contributed by non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	7,011,710	7,011,710	7,011,710
Repayment of capital contribution to non-controlling shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(12,324)	(12,324)	(12,324)
Effects on diluted interest of a non-wholly owned subsidiary arising from script dividends and conversion of MCS into ordinary shares of the relevant subsidiary	-	-	-	-	-	(218,574)	-	-	(218,574)	-	-	-	218,574	218,574	-
Issuance of PSB to non-controlling equity holders of a subsidiary (Note ii)	-	-	-	-	-	-	-	-	-	-	-	15,000,000	-	15,000,000	15,000,000
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(4,409,760)	(4,409,760)	(4,409,760)
Distributions to MCS holders	-	-	-	-	-	-	-	-	-	(132,112)	-	-	-	(132,112)	(132,112)
Distributions to PCS holders	-	-	-	-	-	-	-	-	-	-	(71,137)	-	-	(71,137)	(71,137)
Distributions to PSB holders (Note ii)	-	-	-	-	-	-	-	-	-	-	-	(592,196)	-	(592,196)	(592,196)
Conversion of MCS into ordinary shares of a subsidiary	-	-	-	-	-	-	-	-	-	(4,049,228)	-	-	4,049,228	-	-
Acquisition of non-wholly owned subsidiaries (note 47)	-	-	-	-	-	-	-	-	-	-	-	-	6,223,768	6,223,768	6,223,768
Effects of redemption of PCS settled by partial interest in a subsidiary (Note iii)	-	-	-	-	-	-	-	-	-	-	(3,725,195)	-	1,574,966	(2,150,229)	(2,150,229)
	-	-	-	-	-	(218,574)	-	-	(218,574)	(4,181,340)	(3,796,332)	14,407,804	14,656,162	21,086,294	20,867,720
As December 31, 2017, as restated	5,467,445	1,264,732	57,772	2,509,106	192,506	461,745	-	103,499,207	113,452,513	-	1,822,871	15,000,000	89,273,843	106,096,714	219,549,227

	Attributable to owners of the Company								Non-controlling interests				
	Share capital RMB'000 (note 43)	Capital reserve RMB'000	Other asset revaluation reserve RMB'000	Investment revaluation reserve RMB'000	Translation reserve RMB'000	Equity transaction reserve RMB'000	Retained profits RMB'000	Sub-total RMB'000 (Note i)	PCS RMB'000	PSB RMB'000 (note 45)	Share of net assets of subsidiaries RMB'000 (Note ii)	Sub-total RMB'000	Total RMB'000
At December 31, 2017, as previously reported	5,467,445	1,264,732	57,772	2,509,106	192,506	461,745	103,499,207	113,452,513	1,822,871	15,000,000	89,273,843	106,096,714	219,549,227
Adjustment (note 2.2)	-	-	-	(890,811)	-	-	858,503	(32,308)	-	-	123,332	123,332	91,024
At January 1, 2018, as restated	5,467,445	1,264,732	57,772	1,618,295	192,506	461,745	104,357,710	113,420,205	1,822,871	15,000,000	89,397,175	106,220,046	219,640,251
Profit for the year	-	-	-	-	-	-	9,691,960	9,691,960	66,793	802,090	3,386,308	4,255,191	13,947,151
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures	-	-	-	-	(714,152)	-	-	(714,152)	-	-	302,792	302,792	(411,360)
Share of other comprehensive income (expense) of associates and joint ventures	-	-	-	1,291,808	-	-	-	1,291,808	-	-	(75,362)	(75,362)	1,216,446
Net loss on fair value changes of debt/equity instruments at fair value through other comprehensive income, net of deferred taxation	-	-	-	(157,710)	-	-	-	(157,710)	-	-	(134,367)	(134,367)	(292,077)
Reclassification adjustment upon disposal of debt instruments as fair value through other comprehensive income	-	-	-	16,847	-	-	-	16,847	-	-	-	-	16,847
Net actuarial loss on defined benefit plans of subsidiaries	-	-	-	-	-	-	(9,023)	(9,023)	-	-	(11,114)	(11,114)	(20,137)
Total comprehensive income (expense) for the year	-	-	-	1,150,945	(714,152)	-	9,682,937	10,119,730	66,793	802,090	3,468,257	4,337,140	14,456,870
Capital contributed by non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	2,419,175	2,419,175	2,419,175
Dividends paid to non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	-	(3,418,353)	(3,418,353)	(3,418,353)
Distributions to PSB holders	-	-	-	-	-	-	-	-	-	(802,090)	-	(802,090)	(802,090)
Distributions to PCS holders	-	-	-	-	-	-	-	-	(66,793)	-	-	(66,793)	(66,793)
Changes in interest in subsidiaries without lost of control (Note iv, v and vi)	-	-	-	1,675,312	23,980	-	(6,763,282)	(5,063,990)	-	-	899,238	899,238	(4,164,752)
Acquisition of subsidiaries (note 48)	-	-	-	-	-	-	-	-	-	-	183,639	183,639	183,639
Issuance of shares (note 43)	10,000,000	-	-	-	-	-	-	10,000,000	-	-	-	-	10,000,000
Obligation arising from a put option granted to non-controlling shareholders of non-wholly owned subsidiaries (note 42 (vii))	-	-	-	-	-	-	-	-	-	-	(507,969)	(507,969)	(507,969)
	10,000,000	-	-	1,675,312	23,980	-	(6,763,282)	4,936,010	(66,793)	(802,090)	(424,270)	(1,293,153)	3,642,857
As December 31, 2018	15,467,445	1,264,732	57,772	4,444,552	(497,666)	461,745	107,277,365	128,475,945	1,822,871	15,000,000	92,441,162	109,264,033	237,739,978

Notes:

(i) Included in the balance of retained profits at the end of the reporting period is the sum of the People's Republic of China (the "PRC") statutory reserves and regulatory reserves of the Company's subsidiaries established in the PRC.

PRC statutory reserves are required by the relevant laws in the PRC applicable to the Company's subsidiaries established in the PRC, the allocation to which is mandatory at a rate of 10% of profit after taxation of the relevant subsidiary prepared under the PRC Generally Accepted Accounting Principles (commonly known as the "PRC GAAP") until the balance of the reserve reaches 50% of the contributed capital of the relevant subsidiary. Further allocation to the statutory reserves is arbitrary and at the discretion of the directors of the relevant subsidiary.

(ii) During the year ended December 31, 2017, China Merchants Securities Co., Ltd. ("CMS"), a non-wholly owned subsidiary of the Company, issued perpetual subordinated bonds ("PSB") of RMB15,000,000,000 with interest rates ranging from 5.15% to 5.65% per annum to certain of its non-controlling equity holders. PSB are equity instruments issued by CMS since it has no contractual obligation to repay the bonds by cash or other financial instruments, and the redemption of the PSB, if any, are at the sole discretion of CMS.

(iii) During the year ended December 31, 2017, China Merchants Investment Development Company Limited ("CMID"), a wholly-owned subsidiary of the Company, exercised its right to convert the MCS it held into 163,918,012 ordinary shares of China Merchants Port Holdings Company Limited ("CMPH"), a non-wholly owned subsidiary of the Company. In the same year, CMID redeemed PCS issued to China Merchants Union (BVI) Limited ("CMU"), a joint venture of the Group, with an aggregate principal amount of United States dollar ("US$") 640,021,000 (equivalent to RMB3,725,195,000) and settled by 163,918,012 ordinary shares of CMPH.

(iv) During the year ended December 31, 2018, 招商食品(深圳)有限公司, a wholly-owned subsidiary of the Company, has purchased the remaining 25% equity interest of Zhaolian (Beijing) Food Company Limited ("Zhaolian BJ") from the non-controlling shareholders of Zhaolian BJ at the consideration of RMB1 and Zhaolian BJ then becomes a wholly-owned subsidiary of the Company since then.

Notes: - continued

(v) During the year ended December 31, 2018, the Group completed a material reorganisation in respect of two non-wholly owned subsidiaries, i.e. CMPH and China Merchants Port Group Co., Ltd. (formerly known as Shenzhen Chiwan Wharf Holdings Limited) ("CMPG") (the "Reorganisation") as follows:

(a) Disposal of interest in CMPG by CMPH in June 2018

Before June 2018, 33.58% interest in CMPG was held by CMPH through two wholly-owned subsidiaries of CMPH and 32.52% interest in CMPG was held by China Nanshan Development (Group) Incorporation ("Nanshan"), an associate of CMPH in which CMPH held 37.01%. Pursuant to an entrustment agreement previously entered, CMPH was entitled to exercise the voting rights attributable to the 32.52% interest in CMPG held by Nanshan. CMPG was accounted for as a non-wholly owned subsidiary of CMPH up to the date of disposal as below.

In June 2018, CMPH had disposed of its 33.58% interest in CMPG to another wholly-owned subsidiary of the Company at a cash consideration of approximately RMB4,422 million. Nanshan also disposed of its 32.52% interest in CMPG to another wholly-owned subsidiary of the Company at a cash consideration of approximately RMB5,081 million.

Accordingly, CMPG ceased to be a subsidiary of CMPH while it remained as a subsidiary of the Company.

(b) Acquisition of interest in CMPH by CMPG in December 2018

In December 2018, CMPG issued approximately 1.1 billion shares to CMID in exchange for CMID's 39.45% interest in CMPH at a total cash consideration of HK$24,650 million (equivalent to RMB21,598 million). Pursuant to an entrustment agreement entered into at the same time, CMPG is entitled to exercise the voting rights attributable to the 22.64% interest in CMPH held by CMU and CMPH becomes a non-wholly owned subsidiary of CMPG since then.

(vi) During the year ended December 31, 2018, 2.59% equity interest in CMS has been acquired from CMSN (as defined in note 1 to the consolidated financial statements) at nil consideration.

CHINA MERCHANTS HOLDINGS (HONG KONG) COMPANY LIMITED
招商局集團(香港)有限公司

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 RMB'000	2017 RMB'000 (restated)
OPERATING ACTIVITIES		
Profit before taxation	16,524,307	58,709,517
Adjustments for:		
Depreciation and amortisation	2,825,184	2,100,599
Net interest expenses	3,487,530	1,890,945
Dividend and interest income from investments	(3,999,782)	(6,219,323)
Net (gain) loss on disposal of:		
- AFS investments	-	(421,676)
- property, plant and equipment	17,076	(4,252)
- associates	(1,956,653)	(783)
- debt instruments at FVTOCI	22,463	-
- subsidiaries	6,004	-
Gain on deemed disposal of an AFS investment	-	(44,565,513)
Share of results of:		
- associates	(15,831,416)	(10,643,381)
- joint ventures	(1,022,154)	(572,550)
Fair value changes of:		
- financial assets and liabilities at FVTPL	1,907,978	426,129
- derivative financial instruments	(38,426)	(104,560)
Gain on deemed disposal of interest in an associate	-	(2,203)
Gain on deregistration of subsidiaries	-	(295)
Net impairment loss recognised (reversed) in respect of:		
- interest in an associate	-	640,586
- trade, bills and other receivables	243,968	410,271
- contract assets	3,197,471	-
- intangible assets	2,296	-
- debt instruments at FVTOCI	3,198	-
- debt instruments at amortised cost	7,096	-
- financial assets held under resale agreements	60,270	56,531
- finance lease receivables	49,853	45,897
- AFS investments	-	18,927
- loans and advances to customers of securities dealing business	59,038	(27,917)
Allowances for inventories	795,443	5,513,035
Operating cash flows before movements in working capital	6,360,744	7,249,984

	2018 RMB'000	2017 RMB'000 (restated)
Increase in financial assets at FVTPL	(35,698,194)	(24,275,286)
Increase in trade, bills and other receivables	(4,329,929)	(1,911,476)
Increase in finance lease receivables and related deposits	(2,789,395)	(14,819,187)
Decrease in accounts payable to brokerage clients of securities dealing business	(2,183,587)	(16,486,385)
Increase in contract assets	(2,127,615)	-
(Increase) decrease in other non-current assets	(837,366)	207,026
Increase in derivative financial instruments	(363,395)	(59,778)
Increase in inventories	(438,535)	(999,464)
Increase in deposits for securities dealing business	(206,942)	(684,036)
Decrease in contract liabilities	(55,870)	-
Increase in restricted bank deposits for insurance business	(25,043)	(1,006,621)
Decrease (increase) in loans and advances to customers of securities dealing business	16,199,958	(5,855,971)
Decrease (increase) in financial assets held under resale agreements entered into by subsidiaries engaged in securities dealing business	3,834,002	(18,039,229)
Decrease in bank balances held on behalf of customers	2,381,578	7,800,924
Increase in financial liabilities at FVTPL	4,437,423	1,083,416
Increase in trade, bills and other payables	5,460,380	1,152,233
Increase in financial assets sold under repurchase agreements entered into by subsidiaries engaged in securities dealing business	28,514,046	13,983,982
Decrease (increase) in placements from banks and other financial institutions	2,049,000	(30,000)
Decrease (increase) in restricted deposits placed with securities brokers	680,317	(548,385)
Decrease in clearing settlement funds held with clearing house for clients	143,640	7,441,876
Decrease in amounts due from customers for contract works	-	1,335,857
Net cash from (used in) operations	21,005,217	(44,460,520)
Taxation paid	(1,696,681)	(1,876,597)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	19,308,536	(46,337,117)

	NOTES	2018 RMB'000	2017 RMB'000 (restated)
INVESTING ACTIVITIES			
Acquisition of debt instruments at FVTOCI		(50,780,481)	-
Deposit paid for acquisition of Liaoning Port as defined in note 25(i)		(20,000,000)	-
Investments in associates and joint ventures		(5,453,579)	(4,130,204)
Acquisition of subsidiaries (net of bank deposits, bank balances and cash acquired)	48	(4,571,949)	(1,969,843)
Consideration paid for acquisition of a subsidiary in prior year		(4,473,273)	-
Acquisition of property, plant and equipment		(2,923,436)	(2,375,048)
Acquisition of debt instruments at amortised cost		(2,913,756)	-
(Placements in) withdrawal from other restricted bank deposits		(1,022,072)	21,667
Placement of time deposits		(1,015,649)	(1,920,000)
(Advances to) repayments from joint ventures, net		(782,946)	537
Acquisition of land use rights		(685,149)	(699,519)
Acquisition of equity instruments at FVTOCI		(555,250)	-
(Placements in) withdrawal from structured bank deposits		(106,646)	153,370
Acquisition of investment properties		(36,008)	(4,021)
Acquisition of intangible assets		(23,156)	(50,370)
Acquisition of assets through acquisition of a subsidiary (net of bank deposits, bank balances and cash acquired)	47	(8,555)	-
Proceeds from disposal of debt instruments at FVTOCI		29,038,268	-
Dividends received from associates		5,044,318	1,724,842
Repayments from ultimate holding company, fellow subsidiaries and other related parties, net		3,490,996	2,353,891
Dividends received from financial assets at FVTPL		3,342,939	2,339,153
Proceeds from disposal of associates and joint ventures		3,081,971	82,163
Interest received		2,384,823	212,870
Dividends received from joint ventures		968,232	1,677,437
Dividends received from equity instruments at FVTOCI		610,189	-
Deposit received for capital injection of the Fund as defined in note 3(b)(ii)		-	653,422
Repayment from (advances to) associates, net		437,170	(1,359,362)
Proceeds from disposal of property, plant and equipment		233,889	66,308
Acquisition of AFS investments		-	(35,048,056)
Prepayments for acquisition of non-current assets		-	(24,062)
Proceeds from disposal of AFS investments		-	17,978,005
Dividends received from AFS investments		-	4,365,934
NET CASH USED IN INVESTING ACTIVITIES		(46,719,110)	(15,950,886)

	NOTE	2018 RMB'000	2017 RMB'000 (restated)
FINANCING ACTIVITIES			
Borrowings raised		189,434,547	123,993,110
Advances from ultimate holding company, immediate holding company and fellow subsidiaries, net		14,041,080	7,204,094
Proceeds from issuance of shares		10,000,000	-
Capital contributed by non-controlling interests of subsidiaries		2,419,175	7,011,710
Advances from associates, net		172,521	230,333
Advances from (repayment to) non-controlling shareholders of subsidiaries, net		18,759	(21,032)
Distributions to MCS holders		-	(132,112)
Repayments of borrowings		(179,165,566)	(76,013,108)
Interest paid		(3,553,843)	(3,073,120)
Consideration paid in respect of changes in interests in subsidiaries without lost of control		(4,164,752)	-
Dividends paid to non-controlling interests of subsidiaries		(3,557,896)	(3,648,009)
(Repayment to) advance from joint ventures, net		(51,821)	3,362
Distribution to PCS holders		(66,793)	(71,137)
Distributions to PSB holders		(802,090)	(592,196)
Proceeds from issue of PSB by a subsidiary		-	15,000,000
Repayment of capital contribution to a non-controlling shareholder		-	(12,324)
NET CASH FROM FINANCING ACTIVITIES		24,723,321	69,879,571
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(2,687,253)	7,591,568
CASH AND CASH EQUIVALENTS AT JANUARY 1		29,316,937	21,950,081
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		668,551	(224,712)
CASH AND CASH EQUIVALENTS AT DECEMBER 31	33	27,298,235	29,316,937

1. GENERAL

The Company is a private limited company incorporated in Hong Kong. Its immediate holding company and ultimate holding company are China Merchants Steam Navigation Company, Limited ("CMSN") and China Merchants Group Limited ("CMG"), respectively, both of which are companies established in the People's Republic of China (the "PRC"). CMG is a PRC enterprise regulated and directly managed by the State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), which is controlled by the PRC government. The address of the registered office and principal place of business of the Company is 37/F, 39/F and 40/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries, associates and joint ventures are set out in notes 60, 61 and 62, respectively.

The functional currency of the Company is Hong Kong dollars ("HK$"). To facilitate the preparation of the consolidated financial statements of CMG, the directors of the Company have determined consolidated financial statements to be presented in Renminbi ("RMB").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) - Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 - 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

In addition, the Group has early applied Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* in advance that is effective for annual period beginning on or after a date to be determined and chosen its date of initial application on January 1, 2018.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

Amendments to HKFRS 10 and HKAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments to HKFRS 10 Consolidated Financial Statements and HKAS 28 Investments in Associates and Joint Ventures deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

However, the application is not expected to have impact as the Group's existing accounting policies are consistent with the requirements clarified by the amendments.

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Port and related operations
- Shipping and related operations
- Logistics and related operations
- Property rental and related management services
- Financial services business

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.1 HKFRS 15 Revenue from Contracts with Customers - continued

Summary of effects arising from initial application of HKFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at December 31, 2017 RMB'000 (Restated)	Reclassification RMB'000	Remeasurement RMB'000	Carrying amounts under HKFRS 15 at January 1, 2018* RMB'000
Current asset					
Inventories	(c)	16,182,100	(10,180,575)	-	6,001,525
Trade, bills and other receivables	(b)	17,328,237	37,956	-	17,366,193
Contracts assets	(c)	-	10,180,575	-	10,180,575
Non-current asset					
Interests in associates	(a)	146,983,775	-	(1,311)	146,982,464
Current liabilities					
Contract liabilities	(b)	-	337,217	-	337,217
Trade, bills and other payables	(b)	59,720,464	(299,262)	-	59,421,202
Capital and reserves					
Reserves	(a)	113,452,513	-	(1,311)	113,451,202

* The amounts before this column are before the adjustments from the application of HKFRS 9.

Notes:

(a) The net effects arising from the initial application of HKFRS 15 resulted in a decrease in the carrying amounts of interests in associates of RMB1,311,000 with corresponding adjustments to retained profits.

(b) As at January 1, 2018, advances from customers of port and related operations and logistic and related operations contracts previously included in trade, bills and other payables amounting to RMB342,304,000 and trade, bills and other receivables amounting to RMB37,956,000 were reclassified to contract liabilities. In addition, at the date of initial application, included in the other non-current liabilities, deferred income of RMB43,042,000 related to the considered received in advance to the services provided. Such balance was reclassified to contract liabilities.

(c) In relation to the construction contracts for vessels and platforms previously accounted under HKAS 11, the Group continues to apply input method in estimating the performance obligations satisfied up to date of initial application of HKFRS 15. Amounts due from customers for contract works of RMB10,180,575,000 was reclassified from inventories to contract assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.1 ***HKFRS 15 Revenue from Contracts with Customers*** - continued

Summary of effects arising from initial application of HKFRS 15 - continued

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 and its consolidated statement of profit or loss and other comprehensive income for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Current assets			
Inventories	3,819,433	9,284,822	13,104,255
Contracts assets	9,284,822	(9,284,822)	-
Current liabilities			
Trade, bills and other payables	71,496,523	281,347	71,777,870
Contract liabilities	281,347	(281,347)	-

Impact on the consolidated statement of cash flows

	As reported RMB'000	Adjustments RMB'000	Amounts without application of HKFRS 15 RMB'000
Operating activities			
Increase in inventories	(438,535)	(2,127,615)	(2,566,150)
Increase in contracts assets	(2,127,615)	2,127,615	-
Increase in trade, bills and other payables	5,460,380	(55,870)	(5,404,510)
Decrease in contract liabilities	(55,870)	55,870	-

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.2 HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities and 2) expected credit losses ("ECL") for financial assets and 3) general hedging amounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to the financial instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to the financial instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement.*

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.2 ***HKFRS 9 Financial Instruments*** - continued

The table below illustrates the classification and measurement (including impairment) of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

	Notes	Trade, bills and other receivables RMB'000	Loans and advances to customers of securities dealing business RMB'000	Financial assets at FVTPL RMB'000	Financial assets held under resale agreements RMB'000	Other current assets RMB'000	Debt instruments at amortised costs RMB'000	AFS investments RMB'000	Debt instruments at FVTOCI RMB'000	Interests in associates RMB'000	Equity instruments at FVTOCI RMB'000	Deferred tax, net RMB'000	Other non-current assets RMB'000	Borrowings - due within one year RMB'000	Financial assets sold under repurchase agreements RMB'000	Trade, bills and other payables RMB'000	Other non-current liabilities RMB'000	Borrowings - due after one year RMB'000	Investment revaluation reserve RMB'000	Retained profits RMB'000	Non-controlling interests RMB'000
Closing balance at December 31, 2017 (Restated) - HKAS 39		17,328,237	59,235,426	73,346,509	37,660,759	104,776	-	52,700,892	-	146,983,775	-	(1,632,824)	5,006,887	(107,947,675)	(33,382,970)	(59,720,464)	(13,163,620)	(86,874,111)	(2,509,106)	(103,499,207)	(106,096,714)
Effect arising from initial application of HKFRS 15		37,956	-	-	-	-	-	-	-	(1,311)	-	-	-	-	-	299,262	-	-	-	1,311	-
Effect arising from initial application of HKFRS 9:																					
Reclassification																					
From AFS investments	(a)	33,039	-	19,031,498	-	12,538	3,857,496	(52,592,936)	21,221,759	-	8,436,606	-	-	-	-	-	-	-	1,373,306	(1,373,315)	9
Remeasurement																					
Impairment under ECL model	(b)	(1,961)	-	-	-	(68)	(1,396)	-	-	-	-	662	(177)	-	-	-	-	-	(5,559)	8,499	-
From cost to fair value	(b)	-	-	1,515,045	-	-	-	(107,956)	-	-	130,514	(434,745)	-	-	-	-	-	-	11,266	(990,782)	(123,342)
From fair value to cost		-	-	-	-	-	3,828	-	-	-	-	(957)	-	-	-	-	-	-	(2,871)	-	-
Effects arising from the initial application of HKFRS 9 resulted in a decrease in the carrying amounts of interests in associates	(c)	-	-	-	-	-	-	-	-	(1,010,455)	-	-	-	-	-	-	-	-	(485,331)	1,495,784	1
Reclassification of interest receivables and payables	(d)	(1,985,298)	1,002,137	709,794	134,050	90,669	-	-	857	-	392	-	47,398	(686,835)	(23,588)	712,906	(2,272)	(210)	-	-	-
Opening balance at January 1, 2018		15,411,973	60,237,563	94,602,846	37,794,809	207,915	3,859,928	-	21,222,616	145,972,009	8,567,512	(2,067,864)	5,054,108	(108,634,510)	(33,406,558)	(58,708,296)	(13,165,892)	(86,874,321)	(1,618,295)	(104,357,710)	(106,220,046)

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.2 ***HKFRS 9 Financial Instruments*** - continued

Notes:

(a) Available-for-sale ("AFS") investments

From AFS equity investments to equity instruments at fair value through other comprehensive income ("FVTOCI")

The Group elected to present in other comprehensive income for the fair value changes of its equity investments previously classified as AFS financial assets amounting to RMB8,436,606,000 as at December 31, 2017. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB720,482,000 was related to unquoted equity investments previously measured at cost less impairment under HKAS 39 and reclassified as equity instruments at FVTOCI with no fair value change as at January 1, 2018.

From AFS investments to financial assets at fair value through profit or loss ("FVTPL")

At the date of initial application of HKFRS 9, the Group's financial assets, representing equity investments, funds investments, assets managements and trust products, of RMB19,031,498,000 were reclassified from AFS financial assets to financial assets at FVTPL. The fair value changes relating to those investments previously carried at fair value were transferred from investment revaluation reserve to opening retained profits amounting to RMB63,284,000. At the date of initial application of HKFRS 9, RMB6,955,438,000 AFS financial assets, which were related to unquoted investments previously measured at cost less impairment under HKAS 39, were reclassified to financial assets at FVTPL and the net fair value gain of RMB1,515,045,000 was adjusted to financial assets at FVTPL and retained profits and corresponding deferred tax liabilities as at January 1, 2018.

From AFS to debt instruments at FVTOCI

Bonds with fair value of RMB21,221,759,000 bonds were reclassified from AFS investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value losses of RMB170,852,000 continued to accumulate in the investment revaluation reserve as at January 1, 2018.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

2.2 ***HKFRS 9 Financial Instruments*** - continued

Notes: - continued

(a) Available-for-sale ("AFS") investments

From AFS to debt instruments at amortised cost

At the date of initial application of HKFRS 9, certain investments in corporate bonds of RMB2,718,847,000 were reclassified from AFS investments to amortised cost since the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding. The carrying amounts were adjusted with corresponding reversal of fair value losses of RMB2,871,000 previously recognised in investment revaluation reserve.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed individually and on collective basis as appropriate.

Except for those which had been determined as credit impaired under HKAS 39, a ECL for other financial assets at amortised cost, including under debt instruments at FVTOCI, debt instruments at amortised cost, financial assets held under resale agreements, finance leases receivables, dividend receivables, trade, bills and other receivables, contract assets, loans and advances to customers of securities dealing business, those under other current assets, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, bank balances and cash and those under other non-current assets), are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

ECL for debt instruments measured at FVTOCI, are also assessed on 12m ECL basis as there had been no significant increase in credit risk since initial recognition.

For outstanding financial guarantees provided to related parties, the Group considered there has been no significant increase in credit risk since initial recognition and hence the loss allowance is assessed on 12m ECL basis.

As at January 1, 2018, additional credit loss allowance of RMB3,602,000 has been recognised against retained profits. The additional loss allowance is charged against the respective asset, except for the debt instruments which is measured at FVTOCI, the loss allowance for which is recognised against the FVTOCI reserve.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

*2.2 **HKFRS 9 Financial Instruments*** - continued

Notes: - continued

(c) Interest in associates

The net effects arising from the initial application of HKFRS 9 resulted in a decrease in the carrying amounts of interests in associates of RMB1,010,455,000 with corresponding decrease is retained profits by RMB1,495,784,000 and increase is investment revaluation reserve by RMB485,331,000.

(d) The Group has changed the presentation of interest receivables and payables held by financial institutions shall be incorporated into corresponding financial instruments on the statement of financial position.

*2.3 **Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation***

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	December 31, 2017 RMB'000	HKFRS 15 RMB'000	HKFRS 9 RMB'000	Reclassification of interest receivables and payables RMB'000	January 1, 2018 RMB'000
ASSETS					
Interests in associates	146,983,775	(1,311)	(1,010,454)	-	145,972,010
Financial assets at FVTPL	73,346,509	-	20,546,543	709,794	94,602,846
Equity instruments at FVTOCI	-	-	8,567,120	392	8,567,512
Debt instruments at FVTOCI	-	-	21,221,759	857	21,222,616
Financial assets held under resales agreements	37,660,759	-	-	134,050	37,794,809
AFS investments	52,700,892	-	(52,700,892)	-	-
Debt instruments at amortised costs	-	-	3,859,928	-	3,859,928
Inventories	16,182,100	(10,180,575)	-	-	6,001,525
Trade, bills and other receivables	17,328,237	37,956	31,078	(1,985,298)	15,411,973
Contract assets	-	10,180,575	-	-	10,180,575
Loans and advances to customers of securities dealing business	59,235,426	-	-	1,002,137	60,237,563
Other non-current assets	5,006,887	-	(177)	47,398	5,054,108
Other current assets	104,776	-	12,470	90,669	207,915
LIABILITIES					
Trade, bills and other payables	59,720,464	(299,262)	-	(712,906)	58,708,296
Financial assets sold under repurchase agreements	33,382,970	-	-	23,588	33,406,558
Borrowings - due within one year	107,947,675	-	-	686,835	108,634,510
Financial liabilities at FVTPL	5,492,509	-	-	-	5,492,509
Contract liabilities	-	337,217	-	-	337,217
Borrowings - due after one year	86,874,111	-	-	210	86,874,321
Other non-current liabilities	13,163,620	-	-	2,272	13,165,892
Deferred taxation, net	1,632,824	-	435,040	-	2,067,864
CAPITAL AND RESERVES					
Reserves	113,452,513	(1,311)	92,335	-	113,543,537

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

New and Amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and an interpretation that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 - 2017 Cycle[1]

1 Effective for annual periods beginning on or after January 1, 2019
2 Effective for annual periods beginning on or after January 1, 2021
3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020
4 Effective for annual periods beginning on or after January 1, 2020

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

HKFRS 16 Leases - continued

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion, both of which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2018, the Group as lessee has non-cancellable operating lease commitments of approximately RMB3,341 million as disclosed in note 52. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid and refundable rental deposits received as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use-assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

HKFRS 16 Leases - continued

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group would elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group would not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group would elect the modified retrospective approach for the application of HKFRS 16 as lessee and would recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

HKFRS 17 Insurance Contracts

In January 2018, the HKICPA issued HKFRS 17 Insurance Contracts, which replaces HKFRS 4. HKFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with discretionary participation features an entity issues, provided the same entity also issue insurance contracts. The scope of HKFRS 17 is substantially consistent with that of HKFRS 4.

HKFRS 17 provides the criteria to determine when a non-insurance component is distinct from the host insurance contract. Entities are required to first apply HKFRS 9 to separate any cash flows related to embedded derivatives and distinct investment components and then apply HKFRS 15 to separate from the host insurance contract any distinct promise to transfer goods or non-insurance services to a policyholder. Under HKFRS 17, there is no accounting policy choice to unbundling. It is either required or prohibited. This is different from HKFRS 4 where unbundling for investment components is permitted but not required when certain criteria are met and the separation of embedded derivatives is exempted in a number of cases.

HKFRS 17 requires entities to identify portfolios of insurance contracts, which comprises contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issues shall be divided into a minimum of:

- A group of contracts that are onerous at initial recognition, if any;
- A group of contracts that at initial recognition have no significant possibility of becoming onerous subsequently, if any; and
- A group of the remaining contracts in the portfolio, if any.

An entity is not permitted to include contracts issued more than one year apart in the same group. If contracts within a portfolio would fall into different groups only because law or regulation specifically constrains the entity's practical ability to set a different price or level of benefits for policyholders with different characteristics, the entity may include those contracts in the same group. HKFRS 17 requires entities to establish the groups at initial recognition and prohibits subsequent reassessment of the composition of the groups.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

HKFRS 17 Insurance Contracts - continued

An entity shall recognise a group of insurance contracts it issues from the earliest of the following:

(a) the beginning of the coverage period of the group of contracts;
(b) the date when the first payment from a policyholder in the group becomes due; and
(c) for a group of onerous contracts, when the group becomes onerous.

On initial recognition, an entity measures a group of insurance contracts at the total of the fulfilment cash flows (FCFs) and the contractual service margin (CSM). This may be referred to as the General Measurement Model (GMM) or the Building Block Approach (BBA). The FCFs comprise of:

- Estimates of future cash flow - only future cash flow within the boundary of each contracts in the group are allowed to be included. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services.
- An adjustment to reflect the time value of money and the financial risks associated with the future cash flows; and
- A risk adjustment for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.

The CSM represents the unearned profit of the group of insurance contracts that the entity will recognise as it provides services in the future, and is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous results in no income or expenses arising at that date.

For groups of contracts with a coverage period less than one year, or where it is reasonably expected to produce a liability measurement that would not differ materially from the GMM, a simplified Premium Allocation Approach (PAA) can be applied. Using the PAA, the liability for remaining coverage shall be initially recognised as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows paid.

Presentation and disclosures requirements introduce a new insurance income and expense definitions that move away from a premium-based presentation approach and is instead a direct result of the movements in the items from the statement of financial position. For the presentation of finance income or expenses (e.g. the effect of discounting), insures have an accounting policy choice at portfolio level to disaggregate insurance finance income or expenses for the period between profit or loss and other comprehensive income.

An entity shall disclose qualitative and quantitative information about:

(a) the amounts recognised in its financial statements that arise from insurance contracts;
(b) the significant judgements, and changes in those judgements, made when applying HKFRS 17; and
(c) the nature and extent of the risks that arise from insurance contracts.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") - continued

HKFRS 17 Insurance Contracts - continued

HKFRS 17 is effective for annual periods beginning on or after January 1, 2021, with earlier application permitted if both HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers have also been applied. An entity shall apply HKFRS 17 retrospectively unless impracticable, in which case entities have the option of using either a modified retrospective approach or the fair value approach.

The directors of the Company anticipates that the new standard will result in an important change to the accounting policies for insurance contracts and is likely to have a material impact on the Group's profit and finance position, together with significant changes in presentation and disclosure. The Group has initiated the journey to adopt the new standard and it would be premature to disclose the impact of the new requirements at this stage when the assessment is still in progress.

Amendments to HKFRS3 Definition of a Business

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after January 1, 2021.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all IFRS Standards and will be mandatorily effective for the Group's annual period beginning on January 1, 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation - continued

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

For financial instruments which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Restatement of the consolidated financial statements due to a business combination involving entities under common control

On December 31, 2018, CMSN transferred its entire shareholding in China Merchants Capital Investment Co., Ltd. ("CMC") and its subsidiaries (together referred to as the "CMC Group") to China Merchants Finance Investment Holdings Co., Ltd., a wholly-owned subsidiary of the Company pursuant to a deed of gift at nil consideration (the "Transfer"). CMC therefore became a wholly-owned subsidiary of the Company after the completion of the Transfer.

As CMC and the Group are ultimately controlled by CMG, the Transfer was regarded as business combination under common control. To consistently apply the Group's accounting policy for common control combination, the acquisition of the CMC Group have been accounted for based on the principles of merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations* ("AG5") issued by the HKICPA as if the acquisitions had occurred on the date when the combining entities first came under the control of the substantial shareholder. Accordingly, the assets and liabilities acquired in the common control combinations are stated at their carrying amounts as if they had been held or incurred by the Group from the later of the date on which the combining entities first came under the control of CMSN or the relevant transactions giving rise to the assets or liabilities arose.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation - continued

Restatement of the consolidated financial statements due to a business combination involving entities under common control - continued

In accordance with AG5, the comparative amounts of the financial statements of the Group have been restated to include the financial statement items of CMC Group. The effect of the acquisitions on and, hence, the items so restated in the comparative financial statements are summarised below:

(a) Effect on the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2017:

	Note	As previously reported RMB'000	Effect of business combination under common control of CMC Group RMB'000	Consolidation adjustments RMB'000	As restated RMB'000
Revenue		51,867,066	557,728	-	52,424,794
Direct costs		(37,875,751)	(964)	-	(37,876,715)
Gross profit		13,991,315	556,764	-	14,548,079
Distribution and selling expenses		(4,245,453)	-	-	(4,245,453)
General and administration expenses		(4,734,088)	(363,847)	-	(5,097,935)
Finance costs, net		(2,143,287)	25,262	-	(2,118,025)
Share of results of:					
- associates		10,525,795	117,586	-	10,643,381
- joint ventures		572,550	-	-	572,550
Gain on deemed disposal of an available for sale investment		44,565,513	-	-	44,565,513
Net income, gains and losses from other investments	(i)	6,160,409	162,304	(2)	6,322,711
Other gains and losses, net		(6,026,951)	49,356	-	(5,977,595)
Impairment losses, net of reversal		(503,709)	-	-	(503,709)
Profit before tax		58,162,094	547,425	(2)	58,709,517
Income tax expense		(2,142,529)	(157,645)	-	(2,300,174)
Profit for the year		56,019,565	389,780	(2)	56,409,343
Other comprehensive (expense) income for the year					
Items that may reclassified subsequently to profit or loss:					
Exchange differences arising on retranslation of subsidiaries, associates and joint ventures		(132,383)	(56,951)	-	(189,334)
Available-for-sale investments:					
- Fair value changes during the year, net of deferred taxation		18,446,989	(236,344)	-	18,210,645
- Reclassification adjustment upon deemed disposal, net of deferred taxation		(33,943,294)	-	-	(33,943,294)
- Reclassification adjustment upon disposal, net of deferred taxation		316,257	-	-	316,257
Cash flow hedges:					
- Fair value changes on effective hedging instruments arising during the year, net of deferred taxation		15,438	-	-	15,438
Associates and joint ventures:					
- Share of other comprehensive income		182,054	(91,577)	-	90,477
Item that will not be reclassified subsequently to profit or loss:					
Net actuarial gain on defined benefit plans of subsidiaries		23,085	-	-	23,085
Other comprehensive expense for the year, net of tax		(15,091,854)	(384,872)	-	(15,476,726)
Total comprehensive income for the year		40,927,711	4,908	(2)	40,932,617

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation - continued

Restatement of the consolidated financial statements due to a business combination involving entities under common control - continued

(a) Effect on the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2017: - continued

	As previously reported RMB'000	Effect of business combination under common control of CMC Group RMB'000	Consolidation adjustments RMB'000	As restated RMB'000
Profit for the year attributable to:				
Owners of the Company	49,140,613	247,946	(2)	49,388,557
Holders of MCS issued by a subsidiary	132,112	-	-	132,112
Holders of PCS issued by a subsidiary	71,137	-	-	71,137
Holders of PSB issued by a subsidiary	592,196	-	-	592,196
Other non-controlling interests	6,083,507	141,834	-	6,225,341
	56,019,565	389,780	(2)	56,409,343
Total comprehensive income for the year attributable to:				
Owners of the Company	33,496,189	(102,006)	(2)	33,394,181
Holders of MCS issued by a subsidiary	132,112	-	-	132,112
Holders of PCS issued by a subsidiary	71,137	-	-	71,137
Holders of PSB issued by a subsidiary	592,196	-	-	592,196
Other non-controlling interests	6,636,077	106,914	-	6,742,991
	40,927,711	4,908	(2)	40,932,617

(b) Effect on the consolidated statement of financial position at December 31, 2017

	Notes	As previously reported RMB'000	Effect of business combination under common control of CMC Group RMB'000	Consolidation adjustments RMB'000	As restated RMB'000
NON-CURRENT ASSETS					
Investment properties		6,426,472	18,644	-	6,445,116
Property, plant and equipment		36,158,115	4,380	-	36,162,495
Land use rights		12,034,730	-	-	12,034,730
Goodwill		3,853,094	-	-	3,853,094
Intangible assets		4,972,665	-	-	4,972,665
Interests in associates		145,686,966	1,296,809	-	146,983,775
Interests in joint ventures		9,131,554	47,301	-	9,178,855
Available-for-sale investments		26,620,839	7,567,936	-	34,188,775
Financial assets held under resale agreements		9,298,958	-	-	9,298,958
Finance lease receivables		11,802,197	-	-	11,802,197
Other non-current assets	(i)	5,002,448	1,301,991	(1,297,552)	5,006,887
Deferred tax assets		1,092,731	35,526	-	1,128,257
		272,080,769	10,272,587	(1,297,552)	281,055,804

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation - continued

Restatement of the consolidated financial statements due to a business combination involving entities under common control - continued

(b) Effect on the consolidated statement of financial position at December 31, 2017 - continued

	Notes	As previously reported RMB'000	Effect of business combination under common control of CMC Group RMB'000	Consolidation adjustments RMB'000	As restated RMB'000
CURRENT ASSETS					
Inventories		16,182,100	-	-	16,182,100
Dividend receivables		393,041	-	-	393,041
Trade, bills and other receivables	(i)	15,752,407	1,748,644	(172,814)	17,328,237
Available-for-sale investments		18,512,117	-	-	18,512,117
Financial assets at fair value through profit or loss		73,346,509	-	-	73,346,509
Derivative financial instruments		1,024,979	-	-	1,024,979
Other current assets		104,776	-	-	104,776
Loans and advances to customers of securities dealing business		59,235,426	-	-	59,235,426
Deposits for securities dealing business		1,224,478	-	-	1,224,478
Financial assets held under resale agreements		28,361,801	-	-	28,361,801
Finance lease receivables		2,613,239	-	-	2,613,239
Bank balances held on behalf of customers		42,526,062	-	-	42,526,062
Bank deposits, bank balances and cash	(ii)	38,960,290	1,523,701	653,422	41,137,413
		298,237,225	3,272,345	480,608	301,990,178
CURRENT LIABILITIES					
Trade, bills and other payables	(i)	59,297,587	595,691	(172,814)	59,720,464
Accounts payable to brokerage clients of securities dealing business		51,095,335	-	-	51,095,335
Placements from banks and other financial institutions		1,470,000	-	-	1,470,000
Financial assets sold under repurchase agreements		33,382,970	-	-	33,382,970
Borrowings - due within one year		107,947,675	-	-	107,947,675
Financial liabilities at fair value through profit or loss		5,492,509	-	-	5,492,509
Derivative financial instruments		1,588,990	-	-	1,588,990
		260,275,066	595,691	(172,814)	260,697,943
NET CURRENT ASSETS		37,962,159	2,676,654	653,422	41,292,235
TOTAL ASSETS LESS CURRENT LIABILITIES		310,042,928	12,949,241	(644,130)	322,348,039
NON-CURRENT LIABILITIES					
Borrowings - due after one year		86,874,111	-	-	86,874,111
Other non-current liabilities	(i), (ii)	3,983,047	9,824,701	(644,128)	13,163,620
Deferred tax liabilities		2,751,361	9,720	-	2,761,081
		93,608,519	9,834,421	(644,128)	102,798,812
NET ASSETS		216,434,409	3,114,820	(2)	219,549,227
CAPITAL AND RESERVES					
Share capital		5,467,445	-	-	5,467,445
Reserves	(i)	104,984,578	3,000,492	(2)	107,985,068
Equity attributable to owners of the Company		110,452,023	3,000,492	(2)	113,452,513
Non-controlling interests		105,982,386	114,328	-	106,096,714
TOTAL EQUITY		216,434,409	3,114,820	(2)	219,549,227

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of preparation - continued

Restatement of the consolidated financial statements due to a business combination involving entities under common control - continued

(b) Effect on the consolidated statement of financial position at December 31, 2017 - continued

Notes:

(i) Adjustments to eliminate the inter-group transactions for the ended December 31, 2017 and balances as at December 31, 2017.

(ii) On December 14, 2017, China Merchants Industry Holdings Company Limited ("CMIH"), a wholly-owned subsidiary of the Company, entered into a subscription agreement with CMC Group for setting up China Merchants Great Wall Ocean Strategy & Technology Fund (the "Fund"), an exempted limited partnership registered in the Cayman Islands which primarily focuses on marine equipment, marine oil and gas production chain.

Pursuant to the subscription agreement, after the completion of subscription, CMC Group and CMIH would hold 45% and 30% of equity interest in the Fund, respectively. Given the assets and liabilities of CMC Group have been combined with that of the Group, considered the interests in the Fund held by both CMC Group and CMH, the Group obtained control over the Fund with the power to direct the relevant activities of the Fund pursuant to the relevant shareholders' agreements and composition of the board of directors over the Fund. Adjustment represents those required for consolidation of the Fund.

No other significant adjustment were made to the net assets and net profit of any entities or business as a result of the common control combination to achieve consistency of accounting policies.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Basis of consolidation - continued

Changes in the Group's interests in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Structured entities

The Group served as the manager of collective asset management schemes, funds and partnership. These collective asset management schemes, funds and partnership invest mainly in equities, debt securities, cash and cash equivalents and securities-backed lending under resales agreement. The Group's proportion ownership in these structured entities can fluctuate from day to day according to the Group's and third-party participation in them. Where the Group is deemed to control such collective asset management schemes, funds and partnership, with control determined based on an analysis of the guidance in HKFRS 10 *Consolidated Financial Statements*, they are consolidated, with the interests of parties other than the Group being classified as liabilities because there is a contractual obligation for the relevant group entity as an issuer to repurchase or redeem units in such collective asset management schemes, funds and partnership for cash. These are presented as "financial liabilities at FVTPL" in the consolidated statement of financial position.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations

Acquisitions of businesses, other than business combination under common control, are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Business combinations - continued

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Merger accounting for business combination involving businesses under common control

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

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Acquisition of a subsidiary not constituting a business

When the Group acquires a group of assets and liabilities that do not constitute a business, the Group identifies and recognises the individual identifiable assets acquired and liabilities assumed by allocating the purchase price first to financial assets and financial liabilities at the respective fair values, the remaining balance of the purchase price is then allocated to the other identifiable assets and liabilities on the basis of their relative fair values at the date of purchase. Such a transaction does not give rise to goodwill or bargain purchase gain.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units ("CGU(s)") (or groups of CGUs) that is expected to benefit from the synergies of the combinations which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment.

A CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the cash-generating unit (or the group of CGUs) retained.

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described below.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. For associates and joint ventures that use accounting policies that differ from those of the Group for like transactions and events in similar circumstances, appropriate adjustments have been made to conform the associate's and the joint venture's accounting policies to those of the Group. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Investments in associates and joint ventures - continued

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate or joint venture and the fair value of any retained interest and any proceeds from disposing of the relevant interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate or joint venture.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of HKFRS 9, which continue to be measured in accordance with the accounting policies as set out in respective sections.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) - continued

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Refund liabilities

The Group recognises a refund liability if the Group expects to refund some or all of the consideration received from customers.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) - continued

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

Revenue recognition (prior to January 1, 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Revenue recognition (prior to January 1, 2018) - continued

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined with reference to the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs.

The Group's accounting policy for the recognition of revenue from construction services is described in the accounting policy for construction contracts below.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Revenue from port services, transportation, container services, container yard management, logistic services, freight operation, godown, wharfage and stevedoring services, building management and other related services are recognised when the relevant services are provided.

Insurance brokerage income is recognised when the underlying transactions has been completed.

Premiums written on direct insurance business are recognised as income when the risk of an insurance policy is incepted. Premiums written on inward reinsurance business are recognised based on the latest information received from ceding companies.

Commission income from reinsurance transactions is recognised on an accrual basis when the related insurance contracts are accepted by the reinsurers.

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from the brokerage business is recognised when the related services are provided.

Underwriting and sponsor fees are recognised in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed.

Financial consultancy and financial advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been provided.

Asset and fund management fee income is recognised when the services are provided and the Group is entitled to receive the income under the asset management agreement.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Construction contracts (prior to January 1, 2018)

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that is probable that they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts due from customers for contract works are included in the consolidated statement of financial position under inventories.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Leases - continued

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as obligations under finance leases.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests in associates/joint ventures.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits costs and termination benefits

Payments to defined contribution retirement benefits plans, such as the Mandatory Provident Fund Scheme in Hong Kong, state-managed retirement benefits schemes in the PRC and other employee retirement benefits schemes of the respective governments in various jurisdictions where the Group operates, are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Retirement benefits costs and termination benefits - continued

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss. Curtailment gains and losses are accounted for as past service costs.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Taxation - continued

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings and leasehold land (classified as finance leases) held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold land and assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Property, plant and equipment - continued

Depreciation is recognised to write off the cost of assets (other than freehold land and construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, the carrying amount of that item at the date of transfer is recognised as the cost of investment property.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including properties under construction for such purposes). Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

Construction costs incurred for investment properties under construction are capitalised as part of the carrying amount of the investment properties under construction.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Investment properties - continued

If an item of investment property becomes a property, plant and equipment because its use has changed as evidenced by commencement of owner-occupation, the carrying amount of that item at the date of transfer is recognised as the cost of property, plant and equipment.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives (other than port operating rights) is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

Port operating rights

Port operating right primarily resulting from the entering of agreement for the right to construct, operate, manage and develop container terminals is carried at cost less accumulated amortisation and impairment. Amortisation is calculated using an economic usage basis which is based on the ratio of minimum guaranteed output volume compared to the total minimum guaranteed output volume over the periods in which the Group is granted the operating rights on the relevant container terminals. When the pattern of consumption of future economic benefits of the asset cannot be determined reliably, the straight-line method over the period in which the Group operates the relevant terminals is used. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being account for on a prospective basis.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Intangible assets - continued

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any impairment losses, on the same basis as intangible assets that are acquired separately. Intangible assets acquired in a business combination with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Impairment on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that CGU.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest/dividend income which are derived from the Group's ordinary course of business are presented as revenue.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

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

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that is required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debts instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit- impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) - continued

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method and foreign exchange gains and losses are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

(iii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits/will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "net income and gains from other investments" in profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net income and gains from other investments".

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (mainly including debt instruments at FVTOCI, debt instruments at amortised cost, financial assets held under resale agreements, finance leases receivables, dividend receivables, trade, bills and other receivables, contract assets, loans and advances to customers of securities dealing business, those under other current assets, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, balances and cash and those under other non-current assets). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables and finance lease receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings. The expected credit losses on trade receivables are estimated using a provision matrix based on shared characteristics including historical credit loss experience, industry specific factors to the debtors, general economic conditions and the available and supportive forward-looking information, including time value of money where appropriate.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) - continued

(i) Significant increase in credit risk - continued

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, except as specified below, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) - continued

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit- impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event;
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) - continued

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For finance lease receivables, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivables in accordance with HKAS 17 Leases.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and finance lease receivables are each assessed on an individual basis and/or collectively as separate groups. Other finance assets are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on January 1, 2018)

Financial assets are classified into the following categories: FVTPL, available-for-sale investments and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in net income and gains from investments. Fair value is determined in the manner described in note 50(c).

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on January 1, 2018) - continued

(ii) AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) financial assets at FVTPL, (b) loans and receivables or (c) held-to-maturity investments.

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (mainly including amounts due from related parties, dividend receivables, trade, bills and other receivables, loans and advances to customers of securities dealing business, financial assets held under resale agreements, deposits for securities dealing business, bank balances held on behalf of customers, and bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (before the application of HKFRS 9 on January 1, 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss (see the accounting policy below).

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial assets - continued

Impairment of financial assets (before the application of HKFRS 9 on January 1, 2018) - continued

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity - continued

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Prior to application of HKFRS 9 on January 1, 2018, financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in net income and gains from investments.

Financial liabilities at amortised cost

Financial liabilities (mainly including amounts due to related parties, trade, bills and other payables, accounts payable to brokerage clients of securities dealing business, placements from banks and other financial institutions, financial assets sold under repurchase agreements, bank borrowings, debentures and notes) are subsequently measured at amortised cost, using the effective interest method.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Financial liabilities and equity - continued

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Embedded derivatives (under HKFRS 9 since January 1, 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Embedded derivatives (before application of HKFRS 9 on January 1, 2019)

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Financial instruments - continued

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

Insurance contracts

Classification

The Group issues contracts that transfer insurance risk. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party for the occurrence of a specified uncertain future event, is classified as an insurance contract.

Recognition and measurement

The insurance contracts issued by the Group are general insurance contracts. For these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of insurance coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of reporting period is reported as unearned premiums.

Insurance debts are recognised when the risk is accepted and measured upon initial recognition at the fair value of the consideration. Subsequent to initial recognition, insurance debtors are measured at amortised cost, using the effective interest rate method, less any identified impairment losses, as financial assets stated at amortised cost. The carrying value of insurance debts is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. The accounting policy on impairment of insurance debts is similar to that on impairment of financial assets. The carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an insurance debt is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

Claims losses are charged to profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damages by the contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the end of reporting period even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated on individual cases reported to the Group and management's analyses for the claims incurred but not reported.

Commission expenses are recognised as expenses when incurred.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES - continued

Insurance contracts - continued

Liability adequacy test

At the end of the reporting period, the Group assesses its recognised insurance liabilities to determine whether they are adequate, using current estimates of future cash flows under its insurance contracts. If the assessment shows that the carrying amounts of its insurance liabilities are inadequate in light of the estimated future cash flows, the entire deficiency is charged in profit or loss immediately.

Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts assumed by the Group and those that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under the reinsurance contracts held are recognised as reinsurance assets. The claims recoverable are recognised on the expected claims and benefits arising under related reinsurance contracts.

The Group assesses its reinsurance assets for impairment at the end of the reporting period. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Control over entities accounted for as subsidiaries

Certain entities are considered to be subsidiaries of the Company despite the interests therein are not more than 50% of the issued share capital of the relevant entities. The directors of the Company assess whether or not the Group has control over these entities based on the assessment of whether the Group has the practical ability to direct the relevant activities of these entities unilaterally. In making the judgement, the directors of the Company consider factors such as the Group's contractual power pursuant to the relevant shareholders' agreements between the Group and other investors and composition of the board of directors of these entities. The directors of the Company determine that the Group has sufficiently dominant voting interest to direct the relevant activities of these entities and therefore the Group has control over these entities. Particulars of the Group's principal subsidiaries at December 31, 2018 are set out in note 60.

The Group also serves as the manager and investor of certain collective asset management schemes, investment funds and limited partnerships. The directors of the Company consider the combination of investments the Group holds together with its remuneration and credit enhancement where the Group is exposed to variability of returns from the activities of these assets management schemes, investment funds and limited partnerships that is of such significance that it indicates that the Group is a principal, these asset management schemes, investment funds and limited partnerships are accounted for as subsidiaries of the Company and are consolidated.

Key sources of estimation uncertainty

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGUs to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss may arise. As at December 31, 2018, the carrying amount of goodwill is approximately RMB7,948 million (2017: RMB3,853 million) (net of accumulated impairment loss of approximately RMB38 million (2017: RMB39 million)). Details of the recoverable amount calculation for goodwill are disclosed in note 14.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Critical judgements in applying accounting policies - continued

Recognition of deferred taxation

As at December 31, 2018, the Group provided for deferred tax liabilities of approximately RMB1,634 million (2017: RMB1,180 million) in relation to the earnings expected to be distributed from the subsidiaries, associates and joint ventures. Deferred tax liabilities have not been provided on the distributable earnings of certain subsidiaries as the Group plans to retain the profits of the respective entities for their daily operations and future developments. In case where the actual distribution of earnings is larger than expected, a material tax liability may arise, which will be recognised in profit or loss in the period in which such profits are declared as dividends.

As at December 31, 2018, the Group recognised deferred tax assets of approximately RMB33 million (2017: RMB22 million) in respect of unused tax losses of approximately RMB124 million (2017: RMB88 million). No deferred tax assets have been recognised in respect of the unused tax losses of approximately RMB4,028 million (2017 (restated): RMB1,077 million) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are different from those currently expected, a material recognition of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a recognition takes place.

Estimated allowances for inventories

The Group makes allowance for obsolete and slow-moving inventories by reviewing the inventory ageing analysis at the end of the reporting period. The Group estimates the net realisable value for inventories based primarily on the latest sales prices and current market conditions. If the net realisable value of inventories is estimated to be less than its carrying amount, the carrying amount of the inventories is reduced to its net realisable value. The carrying amount of inventories other than amounts due from customers for contract works for the Group as at December 31, 2018 is approximately RMB3,819 million (2017: RMB6,002 million), net of allowances for inventories of approximately RMB3,051 million (2017: RMB3,218 million).

As at December 31, 2017, in estimating the impairment on amounts due from customers for contract works that is included in inventories, the Group reviewed the economic environment, industry outlook and the market value of the Group's constructions for indicators of impairment. If the recoverable amount for the amounts due from customers for contract works is estimated to be less than its carrying amount, the carrying amount of the amount was reduced to its recoverable. The carrying amount of amounts due from customers for contract works for the Group as at December 31, 2017 was approximately RMB10,181 million, net of accumulated impairment losses of approximately RMB4,644 million.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY - continued

Critical judgements in applying accounting policies - continued

Classification of financial assets

The classification and measurement of financial assets depend on contractual cash flow test and business model test. The Group will consider all the relevant evidence in the business model test, including the way the performance of financial assets are evaluated and reported to the key management, the risk affected the performance of financial asset and how the risk are managed, as well as how the management are paid. The group also needs to judge whether the contractual cash flow generated by financial assets is only the payment of the principal and interest based on the principal outstanding.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (mainly including debt instruments at FVTOCI, debt instruments at amortised cost, financial assets held under resale agreements, finance leases receivables, dividend receivables, trade, bills and other receivables, contract assets, loans and advances to customers of securities dealing business, those under other current assets, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, bank balances and cash and those under other non-current assets).

Assessment are done based on the Group's historical credit loss experience, general conditions, internal credit ratings and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The provision of ECL is sensitive to changes in estimates.

Fair value measurements and valuation processes

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the directors of the Company use their judgement in selecting an appropriate valuation technique for the investment properties and financial instruments. Valuation techniques commonly used by the market practitioners are applied. Details are set out in notes 11 and 50(c) for the fair value measurements for investment properties and financial instruments, respectively.

Outstanding claims under insurance contracts

The estimation of the ultimate liability arising from claims, made under insurance contracts is the directors' most critical accounting estimates. The Group uses assumptions based on a mixture of internal and market data to measure its claims loss. Internal data is derived mostly from the Group's claims reports and screening of the actual insurance contracts carried out in prior years. The Group has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. In addition, the estimation process considers factors that influence the amount and timing of cash flows from the contracts. The directors believe that the provisions for outstanding claims is adequate as at the end of the reporting period. A claim of insurance contract usually arises from an event of loss from contract holders. The uncertainty of future cash flows therefore arises mainly from the uncertainty of the timing of occurrence of such event.

5. REVENUE

A. For the year ended December 31, 2018

(i) Disaggregation of revenue

	Total RMB'000
Types of goods or services	
Port and related operations	
Terminal handling charge	8,938,611
Shipping and related operations	
Construction of vessels and platforms	3,304,902
Maintenance services of vessels and platforms	1,281,875
Other shipping related services	493,796
	5,080,573
Logistic and related operations	
Trading of goods	9,161,455
Warehousing services income	353,648
	9,515,103
Financial services business	
Commission and brokerage income from securities dealing business	6,975,413
Regular management fees and performance fees from asset management services	760,680
Other financial services	356,190
	8,092,283
Revenue from goods and services	31,626,570
Timing of revenue recognition of revenue from goods and services under HKFRS 15	
A point in time	9,161,455
Overtime	22,465,115
	31,626,570

5. REVENUE - continued

A. For the year ended December 31, 2018 - continued

(ii) Performance obligations for contracts with customers

Terminal handling charge

The Group provides terminal handling services and other port related services. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue is recognised for these services based on the stage of completion of the contract using output method.

Construction of vessels and platforms

The Group provides vessels and platforms construction services to customers. Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue from these construction services is recognised based on the stage of completion of the contract using input method.

Maintenance services of vessels and platforms and other shipping related service

The Group provides vessels and platforms maintenance services to customers. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from these maintenance services is recognised based on the stage of completion of the contract using input method.

Trading of goods

Revenue from trading of goods is from contracts with customers and recognised at a point in time when the customer obtains control of the goods.

Revenue is recognised when control of the goods has been transferred, being when the goods have been delivered to the customer's specific location. Following delivery, the customer has full discretion over the manner of usage and consumption the goods, has the primary responsibility when on selling the goods and bears the risk of obsolescence and loss in relation to the goods.

Revenue is recognised for sales which are considered highly probable that a significant reversal in the cumulative revenue recognised will not occur.

5. REVENUE - continued

A. For the year ended December 31, 2018 - continued

(ii) Performance obligations for contracts with customers - continued

Warehousing services

The Group provides warehousing services. Such services are recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from these services is recognised based on the stage of completion of the contract using output method.

Financial services

The Group provides security dealing and brokerage, asset management services and other financial services to customers.

Commission income from securities brokerage business is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from securities brokerage business is recognised when the related services are rendered.

Regular management fees from asset management business is recognised periodically based on a predetermined fixed percentage of the asset value under the asset management agreement. Performance fees from asset management business is recognised when the performance fee is determinable based on actual performance measurement, as and when contingent criteria associated are met.

Revenue from other financial services is recognised as a performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from these services is recognised based on the stage of completion of the contract using output method.

5. REVENUE - continued

B. For the year ended December 31, 2017

Revenue represents the aggregate amounts received or receivable from third parties, net of discounts, returns, rebates and sales related taxes. An analysis of the Group's revenue for the year is set out as follows:

	2017 RMB'000 (restated)
Revenue from:	
- port and related operations	7,084,045
- shipping and related operations	8,059,106
- logistic and related operations	19,153,436
- property rental and related management services	114,724
- financial services business (Note)	18,271,809
	52,683,120
Less: Discounts, returns, rebates and sales related taxes	(258,326)
	52,424,794

Note: Included in the amount of RMB6,718,349,000 is the interest income from securities dealing business.

6. FINANCE COSTS, NET

	2018 RMB'000	2017 RMB'000 (restated)
Interest income	447,377	327,658
Interest expense on:		
- bank and other borrowings	(1,929,159)	(1,149,405)
- obligations under finance leases	(3,579)	(4,233)
- debentures	(1,324,542)	(1,035,862)
- amount due to related parties	(899,943)	(336,647)
	(4,157,223)	(2,526,147)
Less: Interest capitalised in the cost of qualifying assets	222,316	307,544
	(3,934,907)	(2,218,603)
Net interest expenses charged to profit or loss	(3,487,530)	(1,890,945)
Bank charges incurred	(139,126)	(56,802)
Net exchange losses	(512,492)	(170,278)
Finance costs, net	(4,139,148)	(2,118,025)

6. FINANCE COSTS, NET - continued

Save for the amount of finance costs disclosed above, an aggregate amount of interest expense of RMB7,100,582,000 (2017: RMB5,218,369,000) arising from the securities dealing business is also recognised in profit or loss in the period in which they are incurred and is included in direct costs.

Apart from the interest expense incurred on borrowings specifically for the purposes of obtaining qualifying assets, those incurred from the general borrowing pool used for the purpose of obtaining qualifying assets are also capitalised in the consolidated statement of financial position. Capitalisation rate of 3.73% (2017: 1.56%) per annum was applied, representing the weighted average rate of the costs of borrowings used to finance the qualifying assets.

7. NET INCOME, GAINS AND LOSSES FROM OTHER INVESTMENTS

	2018 RMB'000	2017 RMB'000 (restated)
Dividend and interest income from:		
- financial assets at FVTPL	3,384,640	2,339,153
- equity instruments at FVTOCI relating to investments held at the end of the reporting period	615,142	-
- AFS investments	-	3,880,170
Net gain on disposal of AFS investments	-	421,676
Fair value changes of:		
- financial assets and liabilities at FVTPL	(1,907,978)	(426,129)
- derivative financial instruments	38,246	104,560
Net loss on disposal of debt instruments at FVTOCI	(22,463)	-
Gain on disposal of an associate	1,956,653	783
Loss on disposal of subsidiaries	(6,004)	-
Gain on deemed disposal of interest in an associate	-	2,203
Gain on deregistration of subsidiaries	-	295
	4,058,236	6,322,711

8. OTHER GAINS AND LOSSES, NET/IMPAIRMENT LOSS, NET OF REVERSAL

(a) Other gains and losses, net

	2018 RMB'000	2017 RMB'000 (restated)
Other gains (losses) comprise:		
Allowances for inventories	(795,443)	(5,513,035)
Impairment loss recognised in respect of:		
- intangible assets	(2,296)	-
- interest in an associate	-	(640,586)
Net (loss) gain on disposal of property, plant and equipment	(17,076)	4,252
Government subsidies	247,981	261,126
Others	(118,912)	(89,352)
	(685,746)	(5,977,595)

(b) Impairment loss, net of reversal

	2018 RMB'000	2017 RMB'000
Net impairment loss (recognised) reversed in respect of:		
- trade, bills and other receivables	(243,968)	(410,271)
- contract assets	(3,197,471)	-
- debt instruments at amortised cost	(7,096)	-
- debt instruments at FVTOCI	(3,198)	-
- financial assets held under resale agreements	(60,270)	(56,531)
- loans and advances to customers of securities dealing business	(59,038)	27,917
- finance lease receivables	(49,853)	(45,897)
- AFS investments	-	(18,927)
	(3,620,894)	(503,709)

9. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000 (restated)
The charge comprises:		
Current tax		
- Hong Kong Profits Tax (Note i)	887,949	111,786
- PRC Enterprise Income Tax ("EIT") (Note ii)	1,251,813	1,868,140
- other jurisdictions (Note iii)	67,783	31,876
	2,207,545	2,011,802
(Over)underprovision in prior years		
- Hong Kong Profits Tax	(3,214)	(3,550)
- PRC EIT	(8,947)	4,595
	(12,161)	1,045
Deferred tax charge	381,772	287,327
	2,577,156	2,300,174

Notes:

(i) Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on March 28, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

9. INCOME TAX EXPENSE - continued

Notes: - continued

(ii) The PRC

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Certain of the Group's subsidiaries are exempted from PRC EIT in the first five profit-making years and followed by a 50% reduction for the next five years thereafter, commencing from the earlier of the first profitable year after offsetting all unexpired tax losses carried forward from the previous years or January 1, 2008.

Certain of the Group's subsidiaries enjoy the preferential rate of 15% upon the fulfilment of the criteria of the relevant tax regulations.

Further, 10% withholding income tax is generally imposed on dividends relating to any profits earned commencing from 2008 to foreign investors. For some PRC entities held by companies incorporated in certain places, including Hong Kong and Singapore, a preferential tax rate of 5% is applied according to the PRC tax regulations if such companies are the beneficial owners of over 25% of these PRC entities. Deferred tax liabilities are provided based on the undistributed earnings of certain subsidiaries, associates and joint ventures of the Group earned after January 1, 2008. For the remaining undistributed earnings, no deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

(iii) Other jurisdictions

Taxation arising in jurisdictions other than Hong Kong and the PRC is calculated at the rates prevailing in the respective jurisdictions.

9. INCOME TAX EXPENSE - continued

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2018 RMB'000	2017 RMB'000 (restated)
Profit before taxation	16,524,307	58,709,517
Tax at the income tax rate of 25% (Note)	4,131,077	14,677,379
Tax effect of share of results of associates and joint ventures	(4,213,392)	(2,803,984)
Tax effect of expenses not deductible for tax purpose	605,404	811,314
Tax effect of gain on deemed disposal of an AFS investment	-	(10,964,864)
Tax effect of income not taxable for tax purpose	(237,671)	(675,873)
(Over) underprovision in prior years	(12,161)	1,045
Tax effect of tax losses and deductible temporary differences not recognised	2,407,588	1,776,624
Tax effect of utilisation of tax losses and deductible temporary differences previously not recognised	(173,602)	(204,520)
Deferred tax on undistributed earnings of subsidiaries, associates and joint ventures	873,546	425,352
Effect of tax exemptions or concessionary tax rates granted to certain PRC subsidiaries	(524,469)	(325,723)
Effect of different tax rates applicable to subsidiaries operating in other jurisdictions	(380,905)	(380,987)
Others	101,741	(35,589)
Tax charge for the year	2,577,156	2,300,174

Note: The income tax rate used represents the applicable tax rate for PRC EIT.

10. PROFIT FOR THE YEAR

	2018 RMB'000	2017 RMB'000 (restated)
Profit for the year has been arrived at after charging:		
Depreciation and amortisation of:		
- investment properties	198,130	223,585
- property, plant and equipment	2,085,666	1,557,153
- land use rights	320,638	188,163
- intangible assets (included in general and administrative expenses)	220,750	131,698
	2,825,184	2,100,599
Directors' remuneration		
- fee	-	-
- other emoluments	16,870	15,900
Employee benefits expenses (including directors' remuneration)	8,826,095	8,703,755
Research and development expenses	682,103	397,720
Auditors' remuneration (including fees for non-audit services)	22,224	20,563

11. INVESTMENT PROPERTIES

	RMB'000
COST	
At January 1, 2017, as previously reported	6,563,225
Effect of business combination under common control	30,460
At January 1, 2017, as restated	6,593,685
Additions	4,021
Transfer to property, plant and equipment	(511)
Arising from acquisition of subsidiaries (note 48)	145,121
Exchange adjustments	5,077
At December 31, 2017, as restated	6,747,393
Additions	36,008
Transfer from property, plant and equipment	1,793
Acquisition of assets through acquisition of a subsidiary (note 47)	11,366
Exchange adjustments	2,291
At December 31, 2018	6,798,851
DEPRECIATION	
At January 1, 2017, as previously reported	63,531
Effect of business combination under common control	10,851
At January 1, 2017, as restated	74,382
Provided for the year	223,585
Transfer to property, plant and equipment	(145)
Exchange adjustments	4,455
At December 31, 2017, as restated	302,277
Provided for the year	198,130
Transfer from property, plant and equipment	1,253
Exchange adjustments	1,856
At December 31, 2018	503,516
CARRYING VALUES	
At December 31, 2018	6,295,335
At December 31, 2017, as restated	6,445,116

The above investment properties are depreciated on a straight-line basis over 10 years to 50 years, or over the lease terms of the relevant land, if shorter.

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Freehold land RMB'000	Floating docks, harbour works and dockyard RMB'000	Furniture, equipment, plant and machinery RMB'000	Vessels, ships and motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST							
At January 1, 2017, as previously reported	4,157,799	89,492	16,587,590	12,041,555	2,126,881	2,203,739	37,207,056
Effect of business combination under common control	-	-	-	10,384	3,236	-	13,620
At January 1, 2017, as restated	4,157,799	89,492	16,587,590	12,051,939	2,130,117	2,203,739	37,220,676
Additions	37,732	-	9,616	263,086	749,494	1,364,742	2,424,670
Arising from acquisition of subsidiaries (note 48)	238,304	-	7,740,703	413,577	432,677	859,433	9,684,694
Reclassifications	89,560	-	578,354	204,311	645	(872,870)	-
Transfer from inventories	-	-	-	-	2,031,823	-	2,031,823
Transfer from investment properties	366	-	-	-	-	-	366
Transfer from other non-current assets	5,310	-	-	1,613	-	-	6,923
Disposals	(4,665)	-	(38,916)	(204,268)	(44,665)	-	(292,514)
Exchange adjustments	(134,586)	1,651	(637,025)	(55,362)	(119,832)	(17,401)	(962,555)
At December 31, 2017, as restated	4,389,820	91,143	24,240,322	12,674,896	5,180,259	3,537,643	50,114,083
Additions	11,171	-	40,666	439,325	302,917	2,171,295	2,965,374
Arising from acquisition of subsidiaries (note 48)	6,228	-	1,086,055	538,040	5,080	357,603	1,993,006
Reclassifications	984,868	-	(1,313,775)	416,764	148,125	(235,982)	-
Transfer from inventories	-	-	-	-	1,819,639	-	1,819,639
Transfer to investment properties	(1,793)	-	-	-	-	-	(1,793)
Transfer to non-current assets held-for-sale	(48,917)	-	-	-	-	-	(48,917)
Disposals	(1,228)	-	(165,282)	(345,672)	(64,903)	-	(577,085)
Exchange adjustments	101,230	16,446	309,568	1,161	250,503	34,894	713,802
At December 31, 2018	5,441,379	107,589	24,197,554	13,724,514	7,641,620	5,865,453	56,978,109
DEPRECIATION AND IMPAIRMENT							
At January 1, 2017, as previously reported	1,479,198	-	4,260,564	6,220,974	759,715	-	12,720,451
Effect of business combination under common control	-	-	-	6,673	1,617	-	8,290
At January 1, 2017, as restated	1,479,198	-	4,260,564	6,227,647	761,332	-	12,728,741
Provided for the year	93,090	-	467,729	875,323	121,011	-	1,557,153
Eliminated on disposals	(1,844)	-	(28,479)	(167,934)	(34,596)	-	(232,853)
Exchange adjustments	(4,443)	-	(34,784)	(45,280)	(16,946)	-	(101,453)
At December 31, 2017, as restated	1,566,001	-	4,665,030	6,889,756	830,801	-	13,951,588
Provided for the year	146,036	-	678,520	982,173	278,937	-	2,085,666
Eliminated on disposals	(761)	-	(95,592)	(269,842)	(48,700)	-	(414,895)
Transfer to investment properties	(1,253)	-	-	-	-	-	(1,253)
Transfer to non-current assets held-for-sale	(26,272)	-	-	-	-	-	(26,272)
Exchange adjustments	45,936	-	3,275	525	17,584	-	67,320
At December 31, 2018	1,729,687	-	5,251,233	7,602,612	1,078,622	-	15,662,154
CARRYING VALUES							
At December 31, 2018	3,711,692	107,589	18,946,321	6,121,902	6,562,998	5,865,453	41,315,955
At December 31, 2017, as restated	2,823,819	91,143	19,575,292	5,785,140	4,349,458	3,537,643	36,162,495

12. PROPERTY, PLANT AND EQUIPMENT - continued

The above items of property, plant and equipment, other than freehold land and construction in progress where no depreciation is provided, are depreciated over their estimated useful lives, after taking into account their estimated residual values, on a straight-line basis under the following terms:

Land and buildings	5 years to 50 years, or over the lease terms of the relevant land, if shorter
Floating docks, harbour works and dockyard	8 to 99 years
Furniture, equipment, plant and machinery	3 to 20 years
Vessels, ships and motor vehicles	3 to 25 years

Management conducts reviews of the Group's property, plant and equipment at the end of the reporting period. Whenever there is an indication that those assets have been impaired, an impairment loss is recognised in profit and loss. No impairment loss has been recognised in respect of property, plant and equipment for both years.

As at December 31, 2018, the carrying amounts of furniture, equipment, plant and machinery, floating docks, harbour works and dockyard and vessels, ships and motor vehicles include an amount of RMB5,516,520,000 (2017: RMB6,705,980,000) in respect of assets held under finance leases.

The aggregate carrying amount of the Group's property, plant and equipment pledged to secure the Group's borrowings is set out in note 55.

13. LAND USE RIGHTS

The carrying values of the land use rights comprise:

	2018 RMB'000	2017 RMB'000
Land use rights in:		
- Hong Kong	661,536	228,793
- the PRC	11,694,689	11,805,937
	12,356,225	12,034,730

The Group's land use rights are amortised over the lease terms of the relevant land.

The aggregate carrying amount of the Group's land use rights pledged to secure the Group's borrowings is set out in note 55.

The carrying amount of the Group's land use right amounting to RMB93 million is transferred to the Group's non-current assets held for sale as set out in note 34.

14. GOODWILL

	RMB'000
COST	
At January 1, 2017	3,357,523
Arising from acquisition of subsidiaries (note 48)	552,317
Exchange adjustments	(17,547)
At December 31, 2017	3,892,293
Arising from acquisition of subsidiaries (note 48)	3,969,375
Exchange adjustments	124,682
At December 31, 2018	7,986,350
IMPAIRMENT	
At January 1, 2017	38,951
Exchange adjustments	248
At December 31, 2017	39,199
Exchange adjustments	(858)
At December 31, 2018	38,341
CARRYING VALUES	
At December 31, 2018	7,948,009
At December 31, 2017	3,853,094

For the purpose of impairment testing, goodwill has been allocated to individual CGUs that are expected to generate future economic benefits. The carrying amount of goodwill (net of accumulated impairment losses) allocated to these units are as follows:

	2018 RMB'000	2017 RMB'000
Fund management operations ("Unit A")	9,671	9,671
Port and port-related operations ("Unit B")	7,901,518	3,805,625
Trading operations under shipping and related operations of the Group ("Unit C")	16,768	17,746
Aluminium manufacturing operations under logistics and related operations of the Group ("Unit D")	20,052	20,052
	7,948,009	3,853,094

14. GOODWILL - continued

Goodwill is allocated to the above CGUs in accordance with their respective business segments. The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amounts for each of the four (2017: four) CGUs have been determined based on the higher of fair value less costs of disposal and value in use. The value in use calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using weighted average growth rates which do not exceed the historical trend of the respective CGUs and the growth rates of the relevant industries. Management of the Company determines the financial budgets based on past performance and its expectations for market development, including the expected economic growth in developed and emerging economies in the short term and medium term, prospective GDP growth rates, future developments of the industries, among others.

During the year ended December 31, 2018 and 2017, no impairment losses have been recognised on any of the Group's CGUs or groups of CGUs containing goodwill. Management believes that any reasonably possible change in any of the assumptions would not cause the aggregate carrying amount of any of the above CGUs to exceed the respective aggregate recoverable amounts.

15. INTANGIBLE ASSETS

	Trading rights RMB'000 (Note i)	Port operating rights RMB'000 (Note ii)	Brandnames RMB'000 (Note iii)	Sea areas and coastline use rights RMB'000 (Note iv)	Total RMB'000
COST					
At January 1, 2017	82,805	4,917,822	63	124,501	5,125,191
Additions	-	50,370	-	-	50,370
Exchange adjustments	(1,289)	203,737	-	-	202,448
At December 31, 2017	81,516	5,171,929	63	124,501	5,378,009
Arising from acquisition of subsidiaries (note 48)	-	4,855,494	412,532	-	5,268,026
Additions	-	20,655	8,776	-	29,431
Exchange adjustments	886	(342,566)	32,512	-	(309,168)
At December 31, 2018	82,402	9,705,512	453,883	124,501	10,366,298
AMORTISATION AND IMPAIRMENT					
At January 1, 2017	60,776	200,778	6	4,939	266,499
Provided for the year	645	128,205	7	2,841	131,698
Exchange adjustments	(84)	7,231	-	-	7,147
At December 31, 2017	61,337	336,214	13	7,780	405,344
Provided for the year	915	217,063	7	2,765	220,750
Impairment recognised for the year	2,296	-	-	-	2,296
Exchange adjustments	133	(90,589)	-	-	(90,456)
At December 31, 2018	64,681	462,688	20	10,545	537,934
CARRYING VALUES					
At December 31, 2018	17,721	9,242,824	453,863	113,956	9,828,364
At December 31, 2017	20,179	4,835,715	50	116,721	4,972,665

15. INTANGIBLE ASSETS - continued

Notes:

(i) Trading rights represent the rights of trading securities and futures contracts on the relevant stock exchanges including the Shenzhen Stock Exchange, the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited, the Hong Kong Futures Exchange Limited and CME Group Inc., for the Group's securities dealing business. Amortisation is provided on a straight-line basis over 10 years.

(ii) Included in port operating rights as at December 31, 2018 is an amount of approximately RMB3,834 million (2017: RMB3,916 million) related to a concession for the operation of a terminal in the Port of Lomé in Togo for a concession period of 35 years commenced in 2011 granted by the Government of Togolese Republic. The carrying amount of the concession represents the fair value at the date of the business combination under which the Group acquired the concession and the fair value of the construction services carried out to-date less its accumulated amortisation. Amortisation is provided for since 2015 and over the period in which the Group operates the relevant terminals on a straight-line basis. The relevant group entity recognises both construction revenue and cost in the amount of approximately RMB18 million (2017: RMB49 million) for the year ended December 31, 2018 by reference to the stage of completion of the construction of the terminal at the end of the reporting period and based on the proportion that contract costs incurred for work performed at the end of the reporting period relative to the estimated total contract costs.

Included in port operating rights as at December 31, 2018 is also an amount of RMB4,448 million (2017: nil) related to the concession for operation of a terminal in Brasil for an concession period of 50 years commencing from 1998 granted by the Brasilian Federal Government. The carrying amount of the concession represents the fair value as at the date of the business combination under which the Group acquired the concession less its accumulated amortization. Amortisation is provided for over the period in which the Group operates the relevant terminals on an economic usage basis.

The remaining amount of port operating rights relates to a concession for operation of a terminal built in Colombo in Sri Lanka for a concession period of 35 years commenced from 2011 granted by the government of the Republic of Sri Lanka. The carrying amount of the concession represents the fair value as at the date of the acquisition of the relevant business by the Group less its accumulated amortisation, which is calculated using the economic usage basis. Further details are set out in note 35(vi) and 42(iv).

Included in brandnames as at December 31, 2018 is an amount of RMB445 million (2017: nil) related to the TCP Acquisition (as defined in note 48). The brandname is considered by the management of the Group as having an indefinite useful live because it is expected to contribute to the generation of net cash inflows to the Group indefinitely. It is tested for impairment annually and whenever there is an indication that they may have been impaired. No impairment loss of the trademark is recognised for the current year.

15. INTANGIBLE ASSETS - continued

Notes: - continued

(iii) As at December 31, 2018, the amount relates to brandnames purchased from third parties under the Group's shipping and related operations. Amortisation is provided for over the useful life of the relevant brandnames.

(iv) Sea areas and coastline use rights represent the Group's rights to use certain sea areas and coastlines associated with the terminals managed and operated by the Group as granted by relevant PRC government authorities for specified periods up to 50 years. Amortisation is provided for over the period granted on a straight-line basis.

16. INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000 (restated)
Share of net assets of associates	132,895,242	119,585,831
Goodwill	28,938,520	28,690,087
Less: Accumulated impairment losses	(1,325,687)	(1,292,143)
	160,508,075	146,983,775
Fair value of listed associates	133,757,189	161,152,603

The Group's material associates at the end of the reporting period include China International Marine Containers (Group) Co., Ltd. ("CIMC"), China Merchants Bank Co., Ltd ("CMB") (see Note (ii) below) and Shanghai International Port (Group) Co., Ltd. ("SIPG"), all of which are listed entities. All of the Group's associates are accounted for using the equity method in these consolidated financial statements.

16. INTERESTS IN ASSOCIATES - continued

Summarised financial information in respect of each of the Group's material associates is set out below. Other associates invested by the Group are not individually material. The summarised financial information below represents the financial information of the material associates prepared in accordance with the accounting policies of the Group.

	CIMC		CMB		SIPG	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income						
Revenue	93,497,622	76,299,930	248,555,000	220,897,000	38,042,544	36,429,023
Profit for the year, attributable to the equity holders of the associates	3,191,427	3,153,482	78,629,925	70,638,000	9,041,123	11,425,122
Other comprehensive income (expense) for the year, attributable to the equity holders of the associates	62,313	(195,798)	8,608,197	(7,691,000)	303,044	934,117
Total comprehensive income for the year, attributable to the equity holders of the associates	3,253,740	2,957,684	87,238,122	62,947,000	9,344,167	12,359,239
Dividends received from the associates by the Group during the year	204,751	44,114	3,109,366	-	1,059,195	913,489
Financial information of consolidated statement of financial position						
Non-current assets	75,877,400	71,452,102	3,439,832,021	1,660,764,000	97,622,963	93,262,058
Current assets	81,902,959	59,020,359	3,305,830,000	4,636,874,000	47,696,406	50,265,639
Current liabilities	(73,536,161)	(51,440,195)	(5,624,543,000)	(5,732,830,000)	(31,680,619)	(38,088,082)
Non-current liabilities	(32,944,814)	(35,945,186)	(577,581,000)	(81,416,000)	(32,158,012)	(27,905,793)
Net assets of the associates	51,299,384	43,087,080	543,538,021	483,392,000	81,480,738	77,533,822
Reconciliation to the carrying amounts of interests in the associates						
Net assets of the associates	51,299,384	43,087,080	543,538,021	483,392,000	81,480,738	77,533,822
Less: Non-controlling interests	(15,077,989)	(10,776,507)	(2,329,000)	(2,012,000)	(6,802,305)	(7,582,057)
Less: Perpetual debt capital	(4,007,545)	-	(1,158,000)	(1,170,000)	-	-
Less: Perpetual medium-term note	-	(2,033,043)	-	-	-	-
Net assets attributable to the equity holders of the associates	32,213,850	30,277,530	540,051,021	480,210,000	74,678,433	69,951,765
Proportion of the Group's interests in the associates (Notes i, ii and iii)	24.58%	24.56%	14.814%	14.814%	26.77%	26.45%
Net assets attributable to the Group's interests in the associates	7,918,164	7,436,161	80,003,158	71,138,309	19,991,417	18,502,242
Goodwill	374,384	374,384	19,346,275	19,346,275	2,158,342	1,847,182
Add: Effect of fair value adjustments at acquisition	-	-	1,318,109	1,350,655	-	-
Carrying amount of the Group's interests in the associates	8,292,548	7,810,545	100,667,542	91,835,239	22,149,759	20,349,424
Market value of the listed associates, valued based on the quoted prices in active markets for the identical asset directly, and categorised as Level 1 of the fair value hierarchy of the Group's interests in the associates	4,725,022	9,248,541	94,151,351	107,449,530	32,129,272	40,766,914

16. INTERESTS IN ASSOCIATES - continued

Aggregate information of associates that are not individually material

	2018 RMB'000	2017 RMB'000 (restated)
The Group's share of:		
Profit for the year	978,417	2,548,137
Other comprehensive (expense) income	(159,701)	44,454
Total comprehensive income	818,716	2,592,591
Aggregate share of net asset of the Group's interests in the associates	30,723,914	28,280,710
Less: Accumulated impairment losses	(1,325,187)	(1,292,143)
Aggregate carrying amount of the Group's interests in the associates	29,398,227	26,988,567

Notes:

(i) Acquisition of additional interest in CIMC

During the year ended December 31, 2018, 964,400 shares (2017: 2,169,400 shares) of CIMC were purchased by the Group from open market for aggregate considerations of RMB12,535,000 (2017: RMB14,197,000). Consequently, the Group's interest in CIMC has been increased from 24.56% to 24.58% (2017: from 24.53% to 24.56%)

(ii) Deemed disposal and acquisition of interest in CMB

Up to June 30, 2017, the Group accounted for its 14.814% equity interests in CMB as an AFS investment. The AFS investment is derecognised on June 30, 2017 when the Group is able to exercise significant influence over CMB and reclassified CMB as an associate of the Group as detailed below. The accumulated increase in investment revaluation reserve of the AFS investment during the year then ended and up to the date of its derecognition, amounting to RMB44,565,513,000, is reclassified as gain on deemed disposal of an AFS investment in profit or loss during the year ended December 31, 2017.

CMG accounted for its equity interest in CMB as an associate since the establishment of CMB. Pursuant to the internal restructuring of the financial services business sector of CMG for better control on the sector performance, CMG has assigned China Merchants Finance Holdings Company Limited, a subsidiary of the Company, to exercise its right as a shareholder of CMB in the board of directors of CMB, which govern the financial and operating policy decisions of CMB and accordingly, the directors of the Company considered that the Group is able to exercise significant influence in the CMB Board and the investments in CMB is therefore classified as an associate of the Group since then.

16. INTERESTS IN ASSOCIATES - continued

Aggregate information of associates that are not individually material - continued

Notes: - continued

(ii) Deemed disposal and acquisition of interest in CMB - continued

As at June 30, 2017, the deemed acquisition date fair value of CMB of RMB87,913,969,000 is determined by reference to 328,776,923 ordinary H-shares of CMB listed in the Stock Exchange of Hong Kong Limited held by the Group with market value of HK$23.20 (equivalent to RMB19.44) per share and 3,408,080,075 ordinary A-shares of CMB listed in the Shanghai Stock Exchange held by the Group with market value of RMB23.91 per share.

The fair value of the assets and liabilities (other than goodwill) of CMB as at the deemed acquisition date, of which the Group is able to exercise significant influence in CMB, was determined to be RMB68,567,694,000. Fair value adjustments have been made to property, plant and equipment and investment properties and are amortised over the remaining useful life of relevant assets.

(iii) Acquisition of additional interest in SIPG

During the year ended December 31, 2018, 72,199,132 shares (2017: 302,685,482 shares) of SIPG were purchased by the Group from open market for aggregate considerations of RMB453,701,000 (2017: RMB1,997,375,000). Consequently, the Group's interest in SIPG has been increased from 26.45% to 26.77% (2017: from 25.15% to 26.45%).

(iv) Disposal of interests in an associate

On May 6, 2018, the Group entered into an agreement with a fellow subsidiary to dispose of all its 30% equity interests in China Merchants Zhangzhou Economic Development Zone Ltd ("CMDZ") at a cash consideration of RMB3,289,573,000, resulting in a net gain on disposal of RMB1,956,653,000. CMDZ is principally engaged in investment holding, property and infrastructure development provision of utility and transportation services. The transaction was completed in May 2018.

(v) Impairment loss recognised on interest in a listed associate

At December 31, 2018, the directors of the Company conducted a review of the Group's interest in listed associates with reference to its economic outlooks and determined its recoverable amount with reference to its value in use and fair value less cost of disposal. The recoverable amount is determined as the fair value less cost of disposal, of which the fair value is based on quoted prices in active markets for the identical asset directly and categorised as Level 1 of the fair value hierarchy (see note 3), and it is higher than the carrying amount of the Group's interest in the listed associates and no impairment loss is recognised during the year ended December 31, 2018 (2017: RMB640,586,000).

Particulars of the Group's principal associates at December 31, 2018 are set out in note 61.

17. INTERESTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000 (restated)
Share of net assets of unlisted joint ventures less accumulated impairment losses	12,847,757	9,139,221
Goodwill	44,587	44,587
Less: Accumulated impairment losses	(5,192)	(4,953)
	12,887,152	9,178,855

The Group's material joint venture at the end of the reporting period includes China Merchants Union (BVI) Limited ("CMU"), which is an unlisted entity.

All of the Group's joint ventures are accounted for using equity method in these consolidated financial statements.

Summarised financial information in respect of the Group's material joint venture is set out below. Other joint ventures invested by the Group are not individually material. The summarised financial information below represents the financial information of the material joint venture prepared in accordance with accounting policies of the Group.

	CMU	
	2018 RMB'000	2017 RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	-	-
Profit for the year, attributable to equity holders of the joint venture	1,134,510	2,331,902
Other comprehensive income for the year, attributable to the equity holders of the joint venture	20,152	221,799
Total comprehensive income for the year, attributable to the equity holders of the joint venture	1,154,662	2,553,701
Dividends received from the joint venture by the Group during the year	529,814	1,553,210

17. INTERESTS IN JOINT VENTURES - continued

	CMU	
	2018 RMB'000	2017 RMB'000
Financial information of consolidated statement of financial position		
Non-current assets	31,228,738	37,581,741
Current assets	4,477,719	2,280,344
Current liabilities	(379,267)	(175,134)
Non-current liabilities	(15,618,565)	(14,830,525)
Net assets of the joint venture	19,708,625	24,856,426
Reconciliation to the carrying amount of interest in the joint venture		
Net assets of the joint venture	19,708,625	24,856,426
Less: Interest in an associate held by CMU which is under the control of and consolidated by the Group*	(17,039,475)	(22,986,352)
Net assets attributable to the equity holders of the joint venture	2,669,150	1,870,074
Proportion of the Group's interest in the joint venture	50.00%	50.00%
Net assets attributable to the Group's interest in the joint venture	1,334,575	935,037
Carrying amount of the Group's interest in the joint venture	1,334,575	935,037

* The assets and liabilities of CMU do not include its equity interest in CMPH, which is accounted for as an associate by CMU.

Aggregate information of joint ventures that are not individually material

	2018 RMB'000	2017 RMB'000 (restated)
The Group's share of:		
Profit for the year	454,899	327,680
Other comprehensive (expense) income	(5,588)	(554)
Total comprehensive income	449,311	327,126
Aggregate carrying amount of the Group's interests in these joint ventures	11,552,577	8,243,818

Particulars of the Group's principal joint ventures at December 31, 2018 are set out in note 62.

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	2018 RMB'000	2017 RMB'000
Financial assets mandatorily at FVTPL:		
- Equity securities	30,187,136	-
- Debt securities	74,310,212	-
- Funds	21,205,644	-
- Others (Note i)	3,191,276	-
	128,894,268	-
Held-for-trading investments:		
- Equity securities	-	12,206,012
- Debt securities	-	36,606,423
- Funds	-	20,683,969
- Others	-	1,701,726
	-	71,198,130
Financial assets designated at FVTPL:		
- Equity securities	-	433,868
- Funds	-	287,153
- Others (Note ii)	-	1,427,358
	-	2,148,379
	128,894,268	73,346,509
Analysed as:		
Non-current	23,952,474	-
Current	104,941,794	73,346,509
	128,894,268	73,346,509
Analysed as:		
Listed	7,781,532	19,454,140
Unlisted	121,112,736	53,892,369
	128,894,268	73,346,509

Notes:

(i) Others in financial assets mandatorily at FVTPL mainly represent investments in fund and partnership-invested by the Group.

(ii) Others in financial assets designated at FVTPL as at December 31, 2017 mainly represented investments in funds and partnerships invested by the Group.

Details of the fair value measurements are set out in note 50(c).

As at December 31, 2018, the Group entered into securities lending arrangement with clients that resulted in the transfer of equity securities at FVTPL with total fair values of RMB357,730,000 (2017: under held for trading with total fair value of RMB304,291,000) to clients. These securities continued to be recognised as financial assets of the Group.

19. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000
Unlisted securities	1,298,608
Listed securities (Note i)	20,925
Special accounts (Note ii)	6,722,607
	8,042,140

Notes:

(i) The listed equity investments are not held for trading but for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

They were perpetual contingent convertible securities of RMB20,925,000. These securities are perpetual in nature but the issuers of the securities have an option but not obligation to redeem at a particular date and every multiples of 5 years after the first optional redemption dates. Issuers of these securities have sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any coupon payments that would otherwise be payable on any coupon payment date. When the issuers of these securities fails to meet certain capital standards imposed by the relevant regulators, these securities will automatically be converted into ordinary shares at a price pre-determined.

(ii) The balance is an investment in a special account managed by China Securities Finance Corporation Limited ("CSFCL"), an independent third party, that invests in publicly traded equity securities listed in the PRC. Pursuant to the agreements entered into by the Group with the CSFCL, the Group contributed an aggregate amount of RMB9,287,030,000 in July 2015 and September 2015 to the special account. The Group was entitled to the profit or loss derived from the special account in proportion to the funding portion contributed. Such balances are not held for trading but for long-term strategic purposes. The directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Company's strategy of holding these investments for long-term purposes and realising their performance potential in the long run.

The Company determines the fair value of the investment according to the valuation report provided by CSFCL. The Company elected to designate this investment as measured at FVTOCI.

20. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME ("FVTOCI")

	2018 RMB'000
Bonds issued by policy banks	11,970,815
Government bonds	11,964,323
Bonds issued by commercial banks and other financial institutions	4,099,590
Other debt securities (Note)	15,697,605
	43,732,333
Analysed as:	
Non-current	94,181
Current	43,638,152
	43,732,333

Note: Other debt securities mainly comprise of corporate bonds, enterprise bonds and medium term notes. Included in the balance is an aggregate amount of RMB28,832,628,000 as at December 31, 2018 that is held in custody in favour of the counterparties under repurchase agreements entered into by the Group at the end of the reporting period. Details of the repurchase agreements are set out in note 38.

Movements in the allowances for expected credit losses

	2018 RMB'000
At December 31, 2017 under HKAS 39	-
Effects of initial application of HKFRS 9	-
At January 1, 2018	-
Impairment losses recognised under 12m ECL	4,230
Reversal of expected credit losses under 12m ECL	(1,032)
Exchange realignment	9
At December 31, 2018	3,207

21. DEBT INSTRUMENTS AT AMORTISED COST

	2018 RMB'000
Bonds	4,327,032
Entrusted loan	648,331
Assets-backed medium-term notes	180,208
Unsecured accounts receivable loan (Note)	47,587
Others	427,949
	5,631,107
Analysed as:	
Non-current	5,583,520
Current	47,587
	5,631,107

Note: As at December 31, 2018, customer loans receivable were charged at the current interest rate of 2.75%.

Included in the balance is an aggregate amount of RMB471,239,000 as at December 31, 2018 that is held in custody in favour of the counterparties under repurchase agreements entered into by the Group at the end of the reporting period. Details of the repurchase agreements were set out in note 38.

Movements in the allowances for expected credit losses

	2018 RMB'000
At December 31, 2017 under HKAS 39	-
Effects of initial application of HKFRS 9	1,396
At January 1, 2018, as restated	1,396
Expected credit losses recognised under 12m ECL	7,096
Exchange difference	110
At December 31, 2018	8,602

22. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000 (restated)
Equity securities (Note i)	14,380,153
Debt securities (Note ii)	25,372,887
Funds	819,931
Others (Note iii)	12,127,921
	52,700,892
Analysed as:	
Listed	18,066,622
Unlisted	34,634,270
	52,700,892
Analysed for reporting purposes as:	
Non-current	34,188,775
Current	18,512,117
	52,700,892

Notes:

(i) Restricted equity securities

As at December 31, 2017, certain listed equity securities amounting to RMB44,526,000 were subject to legally-enforceable disposal restrictions for a specified period of time. The fair value of the securities was determined with reference to the quoted market prices of the securities with an adjustment of discount to reflect the effect of the lack of marketability as a result of the disposal restrictions.

(ii) Debt securities held under repurchase agreements

As at December 31, 2017, debt securities with an aggregate amount of RMB9,872,519,000 were held in custody in favour of the counterparties under repurchase agreements entered into by the Group. Details of the repurchase agreements were set out in note 38.

22. AVAILABLE-FOR-SALE INVESTMENTS - continued

Notes: - continued

(iii) Others

As at December 31, 2017, the amount mainly represented by the fair value of the Group's contribution in a special account managed by China Securities Finance Corporation Limited (the "CSFCL"), an independent third party that invests mainly in debt securities and publicly trade equity securities listed in the PRC. The Group contributed an aggregate amount of RMB9,287,030,000 in 2015 to the special account and pursuant to the agreements entered into by the Group with the CSFCL, the Group is entitled to the profit or loss derived from the special account in proportion to the funding portion contributed. As at December 31, 2017, the fair value of the investment was RMB7,636,599,000, which was determined in accordance with the valuation report provided by the CSFCL.

The remaining amounts mainly represented investments in collective asset management schemes and trust products and other wealth management products. The fair values of these investments were determined based on the net asset values of the funds with reference to the market values of the underlying investment portfolios with adjustments of related expenses.

As at December 31, 2017, the Group had committed to hold the above investments amounting to RMB8,402,248,000 till the end of the investment period in order to maintain the leverage to a certain proportion as a product manager.

As at December 31, 2017, certain AFS investments amounting to RMB6,704,643,000 (restated) were carried at cost less accumulated impairment losses. In the opinion of the directors of the Company, the range of reasonable fair values estimates of the relevant securities was so significant that their fair values cannot be measured reliably.

23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

Financial assets held under resale agreements include the following types of collaterals held by the Group:

	2018 RMB'000	2017 RMB'000
Equity securities	22,881,523	31,195,939
Debt securities	11,089,598	6,608,686
	33,971,121	37,804,625
Less: Allowance for credit losses	(204,634)	(143,866)
	33,766,487	37,660,759
Analysed by market (before allowance for credit losses):		
Stock exchanges (Note)	25,065,484	33,523,381
Interbank bond markets	8,203,112	4,281,742
Others	702,525	-
	33,971,121	37,805,123
Analysed for reporting purposes as:		
Non-current	5,277,749	9,298,958
Current	28,488,738	28,361,801
	33,766,487	37,660,759

Note: As at December 31, 2018, the fair value of securities held by the Group as collaterals amounted to RMB69,527,116,000 (2017: RMB78,137,257,000).

The Group purchases securities from qualified external investors under resale agreements and recognises the cost of purchasing such assets as financial assets held under resale agreements. Pursuant to the resale agreements, the investors have agreed to repurchase the same lots of securities at predetermined prices at predetermined future dates. The securities held by the Group are effectively collaterals for the advances made to the counterparties. The difference between the purchase and resale prices of the securities is recognised as interest income using the effective interest method over the term of the agreements.

At the end of the reporting period, management reviews the financial assets held under resale agreements for indications of impairment. As at December 31, 2018, an aggregate amount of RMB204,634,000 (2017: RMB143,866,000) has been impaired based on management's evaluation of the ability of the counterparties to repurchase the relevant financial assets at the predetermined prices as stipulated in the agreements, including the ageing of the relevant advances past the predetermined repurchase date of the securities and the past settlement history of the counterparties, and the liquidity and market value of the collaterals at the end of the reporting period.

23. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS - continued

Movements in the allowances for expected credit losses

	2018 RMB'000
At December 31, 2017 under HKAS 39	143,866
Effects of initial application of HKFRS 9	-
At January 1, 2018, as restated	143,866
Impairment losses recognised	60,270
Exchange realignment	498
At December 31, 2018	204,634

	As at December 31, 2018						
	12m ECL		Lifetime ECL (non credit-impaired)		Lifetime ECL (credit-impaired)		
	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Total RMB'000
Impairment allowances	32,774,321	94,638	486,130	16,755	710,270	93,241	204,634

24. FINANCE LEASE RECEIVABLES

Certain assets of the Group are leased out under finance leases. Interest rates inherent in the leases are fixed at the contract date over the lease terms.

	Minimum lease payments		Present value of minimum lease payments	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
The finance lease receivables are receivable as follows:				
Within one year	4,974,366	3,177,494	4,120,591	2,613,239
In more than one year but not more than two years	4,458,608	3,044,611	3,871,947	2,523,445
In more than two years but not more than five years	7,648,251	6,057,733	6,641,899	5,085,563
In more than five years	3,346,371	4,787,206	2,907,437	4,193,189
	20,427,596	17,067,044	17,541,874	14,415,436
Less: Unearned finance income	(2,885,722)	(2,651,608)	N/A	N/A
Present value of minimum lease payment receivables	17,541,874	14,415,436	17,541,874	14,415,436

24. FINANCE LEASE RECEIVABLES - continued

	2018 RMB'000	2017 RMB'000
Analysed for reporting purposes:		
Non-current	13,389,726	11,802,197
Current	4,152,148	2,613,239
	17,541,874	14,415,436

Effective interest rates of the above finance lease range from 3.00% to 9.05% (2017: 3.33% to 5.60%) per annum. The finance lease receivables are secured over the assets leased. The Group is not permitted to sell or repledge the collateral on the absence of default by the lessee.

Included in the carrying amounts of finance lease receivables as at December 31, 2018 is an accumulated impairment loss of RMB129,589,000 (2017: RMB45,897,000). The Group analyses the aging of each finance lease receivable based on the repayment terms stipulated in the finance lease agreements to determine the credit quality of the lessees. As a result, net impairment loss of RMB49,853,000 (2017: RMB45,897,000) was recognised in profit or loss during the year ended December 31, 2018.

As at December 31, 2018, present value of minimum lease payment receivables arising from finance lease agreements with a fellow subsidiary and a joint venture amounted to RMB383,963,000 (2017: RMB356,000) and RMB1,031,704,000 (2017: RMB269,000), respectively.

25. OTHER NON-CURRENT ASSETS

Included in other non-current assets are:

	2018 RMB'000	2017 RMB'000 (restated)
Deposit paid for acquisition of Liaoning Port (Note i)	20,000,000	-
Time deposits (Note ii)	2,935,649	1,920,000
Advances to joint ventures (Note iii)	783,274	-
Advances to associates (Note iv)	772,017	1,321,589
Advances to finance lease lessees before the commencement of the lease term	563,958	950,854
Loan to Hongkong Haiheng International Group Limited ("Haiheng") (Note v)	2,418,276	-
Prepayments and deposits for acquisition of non-current assets	917,469	722,942

25. OTHER NON-CURRENT ASSETS - continued

Notes:

(i) On November 3, 2018, the Group through a non-wholly owned subsidiary entered into a sale and purchase agreement (the "Agreement") with the State-owned Assets Supervision and Administration Commission ("SASAC") of Liaoning Municipal, Dalian City and Yingkou City and 遼寧港口集團有限公司 Liaoning Ports Group Limited ("Liaoning Ports"). Pursuant to the Agreement, the Group agreed to acquire 49.9% interest of equity of Liaoning Port at a total consideration of approximately RMB24,245 million. The Group also agreed to place a deposit of RMB20,000 million. As at December 31, 2018, the transaction is yet to complete with capital commitment of approximately RMB4,245 million (note 53).

(ii) The bank deposits bear fixed interest rates ranging from 4.50% to 5.50% (2017: 2.58% to 4.95%) with original maturities of 4 to 6 years.

(iii) As at December 31, 2018, the amount is unsecured, interest-bearing at 8% per annum and repayable in 2020. Accordingly, these amounts are classified as non-current.

(iv) Included the amount is an aggregate amount of RMB9,773,000 (2017: RMB9,669,000) as at December 31, 2018 that is interest-bearing at a rate of one-year Euro Interbank Offered Rate plus 50 basis point per annum and repayable in 2021.

The remaining amounts are unsecured, interest-free and are not expected to be recovered within one year from the end of the reporting period. Accordingly, these amounts are classified as non-current.

(v) On June 30, 2018, CMIH disposed the entire issued share capital of its wholly-owned subsidiaries, Well Target One Limited and Well Target Two Limited (the "Subsidiaries"), to an independent individual (the "Individual") with the consideration of USD2 (equivalent to RMB13) with net gain on disposal of subsidiaries of RMB6,004,000 recognised in net income and gains from investments. At the same transaction date, CMIH entered a debt restructuring agreement with the Individual who could exercise control over Haiheng. Pursuant to the debt restructuring agreement, CMIH's loan from the Subsidiaries has been assigned to Haiheng amounting USD377,595,000 (equivalent to RMB2,591 million), out of which amount of USD15,622,000 (equivalent to RMB107 million) has been partially waived. Haiheng will repay the remaining loan with principal of USD361,973,000 (equivalent to RMB2,484 million) over ten years in equal semi-annually instalments commencing from January 1, 2019 at interest of 4.04% per annum.

26. DEFERRED TAXATION

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 RMB'000	2017 RMB'000 (restated)
Deferred tax assets	(1,191,237)	(1,128,257)
Deferred tax liabilities	4,227,531	2,761,081
	3,036,294	1,632,824

The following is the major deferred tax liabilities (assets) recognised at the end of the reporting period:

	2018 RMB'000	2017 RMB'000 (restated)
Accelerated tax depreciation	226,750	719,671
Fair value adjustments on financial assets	589,765	370,289
Undistributed earnings of subsidiaries, associates and joint ventures	1,634,065	1,180,426
Impairment losses recognised on assets	(199,908)	(197,221)
Tax losses	(33,001)	(21,911)
Fair value adjustments on acquisition of subsidiaries (note 48)	555,412	483,022
Others	263,211	(901,452)
	3,036,294	1,632,824

At the end of the reporting period, the Group has unused tax losses of approximately RMB4,208 million (2017 (restated): RMB1,165 million) available for offset against future profits. As at December 31, 2018, deferred tax asset has been recognised in respect of approximately RMB124 millions of such losses (2017: 88 million). No deferred tax asset has been recognised in respect of the unused tax losses of approximately RMB4,028 million (2017 (restated): RMB1,077 million) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately RMB2,087 million (2017: RMB809 million) that will expire in five years from the end of the respective reporting periods. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately RMB10,532 million (2017: RMB7,972 million) for which no deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

27. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials and consumables	586,401	938,518
Work in progress	2,458,601	4,312,379
Finished goods	774,431	750,628
	3,819,433	6,001,525
Other inventories		
Amounts due from customers for contract works	-	10,180,575
	3,819,433	16,182,100

During the year ended December 31, 2018, the Group has provided net allowances of RMB795,443,000 (2017: RMB3,145,712,000) in respect of certain raw materials and consumables, work in progress and finished goods, of which allowance of RMB794,355,000 (2017: RMB3,141,570,000) was made in respect of work in progress of the Group's shipping and related operations based on management's evaluation of the economic environment and industry outlook.

Amounts due from customers for contract works

	2017 RMB'000
Contracts in progress at the end of the reporting period	
Contract costs incurred	51,904,300
Add: Recognised profits less recognised losses	4,759,172
	56,663,472
Less: Progress billings	(42,018,971)
Accumulated impairment losses recognised	(4,463,926)
Amounts due from customers for contract works	10,180,575

Amounts due from customers for contract works represent contracts in progress for the construction of offshore platforms under the Group's shipping and related operations. At the end of the previous reporting period, management has reviewed the Group's amounts due from customers for contract works for indicators of impairment. Based on management's evaluation of the economic environment, industry outlook and the market value of the Group's constructions, an aggregate amount of RMB2,367,323,000 has been impaired during the year ended December 31, 2017.

At December 31, 2017, advances received from customers for contract works amounted to RMB502,924,000 were included in other payables as disclosed in note 35.

28. TRADE, BILLS AND OTHER RECEIVABLES/CONTRACT ASSETS

	2018 RMB'000	2017 RMB'000 (restated)
TRADE, BILLS AND OTHER RECEIVABLES		
Trade receivables	4,782,313	6,439,070
Less: Allowance for credit losses (Note v)	(387,212)	(334,904)
Trade receivables, net (Note i)	4,395,101	6,104,166
Insurance debtors (Note ii)	260,687	16,131
Total trade receivables, net	4,655,788	6,120,297
Bills receivables	38,306	64,095
Deposits, prepayments and other receivables		
- prepayments	870,177	1,236,682
- interest receivables	48,196	1,981,799
- amount due from the ultimate holding company (Note iii)	579,662	1,540,042
- amounts due from fellow subsidiaries (Note iii)	100,875	2,631,489
- amounts due from other related parties (Note iii)	1,101,478	980,135
- amounts due from associates (Note iii)	552,810	368,168
- amounts due from joint ventures (Note iii)	1,074	1,402
- tax recoverable	105,612	524,975
- VAT recoverable	565,478	358,075
- advance to funds managed by the Group	784,223	44,798
- reinsurance assets (Note iv)	50,344	23,506
- amounts due from clearing houses, brokers and dealers	1,954,839	1,140,878
- others	1,953,494	557,986
Other receivables, gross	8,668,262	11,389,935
Less: Allowance for credit losses (Note v)	(228,129)	(246,090)
Other receivables, net	8,440,133	11,143,845
Trade, bills and other receivables, net	13,134,227	17,328,237

	December 31, 2018 RMB'000	January 1, 2018* RMB'000
CONTRACT ASSETS		
Construction contracts of shopping and related operations - current	9,284,822	10,180,575

* The amounts in this column are after the adjustments from the application of HKFRS 15.

28. TRADE, BILLS AND OTHER RECEIVABLES/CONTRACT ASSETS - continued

Notes:

(i) Trade receivables

The following is an aging analysis of the trade receivables, net of allowance for credit losses debts, presented based on the invoice date:

	2018 RMB'000	2017 RMB'000 (restated)
Within one year	4,337,191	5,897,460
More than one year	57,910	206,706
	4,395,101	6,104,166

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customers. Credit sales are made to customers with an appropriate credit history. Credit limits attributed to customers and credit terms and credit period granted to customers in different business units are reviewed regularly taking into account industry customs and practices.

(ii) Insurance debtors

The amounts represent premiums receivables from the Group's insurance business. The credit terms are generally for a period of one month, extending up to five months for certain policyholders. Overdue balances are reviewed regularly by senior management of the relevant entity.

The Group has relevant credit control procedures for premiums receivables aged over the credit terms provided to the policyholders. The creditworthiness of these counterparties is considered by reviewing their financial strength prior to the finalisation of any contract and transaction. The Group maintains records of the payment history for significant contract holders with whom regular business is conducted.

(iii) Amounts due from related parties

	Contractual interest rate (for the interest-bearing balances)		Interest-bearing		Interest-free		Total	
	2018	2017	2018 RMB'000	2017 RMB'000 (restated)	2018 RMB'000	2017 RMB'000 (restated)	2018 RMB'000	2017 RMB'000 (restated)
Amount due from the ultimate holding company	4.00%	1.75%	398,850	92,302	180,812	1,447,740	579,662	1,540,042
Amounts due from fellow subsidiaries	N/A	HIBOR[1] + 2.30%, LIBOR + 0.90% or 4.00%	-	135,397	100,875	2,496,092	100,875	2,631,489
Amounts due from associates	N/A	1.00%	-	120,000	552,810	248,168	552,810	368,168
Amounts due from other related parties[2]	Floating rate	Floating rate	1,029,478	980,135	72,000	-	1,101,478	980,135
Amounts due from joint ventures	N/A	N/A	-	-	1,074	1,402	1,074	1,402

[1] Hong Kong Interbank Offered Rate
[2] The amount as at December 31, 2018 and 2017 was due from an associate of the Group's ultimate holding company and is interest-bearing at floating interest rates, repayable within twelve months from the end of the reporting period and is secured by equity interests in an associate held by the related party's controlling shareholder.

The above amounts, except as illustrated, are non-trade nature, unsecured and repayable on demand.

28. TRADE, BILLS AND OTHER RECEIVABLES/CONTRACT ASSETS - continued

Notes: - continued

(iv) Reinsurance assets

Amount mainly represents the share of outstanding claims and unearned premiums by reinsurers under the Group's insurance brokerage business.

(v) Movements in the allowance for doubtful debts of trade and other receivables

As at December 31, 2017, the directors of the Company considered that the debts that were neither past due nor impaired are recoverable because there had not been a significant change in credit quality of these debtors with reference to the track records of these customers under internal assessment by the Group. The allowance for doubtful debts at the end of the reporting period and its movement during the year were as follows:

	Trade receivables RMB'000 (restated)	Other receivables RMB'000 (restated)
At January 1, 2017	124,159	58,876
Impairment losses recognised for the year	231,864	192,439
Impairment losses reversed for the year	(13,301)	(731)
Exchange adjustments	(7,818)	(4,494)
At December 31, 2017	334,904	246,090

As at December 31, 2017, included in the balance of allowance for doubtful debts of trade and other receivables were individually impaired trade receivables and other receivables with aggregate balances of RMB277,606,000 (restated) and RMB230,990,000 (restated), respectively, which mainly related to counterparties who were in difficult financial situations and management determined that the recoverability of such debts is in question.

28. TRADE, BILLS AND OTHER RECEIVABLES/CONTRACT ASSETS - continued

Notes: - continued

(v) Movements in the allowance for doubtful debts of trade and other receivables - continued

The remaining amounts that were assessed not to be individually impaired are assessed for impairment on a collective basis based on the ageing analysis of the receivables and the past history of collecting payments.

Details of impairment assessment of trade and other receivables for the year ended December 31, 2018 are set out in note 50(b).

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables when the rights become unconditional.

Typical payment terms, which impact on the amount of contract assets recognised of construction contracts from shipping and related operations, include payment schedules which require stage payments over the construction period once certain specified milestones are reached.

The Group classifies these contract assets as current because the Group expects to realise them in its normal operating cycle.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets RMB'000	Liabilities RMB'000	Assets RMB'000	Liabilities RMB'000
Current				
Interest derivative instruments				
- Interest rate swaps	394,434	392,849	112,806	112,576
- Bond futures (Note i)	-	1,655	700	-
Equity derivative instruments				
- Equity return swaps	210,192	19,477	38,633	3,665
- Stock index futures (Note i)	-	18	-	1,241
- Options (Note ii)	49,823	166,537	135,580	363,915
Credit derivatives				
- Credit default swaps	489	1,123	-	-
Other derivative instruments				
- Commodity futures (Note i)	446,665	446,316	469,952	990,684
- Commodity swaps	10,486	264,023	262,359	-
- Commodity	38,143	12,205	-	-
- Forward contracts	3,043	4,106	4,949	116,909
	1,153,275	1,308,309	1,024,979	1,588,990

29. DERIVATIVE FINANCIAL INSTRUMENTS - continued

Notes:

(i) Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures and commodity futures contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the year-end date.

(ii) Included in options are over-the-counter options, exchanged-traded options and embedded derivatives of notes.

30. LOANS AND ADVANCES TO CUSTOMERS OF SECURITIES DEALING BUSINESS

	2018 RMB'000	2017 RMB'000
Loans and advances to margin clients	43,119,093	59,318,439
Less: Accumulated impairment losses recognised	(142,663)	(83,013)
	42,976,430	59,235,426

The credit facility limits to margin clients are determined by the discounted market value of the collateral securities accepted by the Group.

Majority of loans and advances to margin clients are secured by the underlying pledged securities and cash collaterals as disclosed in note 36 and are interest-bearing. The credit limits granted to margin clients are determined by reference to the discounted market value of the collateral securities accepted by the Group. The Group maintains a list of approved securities for margin lending at a specified loan-to-collateral ratio. Any excess in the loan-to-collateral ratio will trigger a margin call upon which the margin clients are required to make up the difference.

The fair values of the collaterals received by the Group under margin financing and securities lending arrangements are presented as follows:

	2018 RMB'000	2017 RMB'000
Cash	5,123,777	5,009,363
Debt securities	7,718,425	3,111,363
Equity securities	109,524,319	167,987,579
Funds	1,412	369,368
	122,367,933	176,477,673

30. LOANS AND ADVANCES TO CUSTOMERS OF SECURITIES DEALING BUSINESS - continued

	As at December 31, 2018						
	12m ECL		Lifetime ECL (non credit-impaired)		Lifetime ECL (credit-impaired)		
	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Principal and interest RMB'000	ECL RMB'000	Total RMB'000
Impairment allowances	42,884,733	89,099	185,446	16,058	48,914	37,506	142,663

Movement in the accumulated impairment losses

	2018 RMB'000
At December 31, 2017 under HKAS 39	83,013
Effects of initial application of HKFRS 9	-
	83,013
At January 1, 2018 as restated	59,038
Exchange adjustments	612
At December 31, 2018	142,663

The directors of the Company are of the opinion that the ageing analysis does not give additional value in view of the nature of the securities margin financing business. As a result, no ageing analysis is disclosed

The concentration of credit risk is limited due to the size and uncorrelated nature of the customer base.

31. DEPOSITS FOR SECURITIES DEALING BUSINESS

The deposits have been placed in the following exchanges and non-bank financial institutions:

	2018 RMB'000	2017 RMB'000
Deposits with stock exchanges and clearing houses		
- China Securities Depository and Clearing Corporation Limited	446,899	428,916
- London Stock Exchange	409,310	265,051
- Shanghai Clearing House	70,109	27,380
- Hong Kong Securities Clearing Company Limited	44,169	80,548
- Hong Kong Stock Exchange	1,507	1,330
- China Beijing Equity Exchange	1,184	3,076
	973,178	806,301
Deposits with futures and commodity exchanges and financial institutions		
- Pingan Futures Co., Ltd.	190,051	-
- Yongan Futures Co., Ltd.	129,879	107,842
- CITIC Futures Co., Ltd.	59,549	144,955
- Jianxin Futures Co., Ltd.	22,889	126,553
- Hong Kong Futures Exchange	15,913	-
- Nanhua Futures Co., Ltd.	11,913	6,786
- China Financial Futures Exchange	10,057	10,057
- Shanghai Gold Exchange	7,972	11,769
- Huatai Futures Co., Ltd.	5,887	-
- Chicago Mercantile Exchange	3,432	3,267
- Haitong Futures Co., Ltd.	-	6,279
- Others	700	669
	458,242	418,177
	1,431,420	1,224,478

32. BANK BALANCES HELD ON BEHALF OF CUSTOMERS

Bank balances held on behalf of customers represent monies deposited by clients and other institutions and held in custody of the Group in the course of conducting the regulated activities under the Group's securities dealing business. The monies of clients are held in one or more segregated bank accounts.

The Group has recognised the corresponding amount in accounts payable to brokerage clients of the securities dealing business as set out in note 36. The Group currently does not have a legally enforceable right to offset these payables with deposits placed.

33. BANK DEPOSITS, BANK BALANCES AND CASH

The bank deposits, bank balances and cash comprise:

	2018 RMB'000	2017 RMB'000 (restated)
Bank balances and cash	23,200,114	24,861,613
Short-term time deposits with original maturity more than three months (Note i)	184,888	471,521
Clearing settlement funds held with clearing houses for house accounts (Note ii)	3,913,233	3,983,803
Cash and cash equivalents	27,298,235	29,316,937
Clearing settlement funds held with clearing house for clients (Note ii)	9,883,048	10,026,688
Restricted bank deposits for insurance business (Note iv)	1,045,082	1,020,039
Restricted deposits placed with securities brokers	62,432	742,749
Structured bank deposits (Note iii)	131,016	24,370
Other restricted bank deposits	1,028,702	6,630
	39,448,515	41,137,413

Notes:

(i) The amounts mainly represent deposits in banks operating in the PRC and Hong Kong. The deposits are denominated in RMB and are freely convertible into cash at any time requested by the entities with insignificant risk of changes in values. The directors of Company therefore consider the deposits as cash and cash equivalents. The bank deposits carry interest at fixed rates ranging from 2.15% to 3.7% (2017: 0.01% to 4.40%) per annum except bank deposits of RMB14,188,000 carry interest at prevailing market rates (2017: nil).

(ii) These clearing settlement funds are held by the clearing houses for the Group and these balances carry interest at prevailing market interest rates.

(iii) As at December 31, 2018 and 2017, the structured bank deposits are mainly placed with CMB, an associate of the Group engaged in the provision of financial services. The deposits are principal-protected yield enhancement bank deposits and contain embedded derivatives, which represent the returns varying with the underlying investment portfolio of the structured bank deposits. The principal amount together with the investment return would be repaid to the Group anytime upon request. Management considers the amounts paid for the structured bank deposits approximate their fair values at the end of the reporting period and the fair values of the embedded derivatives in the structured bank deposits as of the same date are insignificant.

(iv) The funds are held under the direction of the Office of the Commissioner of Insurance of the Hong Kong Insurance Authority and carry variable interest rates of 2.1% (2017: 1%) per annum.

34. NON-CURRENT ASSETS HELD FOR SALE

During the year, the Group commenced the negotiation with a municipal PRC government, pursuant to which the Group agreed to dispose of, and the counter-party agreed to acquire a piece of land and harbour works, buildings and dockyard (previously included in the land use rights and property, plant and equipment respectively in the consolidated statement of financial position) in the Mainland China. The sale proceeds are expected to exceed the carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised.

The transaction has not yet been completed till this consolidated financial statements are authorised for issuance and is expected to be completed within one year from the date of this reclassification and the assets are therefore classified as held for sale at the end of the reporting period.

35. TRADE, BILLS AND OTHER PAYABLES

Included in trade, bills and other payables are:

	2018 RMB'000	2017 RMB'000 (restated)
Trade payables (Note i)	6,511,965	7,062,569
Bills payable	339,625	124,945
Taxation payable	728,557	687,706
Business and other tax payables	554,472	343,954
Advances received from customers	243,102	946,411
Salary and welfare payables	5,082,981	5,723,891
Interest payable for borrowings	804,425	2,504,761
Dividend payable to non-controlling interests of subsidiaries	67,698	207,241
Dividend payable to PSB holders	592,196	592,196
Consideration payable for acquisition of subsidiaries (Note ii)	-	4,473,273
Amount due to the ultimate holding company (Note iii)	47,821,845	30,710,086
Amount due to the immediate holding company (Note iii)	3,391,123	3,346,597
Amounts due to fellow subsidiaries (Note iii)	384,258	575,403
Amounts due to associates (Note iii)	496,112	323,591
Amounts due to joint ventures (Note iii)	16,764	68,585
Premium payables on reinsurance contracts	76,635	7,052
Outstanding claims and unearned premiums on insurance contracts (Note iv)	202,588	144,330
Net defined benefit obligations - within one year (Note v)	6,086	19,480
Royalty and premium provision (Note vi)	48,643	43,738
TCP Concession Liabilities (note 42(ii))	117,344	-
Policyholder contract deposits and other fund for insurance business	865,917	-

35. TRADE, BILLS AND OTHER PAYABLES - continued

Notes:

(i) Trade payables

The average credit period granted by suppliers ranges from 30 to 180 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

(ii) Consideration payable for acquisition of subsidiaries

The amount as at December 31, 2017 represented the cash consideration not yet paid for the acquisition of subsidiaries. The balance was fully settled during the year ended December 31, 2018. Details of the acquisition are set out in note 48.

(iii) Amounts due to related parties

	Contractual interest rates (for the interest-bearing balances)		Interest-bearing		Interest-free		Total	
	2018	2017	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000 (restated)	2018 RMB'000	2017 RMB'000 (restated)
Amount due to the ultimate holding company	N/A	N/A	-	-	47,821,845	30,710,086	47,821,845	30,710,086
Amount due to the immediate holding company	N/A	N/A	-	-	3,391,123	3,346,597	3,391,123	3,346,597
Amounts due to fellow subsidiaries	N/A	LIBOR or HIBOR+0.50%	-	110,144	384,258	465,259	384,258	575,403
Amounts due to associates	Floating rate	Floating rate	241,927	230,333	254,185	93,258	496,112	323,591
Amounts due to joint ventures	N/A	N/A	-	-	16,764	68,585	16,764	68,585

The above amounts, except as illustrated, are non-trade in nature, unsecured and repayable on demand.

(iv) Outstanding claims and unearned premiums on insurance contracts

The amount represents outstanding claims and unearned premiums on insurance contracts under the Group's insurance brokerage business.

(v) Net defined benefit obligations

During the year ended December 31, 2017, the Group acquired SPG (as defined in note 48) who sponsors a funded defined benefit plan for its qualifying employees. The amount of RMB6,086,000 (2017: RMB19,480,000) represents the present value of the total defined benefit plan liability of RMB381,411,000 (2017: RMB370,230,000) that is due within one year after the end of the reporting period. Details of the measurement of the defined benefit obligation are set out in note 46(b).

35. TRADE, BILLS AND OTHER PAYABLES - continued

Notes: - continued

(vi) Royalty and premium provision

On August 12, 2011, the Group entered into a Build-Operate-Transfer Agreement ("BOT Agreement") with Sri Lanka Ports Authority through a non-wholly owned subsidiary of the Company for the rights to construct, operate, manage and develop the Colombo South Container Terminal for a period of 35 years. The initial recognition amount represents the minimum guaranteed royalty and premium provision under the BOT Agreement determined by discounting the future annual guaranteed cash flows at the then market rate. Except for the amount of RMB48,638,000 (2017: RMB43,738,000) which is due within one year from the end of the reporting period, the remaining balance is due after one year from the end of the reporting period and is included in other non-current liabilities as disclosed in note 42.

36. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS OF SECURITIES DEALING BUSINESS

	2018 RMB'000	2017 RMB'000
Client deposits for margin financing and securities lending	5,123,777	5,009,363
Client deposits for other brokerage business	43,787,971	46,085,972
	48,911,748	51,095,335

The amounts mainly represent monies received from and repayable to brokerage clients by the Group that are placed with banks and at the clearing houses, and are interest-bearing at the prevailing market interest rates.

The majority of the balance is repayable on demand, except for certain amounts arising from margin deposits received from clients for their trading activities under the normal course of the securities dealing business. Only the excess amounts over the required margin deposits stipulated are repayable on demand.

37. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2018 RMB'000	2017 RMB'000
Placement from banks (Note i)	1,500,000	1,470,000
Placement from other financial institutions (Note ii)	2,000,000	-
Interest accrued	19,000	-
	3,519,000	1,470,000

37. PLACEMENTS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS - continued

Notes:

(i) As at December 31, 2018, the amount is unsecured and interest-bearing at effective interest rate of 3% (2017: 4.82% to 8.50%) per annum. The amount is repayable within seven days from the end of the reporting period.

(ii) As at December 31, 2018, the amount is unsecured and interest-bearing at effective interest rate ranging from 4.80% to 5.10% (2017: nil). The amounts are repayable within three months from the end of the reporting period.

38. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

Financial assets sold under repurchase agreements include the following types of collaterals held by the counterparties:

	2018 RMB'000	2017 RMB'000
Bonds	61,738,407	33,382,970
Others	158,609	-
	61,897,016	33,382,970
The collaterals are held in markets as follows:		
Stock exchanges	31,847,196	19,422,266
Interbank bond market	29,832,432	13,960,704
Over-the-counter	58,779	-
Others	158,609	-
	61,897,016	33,382,970

Sales and repurchase agreements are mainly transactions in which the Group sell a security under repurchase agreements. Pursuant to the repurchase agreements, the Group has agreed to repurchase the same lot of securities at predetermined prices at predetermined future dates. Since the repurchase prices are fixed, the Group is still exposed to substantially all the credit and market risks and rewards of those securities and rights and interests sold. Accordingly, such securities are not derecognised from the consolidated statement of financial position and are regarded as "collaterals" for the liabilities because the Group retain substantially all the risk and rewards of these securities and margin loans.

The proceeds received are recognised as financial assets sold under repurchase agreements. The difference between the sale and repurchase prices of the securities is recognised as finance costs using the effective interest method over the term of the agreement. The ability of the Group to use the transferred securities during the term of the arrangement is restricted as the Group has sold the contractual rights to the cash flows of the securities under the repurchase agreements.

39. BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank borrowings (Note i)	77,602,512	67,713,273
Obligations under finance leases (Note ii)	577,077	566,052
Debentures (Note iii)	98,398,831	85,706,791
Notes (Note iv)	20,051,050	32,015,670
Other borrowings from related parties (Note v)	5,895,940	8,820,000
Short-term financing bills payables (Note vi)	5,000,000	-
Interest accrued	2,267,236	-
	209,792,646	194,821,786

The carrying amounts of the above borrowings are repayable as follows:

	Bank borrowings			Present value of minimum payments under finance leases	Debentures	Short-term financing bills payables	Notes	Other borrowings from related parties	Interest accrued	Total
	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Sub-total RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2018										
On demand or within one year	1,176,191	34,614,940	35,791,131	263,162	27,508,546	5,000,000	20,051,050	1,900,940	2,267,236	92,782,065
More than one year, but not exceeding two years	2,896,495	12,695,759	15,592,254	247,773	13,700,272	-	-	-	-	29,540,299
More than two years, but not exceeding three years	874,390	17,461,813	18,336,203	66,142	20,227,590	-	-	3,755,000	-	42,384,935
More than three years, but not exceeding four years	-	3,741,779	3,741,779	-	9,132,958	-	-	-	-	12,874,737
More than four years, but not exceeding five years	-	2,674,842	2,674,842	-	12,964,345	-	-	160,000	-	15,799,187
More than five years	25,000	1,441,303	1,466,303	-	14,865,120	-	-	80,000	-	16,411,423
Total	4,972,076	72,630,436	77,602,512	577,077	98,398,831	5,000,000	20,051,050	5,895,940	2,267,236	209,792,646
Less: Amounts due within one year shown under current liabilities	(1,176,191)	(34,614,940)	(35,791,131)	(263,162)	(27,508,546)	(5,000,000)	(20,051,050)	(1,900,940)	(2,267,236)	(92,782,065)
Amounts shown under non-current liabilities	3,795,885	38,015,496	41,811,381	313,915	70,890,285	-	-	3,995,000	-	117,010,581

	Bank borrowings			Present value of minimum payments under finance leases	Debentures	Notes	Other borrowings from related parties	Total
	Fixed-rate borrowings RMB'000	Floating-rate borrowings RMB'000	Sub-total RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2017								
On demand or within one year	1,729,685	29,051,686	30,781,371	195,069	44,185,565	24,015,670	8,770,000	107,947,675
More than one year, but not exceeding two years	-	13,526,560	13,526,560	179,653	7,977,662	8,000,000	50,000	29,733,875
More than two years, but not exceeding three years	2,775,604	10,622,804	13,398,408	178,183	4,773,484	-	-	18,350,075
More than three years, but not exceeding four years	-	5,031,450	5,031,450	13,147	4,603,753	-	-	9,648,350
More than four years, but not exceeding five years	-	3,136,261	3,136,261	-	8,130,945	-	-	11,267,206
More than five years	25,000	1,814,223	1,839,223	-	16,035,382	-	-	17,874,605
Total	4,530,289	63,182,984	67,713,273	566,052	85,706,791	32,015,670	8,820,000	194,821,786
Less: Amounts due within one year shown under current liabilities	(1,729,685)	(29,051,686)	(30,781,371)	(195,069)	(44,185,565)	(24,015,670)	(8,770,000)	(107,947,675)
Amounts shown under non-current liabilities	2,800,604	34,131,298	36,931,902	370,983	41,521,226	8,000,000	50,000	86,874,111

39. BORROWINGS - continued

Notes:

(i) Bank borrowings

	2018 RMB'000	2017 RMB'000
Secured (note b)	52,212,797	34,644,281
Unsecured	25,389,715	33,068,992
	77,602,512	67,713,273

Notes:

(a) The Group's borrowings carried at floating rates are linked to HIBOR and LIBOR for borrowings denominated in HK$ and US$, respectively.

(b) Details of the assets pledged to secure borrowings granted to the Group are set out in note 55.

(c) The Group's borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause in the loan agreements are classified as current liabilities.

(d) The range of effective interest rates on the Group's bank borrowings are as follows:

	2018	2017
Effective interest rates:		
Fixed-rate borrowings	1.20% to 6.40%	1.20% to 6.27%
Floating-rate borrowings	1.25% to 5.78%	1.25% to 6.05%

(ii) Obligations under finance leases

	Minimum lease payments	
	2018 RMB'000	2017 RMB'000
The obligations under finance leases are repayable as follows:		
Within one year	287,995	217,981
More than one year, but not exceeding two years	261,200	194,133
More than two years, but not exceeding five years	68,808	197,569
	618,003	609,683
Less: Future finance charges	(40,926)	(43,631)
Present value of lease obligations	577,077	566,052

39. BORROWINGS - continued

Notes: - continued

(ii) Obligations under finance leases - continued

Certain of the Group's plant and machinery are held under finance leases. The lease term ranged from three years to nine years (2017: from three years to nine years). Effective interest rates underlying the obligations under finance leases are fixed at the respective contract dates at a weight average of 4.04% (2017: 4.68%) per annum. No arrangement was entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

(iii) Debentures

Particulars of the unsecured debentures of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Debentures comprise:		
Listed		
- 4.45% debentures due in 2018	-	3,000,000
- 4.80% debentures due in 2018	-	1,499,911
- 5.75% debentures due in 2018	-	5,000,000
- 7.13% debentures due in 2018	-	1,305,654
- 5.58% debentures due in 2018	-	10,000,000
- 4.78% debentures due in 2019	4,500,000	4,500,000
- 5.45% debentures due in 2019	2,200,000	2,200,000
- 3.50% debentures due in 2020	1,369,419	1,302,527
- 4.78% debentures due in 2020	3,060,000	1,060,000
- 4.85% debentures due in 2020	1,000,000	1,000,000
- 3.94% debentures due in 2021	3,000,000	-
- 3.95% debentures due in 2021	1,000,000	-
- 4.23% debentures due in 2021	1,800,000	-
- 4.38% debentures due in 2021	2,500,000	-
- 4.78% debentures due in 2021	1,000,000	-
- 5.35% debentures due in 2021	1,940,000	-
- 5.00% debentures due in 2022	3,408,447	3,240,255
- Brasilian Real 428 million, Brasil's National Consumer Price Index ("IPCA") +7.82% debentures due in 2022	715,740	-
- 4.38% debentures due in 2023	6,126,656	-
- 5.15% debentures due in 2023	5,491,689	5,489,942
- 4.75% debentures due in 2025	3,414,652	3,249,997
- 5.08% debentures due in 2025	5,482,048	5,479,732
- 5.00% debentures due in 2028	4,062,553	-
	52,071,204	48,328,018

39. BORROWINGS - continued

Notes: - continued

(iii) Debentures - continued

	2018 RMB'000	2017 RMB'000
Unlisted		
- 4.60% debentures due in 2018	-	3,240,000
- 4.74% debentures due in 2018	-	100,000
- 4.85% debentures due in 2018	-	2,200,000
- 4.90% debentures due in 2018	-	5,780,000
- 4.95% debentures due in 2018	-	5,930,000
- 5.00% debentures due in 2018	-	3,600,000
- 5.10% debentures due in 2018	-	2,280,000
- 6.00% debentures due in 2018	-	250,000
- 2.97% debentures due in 2019	299,532	298,932
- 3.30% debentures due in 2019	685,830	652,320
- 3.40% debentures due in 2019	343,033	326,410
- 3.78% debentures due in 2019	3,000,000	-
- 3.79% debentures due in 2019	3,000,000	-
- 4.73% debentures due in 2019	200,000	-
- 4.75% debentures due in 2019	3,800,000	-
- 4.84% debentures due in 2019	5,900,000	-
- 5.20% debentures due in 2019	580,151	-
- 5.30% debentures due in 2019	3,000,000	-
- 3.50% debentures due in 2020	1,480,853	1,410,957
- 5.56% debentures due in 2020	1,640,000	-
- 5.70% debentures due in 2020	5,150,000	-
- 3.20% debentures due in 2021	3,552,218	3,379,592
- 3.30% debentures due in 2021	944,509	898,211
- 4.15% debentures due in 2021	2,500,000	-
- 5.15% debentures due in 2021	500,000	-
- 5.86% debentures due in 2021	1,148,317	-
- 5.85% debentures due in 2021	342,546	325,950
- 3.30% debentures due in 2022	608,758	579,377
- 3.40% debentures due in 2022	682,613	651,073
- 3.50% debentures due in 2022	342,649	326,101
- 4.89% debentures due in 2022	2,500,000	2,500,000
- 6.00% debentures due in 2022	874,751	834,139
- 4.60% debentures due in 2023	1,346,000	-
- 4.50% debentures due in 2025	259,415	247,013
- 4.70% debentures due in 2025	304,810	290,483
- 4.00% debentures due in 2026	276,399	263,147
- 4.20% debentures due in 2026	784,895	748,069
- 4.30% debentures due in 2027	280,348	266,999
	46,327,627	37,378,773
	98,398,831	85,706,791

39. BORROWINGS - continued

Notes: - continued

(iii) Debentures - continued

The proceeds from the above debentures are used to finance the capital expenditure, re-finance existing debt obligations and for other general corporate purposes of the Group.

(iv) Notes

The Group issued notes with fixed interest rates ranging of 3.00% to 5.50% (2017: 4.30% to 6.10%) per annum, or bear variable interest rates that link to certain stock indices. The interests are repayable upon maturity within one year. The notes at variable interest rates contain non-closely related derivatives as their returns are linked to the fluctuation of stock indices. Embedded derivatives are included in derivative financial instruments as set out in note 29 after being bifurcated from their respective host contracts.

(v) Other borrowings from related parties through banks and other financial institutions

Advances from related parties through banks and other financial institutions, which are unsecured, include:

	Contractual and effective interest rates			
	2018	2017	2018 RMB'000	2017 RMB'000
Advances from the ultimate holding company	5.04% to 8.00%	4.65%	3,322,000	2,350,000
Advances from immediate holding company	5.04% to 5.90%	4.35%	1,130,000	150,000
Advance from a fellow subsidiary (note)	4.28% to 4.80%	3.83% - 4.35%	1,443,940	6,320,000
			5,895,940	8,820,000

Note: The fellow subsidiary is a financial institution approved and regulated by the People's Bank of China and the China Banking Regulatory Commission.

(vi) Short-term financing bills payables

As at December 31, 2018, the short-term financing bills payables were debt securities issued in the PRC Inter-Bank market by the Group and bore interest rates ranging from 3.13% to 3.15% per annum. As at December 31, 2017, the Group has no balance of short-term financing bills payables.

40. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 RMB'000	2017 RMB'000
Financial liabilities held-for-trading comprise:		
- debt securities	7,519,530	330,800
- equity securities	105,660	144,290
- gold leasing	-	2,919,784
- others	152,363	62,998
	7,777,553	3,457,872
Financial liabilities designated at fair value through profit or loss comprise:		
- structured entities	2,431,537	2,034,637
	10,209,090	5,492,509
Analysed as:		
Non-current	2,404,123	-
Current	7,804,967	5,492,509
	10,209,090	5,492,509

Financial liabilities arising from consolidated structured entities are designated at FVTPL as the Group has the obligation to pay other investors upon maturity of the structured entities based on the net book value and related terms.

41. CONTRACT LIABILITIES

	31.12.2018 RMB'000	1.1.2018* RMB'000
Amount received in advance from:		
- port and related operations	49,994	293,291
- logistic and related operations	231,353	43,926
	281,347	337,217

* The amounts in this column are after the adjustments from the application of HKFRS 15 in note 2.

All sales of goods and provision of services are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

During the year ended December 31, 2018, the contract liabilities amounting RMB337,217,000 have been settled.

42. OTHER NON-CURRENT LIABILITIES

Included in other non-current liabilities are:

	2018 RMB'000	2017 RMB'000 (restated)
Advance from the immediate holding company (Note i)	10,593,596	8,527,149
TCP Concession Liabilities (Note ii)	3,260,547	-
Outstanding claims and unearned premiums on insurance contracts (Note iii)	2,558,061	282,902
Royalty and premium provision (Note iv)	823,361	788,588
Accrual for employee benefits - due after one year	787,540	787,540
Deferred income (Note v)	487,969	428,386
Deposits received from lessees under finance leases (Note vi)	715,735	272,826
Put option liability (Note vii)	579,195	-
Amounts due to non-controlling shareholders of subsidiaries (Note viii)	390,658	371,899
Net defined benefit obligation (Note ix)	375,325	350,750
Provision for business cessation (Note x)	372,825	350,000

Notes:

(i) As at December 31, 2018 and 2017, the amount represents advances from CMSN and was unsecured and interest-free. The amount is not required to be repaid within one year from the end of the reporting period. Accordingly, the amount was classified as non-current.

(ii) Amount as at December 31, 2018 represents the liabilities arising from the concession arrangements for a port located in Brasil with the local port authority due by the TCP Group (as defined in note 48) (the "TCP Concession Liabilities"). The relevant concession arrangement allows for operations in the relevant port for up to 2048. Pursuant to the said concession arrangements, including the amendments thereto, with the relevant authority, concession payment is payable on a monthly basis and is adjusted from time to time, among other conditions, with reference to an official inflation index in Brasil. The TCP Concession Liabilities are designated as FVTPL at initial recognition upon the completion of the TCP Acquisition (as defined in note 48) and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss. The current portion of the TCP Concession Liabilities amounting to RMB117 million is included in trade, bills and other payables.

(iii) The amount represents outstanding claims and unearned premiums on insurance contracts under the Group's insurance brokerage business. The management expects that the amount would be settled after twelve months from the end of reporting period. Accordingly, the amount is classified as non-current.

42. OTHER NON-CURRENT LIABILITIES - continued

Notes: - continued

(iv) The amount represents the minimum guaranteed royalty and premium provision under the BOT Agreement with Sri Lanka Parts Authority due by a non-wholly subsidiary, as set out in note 35 that is due one year after the end of the reporting period.

(v) The amounts mainly represent government subsidies received for the cost of construction of the Group's property, plant and equipment that are treated as deferred income and are transferred to profit or loss over the useful lives of the relevant assets when they are ready for use.

(vi) The amount represents deposits received from lessees under finance lease arrangements which will be settled at the end of the lease terms. As the respective lease terms will end after twelve months with the lessees from the end of the reporting period, the amounts are classified as non-current.

(vii) Amount as at 31 December 2018 represents gross obligation arising from a put option issued to non-controlling shareholders of subsidiaries ("Put Option Liability"). The excess of Put Option Liability over the fair value of the put option (as stated in note 48) amounting to RMB507 million at initial recognition was debited to the non-controlling interests. The amount is designated as FVTPL at initial recognition and subsequently measured at fair value, with any gains or losses arising on remeasurement (other than those attributable to changes in credit risks of these liabilities) recognised in profit or loss amounting to RMB82 million which is included in other gains and losses, net.

(viii) As at December 31, 2018 and 2017, the amount represents loans from non-controlling shareholders of certain subsidiaries which are unsecured and interest-bearing at 4.65% (2017: 4.65%) per annum. The balances are not required to be repaid within twelve months from the end of the reporting period. Accordingly, the amounts are classified as non-current.

(ix) During the year ended December 31, 2017, the Group acquired SPG (as defined in note 48) who sponsors a funded defined benefit plan for its qualifying employees. As at December 31, 2018, the amount of RMB375,325,000 represents the present value of the total defined benefit plan liability of RMB381,411,000 that is due one year after the end of the reporting period. Details of the measurement of the defined benefit obligation are set out in note 46(b).

(x) The amount represents the provision for cessation of insurance brokerage business of a wholly-owned subsidiary. The provision made represents management's best estimates of the Group's liabilities based on the actuarial valuation result of the pension liabilities and industry practice. The balance is not expected to be settled within twelve months from the end of the reporting period. Accordingly, the amount is classified as non-current.

43. SHARE CAPITAL

	Number of shares	Share capital HK$'000
Issued and fully paid:		
At January 1, 2017 and December 31, 2017	5,436,216,090	5,436,216
Issuance of shares (Note)	11,364,023,774	11,364,024
At December 31, 2018	16,800,239,864	16,800,240

	RMB'000
Share capital as shown in the consolidated financial statements:	
At January 1, 2017 and December 31, 2017	5,467,445
Issuance of shares	10,000,000
At December 31, 2018	15,467,445

Note: On December 31, 2018, the Group allotted 11,364,012,774 shares to CMSN at a consideration of HK$11,364,024,000 (equivalent to RMB10,000,000).

44. MANDATORY CONVERTIBLE SECURITIES ("MCS")

MCS are equity instruments issued by CMPH at the subscription price of HK$30.26 (equivalent to RMB23.84) per unit, representing a direct, unsecured and subordinated obligation of CMPH. The MCS entitle the holders to receive fixed coupons semi-annually at the rates of 8%, 6% and 4% per annum in the first, second and third year, respectively, from the issuance of MCS. CMPH may at its discretion elect to defer or cancel any scheduled distributions. Any deferred or cancelled distributions are non-cumulative and do not bear any interests. However, if CMPH determines to do so but declares, makes or pays any dividends to the ordinary shareholders, the MCS holders should be notified, and the MCS shall be converted into ordinary shares of CMPH at the initial conversion price. Any deferred but unpaid distributions prior to the accelerated conversion date and any scheduled future distributions after the accelerated conversion date (taking into account their net present values) shall be paid immediately to the MCS holders by cash.

Holders of MCS have the rights to convert any of their MCS into ordinary shares of CMPH, at the conversion rate of one unit of MCS to one ordinary share of CMPH (subject to certain anti-dilution adjustments), at any time prior to the mandatory conversion date, being the third anniversary following the date of issuance of the MCS, at the initial conversion price of HK$30.26 per ordinary share.

The MCS may be assigned or transferred by its holders without restriction but will not be listed on The Stock Exchange of Hong Kong Limited or any other stock exchanges. The MCS are not entitled to dividends declared and paid by CMPH to its ordinary shareholders and do not carry any voting rights of CMU.

44. MANDATORY CONVERTIBLE SECURITIES ("MCS") - continued

On June 6, 2015, the open offer of the MCS, which was on the basis of one unit of MCS for every five ordinary shares held, became unconditional. A total of 505,400,882 units of MCS (equivalent to 505,400,882 ordinary shares of CMPH in issue when converted) were issued by CMPH, of which 163,918,012 units (equivalent to 163,918,012 ordinary shares of CMPH in issue when converted) were issued to CMID; and 338,758,185 units (equivalent to 338,758,185 ordinary shares of CMPH in issue when converted) were issued to CMU. The net proceeds received by the Group (after elimination with subscriptions made by CMID as appropriate) during the year ended December 31, 2015 amounted to RMB8,175,080,000. No MCS was issued during the years ended December 31, 2018 and 2017.

Pursuant to a cooperative agreement entered into on December 10, 2014 between CMID and CMU, all benefits of the distributions of the MCS attributable to CMID, if any, are transferred to CMU (the "Cooperative Agreement"). Distributions of the Perpetual Capital Securities issued by CMID to CMU have been waived by CMU.

During the year ended December 31, 2017, distributions amounting to RMB263,991,000 in total had been declared and paid by the Group, of which RMB263,758,000 had been declared and paid to CMU, which was inclusive of distributions of RMB86,009,000 entitled to CMID that had been assigned to CMU in accordance with the Cooperative Agreement.

During the year ended December 31, 2017, all the remaining units of MCS had been converted to ordinary shares of CMPH.

45. PERPETUAL CAPITAL SECURITIES ("PCS")

On February 18, 2014, June 18, 2014, July 14, 2014, July 23, 2014 and December 31, 2014 (the "2014 Issue Dates"), CMID issued PCS denominated in US$ and Euro ("EUR") with an aggregate principal amount of US$2,522,000,000 (equivalent to RMB15,376,369,000) and EUR310,000,000 (equivalent to RMB2,572,218,000) respectively to CMU.

On April 30, 2015 (the "2015 Issue Date", together with the 2014 Issue Dates, collectively referred to as the "Issue Dates"), CMID further issued PCS denominated in HK$ with a principal amount of HK$400,000,000 (equivalent to RMB324,000,000) to CMU.

The PCS confer the holder a right to receive distributions (each, a "Distribution") from, and including, the Issue Dates at the rate of 4% per annum on the principal. Distributions shall be payable annually in arrears on December 31 in each year (each, a "Distribution Payment Date").

CMID may at its sole discretion elect to defer, in whole or in part, any Distribution (including any arrears of Distribution) which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the holder. CMID shall have no obligation to pay any Distribution (including any arrears of Distribution) on any Distribution Payment Date if it elects not to do so. CMID may further defer any arrears of Distribution following the foregoing notice requirement and is not subject to any limits as to the number of times Distribution and arrears of Distribution can be deferred. Unless and until CMID (i) satisfies in full all outstanding arrears of Distribution and any additional distribution amount or (ii) is permitted to do so in writing by the holders, CMID shall not declare, pay or make any dividends, distribution or other payments is declared, paid or made on any of its ordinary shareholder or parity securities.

45. PERPETUAL CAPITAL SECURITIES ("PCS") - continued

As the PCS only impose contractual obligations on the Group to repay principal or to pay any Distributions under certain circumstances which are at the Group's discretion, they have in substance conferred the Group an unconditional right to avoid delivering cash or other financial assets to settle contractual obligations. Therefore, they do not meet the definition for classification as financial liabilities under HKAS 32. As a result, the whole instrument is classified as equity, and Distributions, if and when declared, are treated as distribution to non-controlling interests.

On February 12, 2018, CMID entered into a PCS transfer agreement with CMU and China Merchants Investments Limited ("CMI"), a wholly-owned subsidiary of the Company, pursuant to which CMU and CMID agreed to transfer the outstanding principal of EUR222,268,181 of PCS (equivalent to RMB1,822,871,000) to CMI. The terms of the PCS remained unchanged upon the completion of transfer from CMID to CMI on February 12, 2018.

During the year ended December 31, 2017, CMID redeemed PCS with an aggregate principal amount of US$640,021,000 (equivalent to an aggregate amount of RMB3,725,195,000). During the year ended December 31, 2017, distributions amounting to RMB71,137,000 have been declared to CMU.

During the year ended December 31, 2018, distributions amounting to RMB66,793,000 have been declared to CMU.

46. RETIREMENT BENEFITS PLANS

(a) Defined contribution plans

(i) Hong Kong

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

The ORSO Scheme is funded by monthly contributions from both employees and the Group. The employees contribute a fixed rate of 5% of the employees' basic salary, while the Group contributes at rates ranging from 5% to 12% of the employees' basic salary, depending on the length of service of the employees with the Group.

46. RETIREMENT BENEFITS PLANS - continued

(a) Defined contribution plans - continued

(i) Hong Kong - continued

When employees leave the ORSO Scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions. There were no material forfeited contributions utilised in this manner during both years. At the end of both reporting periods, there were no material forfeited contributions, which arose upon employees leaving the ORSO Scheme and which were available to reduce the contributions payable in future years.

For members of the MPF Scheme, the Group contributes the lower of (i) HK$1,500 or (ii) 5% of relevant monthly payroll costs to the MPF scheme, whose contribution is matched by the employees.

(ii) The PRC

Employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefits schemes operated by the local government. The subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions.

(b) Defined benefits plans

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment and future salaries of plan participants. An increase in the life expectancy and future salaries of the plan participants will both increase the plan's liability.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out as at December 31, 2018 by an independent qualified professional valuer. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Of the expense for the year, approximately RMB11 million (2017: RMB2 million) has been included in administrative expenses.

The remeasurement of the net defined benefit liability is included in other comprehensive income.

47. ACQUISITION OF ASSETS THROUGH ACQUISITION OF A SUBSIDIARY

For the year ended December 31, 2018

In September 2018, a non-wholly-owned subsidiary of the Company completed the acquisition of an additional 80% equity interest in Shenzhen Haixing Xiaoyetian Logistics Development Company Limited ("Shenzhen Xiaoyetian") from an independent third party (the "Xiaoyetian Acquisition"). After the Xiaoyetian Acquisition, the Group's equity interest in Shenzhen Xiaoyetian has increased from 20% to 100%. Shenzhen Xiaoyetian was previously recognised as a financial asset at FVTPL. The total cash consideration is RMB133 million.

The transaction is accounted for as acquisition of assets as the acquisition does not meet the definition of business combination.

	RMB'000
Consideration	
Cash	132,454
Fair value of previously held equity interest in Shenzhen Xiaoyetian	42,720
Total consideration	175,174
The net assets acquired in the Xiaoyetian Acquisition are as follows:	
Investment properties (note 11)	11,366
Land use right (note 13)	38,125
Bank deposits, bank balances and cash	123,899
Trade, bills and other receivables	2,060
Trade, bills and other payables	(276)
Total identifiable net assets	175,174
Net cash outflow arising in the Xiaoyetian Acquisition:	
Cash consideration	132,454
Less: Bank deposits, bank balances and cash acquired	(123,899)
Total consideration paid	8,555

The fair value of trade, bills and other receivables at the date of acquisition amounted to RMB2 million which is also the gross contractual amount and best estimate contractual cash flow at the date of acquisition.

48. ACQUISITION OF SUBSIDIARIES

For the year ended December 31, 2018

On September 4, 2017, the Group through a non-wholly owned subsidiary (as the purchaser) entered into a share purchase agreement with TCP Participações S.A. (as the intervening party) ("TCP", together with its subsidiaries, the "TCP Group") and several independent third parties who are the original shareholders of TCP (as the seller) (the "Selling Shareholders"), pursuant to which, the Selling Shareholders agreed to sell and the Group agreed to purchase 7,271,233 issued shares of TCP (the "Initial Sale Shares") which were originally owned by the Selling Shareholders. The sale of the Initial Sale Shares to the Group will accelerate the vesting of the stock options granted by TCP (the "TCP Stock Option Plan"). The Selling Shareholders agreed to cause the beneficiaries of the TCP Stock Option Plan to exercise their rights to subscribe for 340,100 shares of TCP under the TCP Stock Option Plan (the "Individual Seller Shares") and to sell all the Individual Seller Shares to the Group (the "TCP Acquisition"). The Initial Sale Shares and the Individual Sellers Shares collectively represent 90% of the issued share capital of TCP. The cash consideration for the acquisition of the Initial Sale Shares and the Individual Sellers Shares is Brasilian Real 2,812 million (equivalent to approximately RMB5,468 million).

Pursuant to the shareholders' agreement, a put option was granted by the Group to the non-controlling equity holders of TCP Group (the "Option Holders") exercisable 2 years after February 23, 2018. The Option Holders have the right to sell to, and require the Group to acquire all of the Option Holders' remaining equity interest of TCP Group after February 23, 2018 at a cash consideration. At initial recognition, the fair value of the put option as at acquisition date amounted to US$24 million (equivalent to RMB154 million). The Group was also granted with a call option to acquire all of the Option Holders' remaining equity interest of TCP Group, where the fair value of the call option was determined as negligible at initial recognition.

TCP Group is principally engaged in operation of port facilities in Brasil.

The transaction was completed on February 23, 2018. Since then, the Group has the right to appoint the majority of board members to the board of directors of TCP, which is the authority of the power to direct the relevant activities of TCP. Accordingly, TCP Group is accounted for as subsidiaries of the Group.

48. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2018 - continued

Further details of the TCP Acquisition are set out below:

	RMB'000
Consideration	
Cash	5,468,066
Fair value of identifiable assets acquired and liabilities assumed:	
Intangible assets (note 15)	5,268,026
Property, plant and equipment (note 12)	1,993,006
Bank deposits, bank balances and cash	896,117
Trade, bills and other receivables	207,130
Other current assets	32,507
Deferred tax assets	31,600
Inventories	459
Other non-current liabilities	(3,510,666)
Borrowings - due within one year	(2,204,789)
Deferred tax liabilities	(587,012)
Trade, bills and other payables	(289,986)
Total identifiable net assets	1,836,392

The fair values of the above intangible assets acquired in the TCP Acquisition and the value of put option have been determined by a group of professional valuers, Greater China Appraisal Limited. Fair values of the identifiable assets acquired and liabilities assumed are determined by reference to valuations performed by Greater China Appraisal Limited based on asset-based approach. Significant assumptions of the valuations include the growth rates, discount rates and expected future cash inflows/outflows of TCP Group.

	RMB'000
Net cash outflow arising in the TCP Acquisition:	
Cash consideration	5,468,066
Less: Bank deposits, bank balances and cash acquired	(896,117)
Net cash outflow during the year ended December 31, 2018	4,571,949

Trade receivables acquired with a fair value of RMB109 million at the date of acquisition had gross contractual amounts of RMB113 million. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to RMB3 million.

The non-controlling interests in TCP Group recognised were measured by reference to the fair values of the identifiable assets acquired and liabilities assumed at the acquisition date.

48. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2018 - continued

Acquisition-related costs amounting to RMB3 million (2017: RMB31 million) have been excluded from the consideration transferred and has been recognised as general and administrative expenses in the consolidated statement of profit or loss in both years.

Goodwill arising on the TCP Acquisition:

	RMB'000
Cash consideration	5,468,066
Add: Put option granted to non-controlling interests	154,062
Add: Non-controlling interests	183,639
Less: Fair values of identifiable net assets acquired	(1,836,392)
Goodwill arising on acquisition	3,969,375

Goodwill arose in the acquisition of TCP Group because the cost of the acquisition included a control premium. In addition, the consideration paid for the acquisition effectively included amounts in relation to the benefit of expected synergies as a result of the new presence in Latin America region which will further strengthen the Group's port and related business. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Included in the profit and revenue of the Group for the current year are net profit of RMB90 million and revenue of RMB1,159 million generated by TCP Group.

Had the TCP Acquisition been completed on January 1, 2018, revenue and profit to the Group for the current year amounting RMB45,138 million and RMB16,541 million, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the TCP Acquisition been completed on January 1, 2018, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the TCP Acquisition been completed at the beginning of the current year, the directors have:

- calculated depreciation of property, plant and equipment and amortisation of intangible assets acquired on the basis of the fair values arising in the accounting for the acquisition rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the acquisition.

48. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2017

During the year ended December 31, 2017, the Group completed the acquisition of certain entities engaged in port operation in Shantou (the "SPG Acquisition") and certain entities engaged in the development, management and operation of the port of Hambantota in Sri Lanka (the "Hambantota Port") (the "HIPG Acquisition", together with the SPG Acquisition, the "Acquisitions").

SPG Acquisition

On April 10, 2017, the Group through a non-wholly owned subsidiary (the "SPG Buyer") entered into a subscription agreement (the "Subscription Agreement") with the SASAC of the Shantou Municipal Government and Shantou Ports Group Corp Co., Ltd ("SPG"), a company established in the PRC with limited liability. Pursuant to the Subscription Agreement, SPG agreed to issue, and the SPG Buyer agreed to subscribe for, the equity interest of SPG representing 60% of the enlarged interest in SPG following the completion of the subscription, for a total consideration of approximately RMB5,432 million.

SPG and its subsidiaries (together referred to as the "SPG Group") were principally engaged in ports operation in Shantou, Guangdong Province, the PRC. The Group considered the acquisition of the SPG Group would further strengthen its port network in the southern part of Mainland China.

The transaction had been completed on August 15, 2017 and since then, the Group obtained the majority voting power in the board of directors of SPG, by which the relevant activities that significantly affect the return of SPG was determined on a simple majority basis. SPG was therefore accounted for as a subsidiary of the Company.

HIPG Acquisition

On July 29, 2017, the Group through a non-wholly owned subsidiary (the "HIPG Buyer") entered into a concession agreement (the "Concession Agreement") with the Sri Lanka Ports Authority ("SLPA"), a public corporation constituted under the Sri Lanka Ports Authority Act, No. 51 of 1979, the Government of the Democratic Socialist Republic of Sri Lanka ("GOSL"), a private limited company incorporated in Sri Lanka, and Hambantota International Port Services Company (Private) Limited ("HIPS"), a private limited company incorporated in Sri Lanka, in relation to the development, management and operation of the Hambantota Port. Both Hambantota International Port Group (Private) Limited ("HIPG") and HIPS were wholly-owned subsidiaries of SLPA as at the date of the Concession Agreement.

HIPG and its subsidiaries (collectively referred to as the "HIPG Group") and domiciled at the Hambantota Port which is located at a strategic position of the main shipping route from Asia to Europe. The Group considered that this investment would further strengthen its global port network.

48. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2017 - continued

HIPG Acquisition - continued

Pursuant to the Concession Agreement, the HIPG Buyer agreed to acquire and SLPA agreed to sell 85% of the issued share capital of HIPG for a consideration of approximately US$974 million (equivalent to approximately RMB6,598 million) and at the same time, HIPG agreed to acquire and SLPA agreed to sell 58% of the total issued share capital of HIPS. The Group also agreed to deposit an amount of approximately US$146 million (equivalent to approximately RMB1,141 million) into a bank account under its name in Sri Lanka within one year which would be utilised for Hambantota port and marine-related activities as may be agreed with the GOSL and the Group shall be entitled to repatriate any amounts in the bank account at the expiration of such one-year period if no agreement has been reached with GOSL for the use of such funds. During the year ended December 31, 2018, the Group had placed the agreed deposits in the said account.

The transaction had been completed on December 8, 2017 and since then, the Group obtained the majority voting power in the board of directors of HIPG. The relevant activities that significantly affect the return of HIPG were determined by the boards of directors on a simple majority basis and HIPG is therefore accounted for as a subsidiary of the Company.

Further details of the Acquisitions, including considerations, fair values of identifiable assets acquired and liabilities assumed, non-controlling interests and goodwill arising, if any, were set out below:

	SPG Group RMB'000	HIPG Group RMB'000	Total RMB'000
Consideration satisfied/to be satisfied in cash	5,431,838	6,598,810	12,030,648
Fair value of identifiable assets acquired and liabilities assumed:			
Property, plant and equipment	1,991,725	7,692,969	9,684,694
Investment properties	145,121	-	145,121
Land use rights	2,019,791	1,791,008	3,810,799
Interests in associates	229,517	-	229,517
Available-for-sale investments	5,506	-	5,506
Other non-current assets	32,110	-	32,110
Inventories	7,209	4,297	11,506
Trade, bills and other receivables	155,331	-	155,331
Bank deposits, bank balances and cash	5,553,645	-	5,553,645
Trade, bills and other payables	(960,531)	-	(960,531)
Deferred tax liabilities	(483,022)	-	(483,022)
Borrowings	(250,000)	-	(250,000)
Other non-current liabilities	(232,577)	-	(232,577)
Total identifiable net assets	8,213,825	9,488,274	17,702,099

48. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2017 - continued

HIPG Acquisition - continued

Fair values of identifiable assets acquired and liabilities assumed were determined by reference to valuations performed by independent and professional qualified valuers based on investment approach, cost replacement approach or market approach, as appropriate. Significant assumptions of the valuations included the growth rates, discount rates and expected future cash inflows/outflows of SPG Group and HIPG Group.

	SPG Group RMB'000	HIPG Group RMB'000	Total RMB'000
Net cash (inflow) outflow arising on the Acquisitions:			
Cash consideration	5,431,838	6,598,810	12,030,648
Less: Cash and bank balances acquired	(5,553,645)	-	(5,553,645)
Deposit paid in previous years (included in trade, bills and other receivables as at December 31, 2016)	-	(33,887)	(33,887)
Cash consideration not yet paid as at December 31, 2017 (note 35)	-	(4,473,273)	(4,473,273)
Net cash (inflow) outflow during the year ended December 31, 2017	(121,807)	2,091,650	1,969,843

Consideration for the acquisition of HIPG Group not yet paid as at December 31, 2017 has been settled during the year ended December 31, 2018.

The fair value of trade and other receivables at the date of acquisition amounted to approximately RMB155 million which is also the gross contractual amounts and best estimate contractual cash flow at the date of acquisition.

The non-controlling interests in SPG Group and HIPG Group recognised were measured by reference to the fair values of the identifiable assets acquired and liabilities assumed at the respective acquisition dates.

Acquisition-related costs amounting to approximately RMB33 million in aggregate have been excluded from the consideration transferred and have been recognised as an expense in the year ended December 31, 2017, within general and administrative expenses, in the consolidated financial statement of profit or loss.

48. ACQUISITION OF SUBSIDIARIES - continued

For the year ended December 31, 2017 - continued

Goodwill arising on the Acquisitions:

	SPG Group RMB'000	HIPG Group RMB'000	Total RMB'000
Cash consideration	5,431,838	6,598,810	12,030,648
Add: Non-controlling interests	3,334,304	2,889,464	6,223,768
Less: Fair values of identifiable net assets acquired	(8,213,825)	(9,488,274)	(17,702,099)
Goodwill arising on acquisition	552,317	-	552,317

Goodwill arose in the acquisition of SPG Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies as a result of further strengthening of the Group's port network in the southern part of Mainland China. These benefits were not recognised separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

Included in the profit and revenue of the Group for the year ended December 31, 2017 were net loss of approximately RMB32 million and revenue of approximately RMB150 million generated by SPG Group and HIPG Group in aggregate.

Had the Acquisitions been completed on January 1, 2017, total group revenue for the year ended December 31, 2017 would have been approximately RMB52,674 million (restated), and profit for the year ended December 31, 2017 would have been approximately RMB58,713 million (restated). The pro forma information was for illustrative purposes only and was not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisitions been completed on January 1, 2017, nor is it intended to be a projection of future results.

In determining the "pro-forma" revenue and profit of the Group had the Acquisitions been completed at the beginning of the current year, the directors have:

- calculated depreciation of property, plant and equipment and land use rights acquired on the basis of the fair values arising in the accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements; and

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

49. CAPITAL RISK MANAGEMENT

The Group maintains a strong capital base so as to sustain future business development and ensure that entities in the Group will be able to continue as a going concern. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes borrowings, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance the overall capital structure through advances from holding companies as well as the issue of new debts or the redemption of existing debts.

Certain group entities regulated by the Securities and Futures Commission ("SFC") and the China Securities Regulatory Commission (中國証券監督管理委員會) are required to comply with certain minimum capital requirements according to the Securities and Futures Ordinance of Hong Kong and the corresponding regulatory regulations of the PRC. Management monitors, on a daily basis, the liquid capital of the relevant group entities to ensure they meet the minimum liquid capital requirement in accordance with the relevant rules and regulations.

In addition to capital risk management, there is a concentration of location risk of net assets owned by the Group. The Group's net assets are principally situated in the PRC and accordingly, they are subject to a concentration of assets realisation risk in the local municipalities and provinces, where they are located. The Group's ability to realise the majority of its assets is related to the economic conditions of the PRC as a whole and the local areas in which it operates. Management manages this exposure by maintaining a portfolio of assets in different municipalities and provinces with different risk profiles.

The entities of the Group which were established in the PRC maintained RMB-denominated bank balances. The remittance of these funds out of the PRC is subject to exchange restrictions imposed by the PRC government.

50. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 RMB'000	2017 RMB'000 (restated)
Financial assets		
FVTPL		
Mandatorily measured at FVTPL	128,894,268	-
Held-for-trading investments	-	71,198,130
Designated as at FVTPL	-	2,148,379
	128,894,268	73,346,509
Derivative financial instruments	1,153,275	1,024,979
Equity instruments at FVTOCI	8,042,140	-
Debt instruments at FVTOCI	43,732,333	-
Financial assets at amortised costs/loans and receivables		
- debt instruments at amortised cost	5,631,107	-
- other non-current assets	7,202,480	3,241,589
- financial assets held under resale agreements	33,766,487	37,660,759
- dividend receivables	439,695	393,041
- trade, bills and other receivables (net of allowances for credit losses)	10,758,394	15,140,200
- contract assets	9,284,822	-
- loans and advances to customers of securities dealing business	42,976,430	59,235,426
- deposits for securities dealing business	1,431,420	1,224,478
- bank balances held on behalf of customers	40,144,484	42,526,062
- bank deposits, bank balances and cash	39,448,515	41,137,413
	191,083,834	200,558,968
AFS investments	-	52,700,892
Financial liabilities		
FVTPL		
- Held-for-trading	7,777,553	3,457,872
- Designated at FVTPL	2,431,537	2,034,637
	10,209,090	5,492,509
Derivative financial instruments	1,308,309	1,588,990
At amortised cost		
- trade, bills and other payables	68,527,262	57,534,845
- amounts payable to brokerage clients of securities dealing business	48,911,748	51,095,335
- placements from banks and other financial institutions	3,519,000	1,470,000
- financial assets sold under repurchase agreements	61,897,016	33,382,970
- borrowings	206,948,333	194,255,734
- other non-current liabilities	10,984,255	8,899,048
	400,787,614	346,637,932

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies

The Group's major financial instruments mainly include amounts due from (to) related parties, financial assets at FVTPL, equity instruments at FVTOCI, debt instruments at FVTOCI, financial assets held under resale agreements, dividend receivables, trade, bills and other receivables, contract assets, debt instruments at amortised cost, derivative financial instruments, loans and advances to customers of securities dealing business, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, bank balances and cash, trade, bills and other payables, accounts payable to brokerage clients of securities dealing business, placements from banks and other financial institutions, financial assets sold under repurchase agreements, bank borrowings and financial liabilities at FVTPL.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risks (currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The risks associated with the financial instruments of the Group and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risks

(i) Currency risk

The majority of the subsidiaries of the Company operate in Hong Kong and the PRC with most of the transactions denominated in either RMB, HK$, US$ and EUR. RMB is not freely convertible into other foreign currencies as the conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Certain subsidiaries of the Company have foreign currency transactions, mainly arising from the sale of goods, purchase of materials and plant and equipment from overseas suppliers, expenses and borrowings. The Group considers that its foreign currency exposure is mainly arising from the exposure of RMB against US$, HK$ and EUR, or US$, HK$ and EUR against RMB.

The Group also regularly reviews the portfolio of local and international customers and the currencies in which the transactions are denominated so as to minimise the Group's exposure to foreign currency risk. The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments. The Group ensures that the net exposure to foreign exchange risk is kept to an acceptable low level from time to time.

It is the policy of the Group to draw borrowings in the currencies of which income is expected to be generated for future repayments.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risks - continued

(i) Currency risk - continued

The carrying amounts of the Group's major monetary assets and monetary liabilities at the end of the respective reporting periods which are denominated in currencies other than the functional currencies of the relevant group entities, are as follows:

	Assets		Liabilities	
	2018	2017	2018	2017
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000 (restated)
US$	13,127,135	14,643,864	37,701,876	21,312,035
HK$	1,479,376	3,366,424	1,488,021	686,539
RMB	2,533,695	6,374,536	3,646,722	6,819,933
EUR	723,259	339,452	2,221,429	2,291,738

The Group is also exposed to foreign currency risks arising from foreign currency forward contracts.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in the relevant foreign currencies against the relevant functional currencies of the respective group entities. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in the foreign currency rates. A positive (negative) number below indicates an increase (a decrease) in profit for the year where the relevant foreign currencies strengthen 5% (2017: 5%) against the relevant functional currencies of the respective group entities. For a corresponding weakening of the foreign currencies against the relevant functional currencies of the respective group entities, there would be an equal and opposite impact on the profit for the year.

	USD impact		HK$ impact		RMB impact (Note)		EUR impact	
	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000 (restated)	RMB'000	RMB'000 (restated)	RMB'000	RMB'000 (restated)	RMB'000	RMB'000 (restated)
Profit for the year	(1,228,737)	(333,409)	(432)	133,994	(55,651)	(22,270)	(74,909)	(97,614)

Note: For monetary items denominated in RMB held by group entities whose functional currencies are not RMB.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risks - continued

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to AFS investments, financial assets held under resale agreements, loans and advances to customers of securities dealing business, financial assets sold under repurchase agreements, amounts due from (to) related parties, bank borrowings, debentures and structured notes that are arranged at fixed interest rates.

The Group is also exposed to cash flow interest rate risks in relation to bank balances held on behalf of customers, bank deposits and balances, deposits for securities dealing business, amounts due from (to) related parties, accounts payable to brokerage clients of securities dealing business, placements from banks and bank borrowings that are arranged at variable interest rates.

In order to mitigate the interest rate risk, the Group adopts a policy of maintaining an appropriate mix of fixed-rate and variable-rate borrowings, which is achieved primarily through the contractual terms of the borrowings.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the interest rates determined by the People's Bank of China, HIBOR and LIBOR.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 10 (2017: 10) basis points and 50 (2017: 50) basis points increase or decrease for financial assets and financial liabilities, respectively, are used when reporting interest rate risk internally to key management personnel and represent management's assessment of the reasonably possible change in interest rates.

For financial assets carried at amortised cost, if interest rates had been 10 (2017: 10) basis points higher/lower and all other variables were held constant, the Group's profit for the year ended December 31, 2018 would increase/decrease by RMB81,868,000 (2017 (restated): RMB85,443,000).

For financial liabilities carried at amortised cost, if interest rates had been 50 (2017: 50) basis points higher/lower and all variables were held constant, the Group's profit for the year ended December 31, 2018 would decrease/increase by RMB626,516,000 (2017 (restated): RMB580,444,000).

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Market risks - continued

(iii) Other price risk

Certain of the Group's investment in financial liabilities held-for-trading, debt instruments at FVTOCI, equity instruments of FVTOCI, equity instruments to FVTOCI, financial assets mandatorily at FVTPL and derivative financial instruments (2017: AFS investments, held-for-trading investments, financial assets designated at FVTPL and derivative financial instruments) are exposed to equity price risk. Management manages this exposure by maintaining a portfolio of investments with different risk profiles and in different stock exchange markets.

The Group monitors the price risk and will consider hedging the risk exposure should need arises.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risks at the end of reporting period.

If the prices of the respective instruments had been 20% (2017: 20%) higher/lower:

- profit of the Group for the year ended December 31, 2018 would increase/decrease by RMB1,489,464,000 (2017 (restated): RMB3,155,639,000) as a result of the changes in equity price of financial assets at FVTPL, financial liabilities held-for-trading and derivative financial instruments (2017: held-for-trading investments, financial liabilities held-for-trading and derivative financial instruments); and

- investment revaluation reserve for the year ended December 31, 2018 would increase/decrease by RMB23,021,000 (2017 (restated): RMB3,604,419,000) as a result of the changes in fair values of equity instruments at FVTOCI and debt instruments at FVTOCI (2017: AFS investments).

In management's opinion, the sensitivity analysis in respect of debt instruments at FVTOCI, equity instruments at FVTOCI, financial assets mandatorily at FVTPL, financial liabilities held-for-trading and derivative financial instruments (2017: AFS investments, held-for-trading investments, financial liabilities held-for-trading and derivative financial instruments) of the Group is not necessarily representative of the inherent price risk as the year end exposure does not reflect the exposure during the year.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment

The Group' s credit risk is primarily attributable to debt instruments at FVTOCI, debt instruments at amortised cost, financial assets held under resale agreements, finance leases receivables, dividend receivables, trade, bills and other receivables, contract assets, loans and advances to customers of securities dealing business, those under other current assets, deposits for securities dealing business, bank balances held on behalf of customers, bank deposits, bank balances and cash and those under other non-current assets.

Management has a credit policy in place and the exposures to these credit risks are managed by management of the individual business units and monitored by the Group's management on a group basis. As at December 31, 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from the amount of contingent liabilities in relation to financial guarantees provided by the Group is disclosed in note 54.

The policies on the management of credit risks arising from the Group's financial services business are set out below:

(i) For credit risks arising from margin financing, securities lending and securities repurchase businesses, the Group has established a multi-level authorisation system for business management and a comprehensive system for risk management that covers the whole business process including due diligence investigation of clients, approval of credit grant, post-loan evaluation including evaluation of loan to collateral ratio of each client, dynamic adjustment to collaterals, mark-to-market system, mandatory liquidation and disposal on default.

(ii) For credit risks arising from debt instruments, the Group has developed an internal credit rating mechanism to control risks of default and downgrading of debt securities and default of counterparties. The Group sets the minimum rating requirements for various types of investments and counterparties by the business authorisation system and minimises the loss arising from different types of investments and default of counterparties through diversification.

(iii) For credit risks arising from the trading of over-the-counter derivatives, the Group has formed a set of management measures and rules to determine the eligibility of investors, due diligence of clients, grant of credit to counterparties, discount rate of securities, effective monitoring of gearing ratio, management of collaterals and follow-up measures on default of clients.

(iv) For credit risks arising from brokerage trading business, the trading of securities by domestic clients where the Group acts as an agent is settled by full margin. With regard to the trading of securities by overseas clients, the Group has effectively controlled the relevant credit risk by strengthening the monitoring of credit grant and margin ratio.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Trade, bills and other receivables, contract assets and amounts due from other related parties

In order to minimise the credit risk arising from trade, bills and other receivables and contract assets, the management of each business unit has set up internal policies for their respective industries according to industry practices and business environments of the businesses. The respective credit teams determine credit limits, credit approvals and other monitoring procedures to ensure that the receivables are recoverable. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. For trade debtors spotted as of higher credit risks, management of the Group also implemented measures such as tightened credit terms and closer monitoring of the settlement patterns.

In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on the balances individually or based on provision matrix. To measure the ECL of trade receivables and contract assets, the management are assessed collectively using provision matrix based on shared characteristics including historical credit loss experience, industry specific factors to the debtors, general economic conditions and the available and supportive forward-looking information, including time value of money where appropriate. In this regard, the management considers that the Group's credit risk is significantly reduced.

Regarding amounts due from related parties, the management of the Group assesses the recoverability by reviewing the financial position and results of the related parties periodically and considers the credit risk to be insignificant

The Group accounts for its credit risk on bills and other receivables by performing credit evaluation and appropriately providing expected credit losses on a timely basis. Under ECL model upon application of HKFRS 9 (2017: incurred loss model), the management makes periodic collective assessment as well as individual assessment on the recoverability of all loans and receivables, based on historical payment records, the length of the overdue period, the financial strength of the debtors and whether there are any disputes with the relevant debtors. The Group's historical experience in collection of other loans and receivables falls within the recorded allowances. In this regard, the management consider that the Group's credit risk is significantly reduced.

The Group has no other significant concentration of credit risk with exposure spread over a number of counterparties and customers, and industries. The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and the PRC.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Debt instruments at FVTOCI

Debt securities measured at FVOCI are invested or placed with counterparties and financial institutions with sound credit quality. To mitigate the risk of non-recovery of investments in debt securities and their related concentration risk, the Group maintains portfolio which comprises mainly of investment grade products, constituents of defined world indices and instruments issued by state owned or controlled enterprises. The Group closely monitors the credit quality and financial positions of counterparties and considers appropriate action if the market value of the securities declines by a predetermined threshold.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from debt instruments at FVTOCI are set out in note 20 to these financial statements.

Bank balances held on behalf of customers and bank deposits, bank balances and cash

Substantially all of the Group's cash and cash equivalents are banks with high credit ratings assigned by international credit-rating agencies. Therefore, the Group performs impairment assessment under 12m ECL model upon application of HKFRS 9 (2017: incurred loss model) on collective basis. Management does not expect any losses from non-performance by these counterparties.

In addition, there is also concentration of credit risk on liquid funds deposited by the Group in CMB, an associate of the Group. Given the close relationship of the associate of the ultimate holding company with the Group and its good credit history, the directors of the Company consider that the credit risk associated with the funds deposited with the associate is low. Other than the above, the Group does not have any other significant concentration of credit risk.

Other financial assets from securities dealing business

The Group is primarily exposed to four types of credit risk arising from the Group's financial services business, including:

a. risk arising from default of customers to repay debts in businesses of margin financing and securities lending, securities-backed lending or stock repurchases;
b. risk of losses of principal and interests for investments in debt securities, trust products and other credit products due to default of the issuers or borrowers;
c. risk arising from default of a counterparty to meet its payment obligation in trading of over the counter ("OTC") derivatives such as equity swaps, interest rate swap and OTC futures; and
d. risk arising from the default of customers in brokerage business in respect of trading of securities, futures and other financial products, when there was shortfall of funds after liquidation of client's accounts on settlement dates.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Credit risk and impairment assessment - continued

Other financial assets from securities dealing business - continued

On the basis of credit rating of counterparties, qualification assessment on borrowers, and the quantitative management of collaterals, the Group fully considers the customer portfolio of each credit related transaction, the amount of a single debt, the term of borrowing, the maintenance of collateral ratio and the degree of collateral concentration, etc., and makes sure the above factors are reflected in parameters such as probability of default (PD), loss given default (LGD) and maturity (M) of borrowers. The potential default losses of credit business are measured on a transaction-to-transaction basis, then the Group's overall credit risk exposure are aggregated, with stress tests and sensitivity analysis as supplement to measurement of credit risks.

The Group uses expected credit loss model to measure the expected credit losses for applicable financial assets. Factors considered in the assessment using the expected credit loss model mainly includes asset categories, probability of default, loss given default, exposure, discount rate and adjustment factors, whether there are significant increase in credit risks and judgment on low risk assets, and the loss provision in respect of fixed-income financial assets are determined on the basis of the projected future cash inflow.

The probability of default will be adjusted in the light of macroeconomic environment and the specific situation of bonds, and determined after considering prospective adjustment factors and adjustment factors of specific bonds. The prospective adjustment factors are evaluated mainly based on analysing the relationship between the default rate and the long-term average default rate under different economic environments (or macroeconomic factors) in China and other countries, and determined through forecasting economic environment; the adjustment factors in respect of bonds are depend on different industries, specific bonds and risk mitigation measures, which will be adjusted based on specific situations or the need of change.

The loss given default is estimated based on historical data and subject to a prospective adjustment.

Other than the concentration of the credit risk on trade, bills and other receivables, finance lease receivables, bank balances held on behalf of customers and bank deposits, bank balances and cash, the Group do not have any other significant concentration of credit risk.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity. Management monitors rolling forecasts of the Group's liquidity reserve, which comprise undrawn borrowing facilities and cash and cash equivalents on the basis of expected cash flows. The Group aims to maintain flexibility in funding by keeping a mix of committed and uncommitted credit lines available.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the agreed repayment terms or the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following tables also detail the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative financial instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial liabilities is prepared based on the contractual maturities as management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity and interest risk tables

	Weighted average effective interest rate %	On demand or less than 1 year RMB'000	1 - 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at December 31, 2018 RMB'000
2018						
Non-derivative financial liabilities						
Trade, bills and other payables	-	16,227,024	-	-	16,227,024	16,227,024
Accounts payable to brokerage clients of securities dealing business	-	48,911,748	-	-	48,911,748	48,911,748
Placement from banks and other financial institutions	1.06	3,528,275	-	-	3,528,275	3,510,000
Financial assets sold under repurchase agreements	7.13	66,399,018	-	-	66,399,018	61,897,016
Amounts due to related parties						
- non-interest bearing	-	62,651,908	-	-	62,651,908	62,651,908
- interest-bearing (fixed-rate)	5.30	2,041,170	4,070,382	97,976	6,209,528	5,895,940
- interest-bearing (variable-rate)	5.00	254,024	-	-	254,024	241,927
Amounts due to non-controlling shareholders of subsidiaries	4.65	-	-	481,486	481,486	390,658
Bank borrowings						
- fixed-rate	3.11	1,330,772	3,918,415	26,943	5,276,130	4,972,076
- variable-rate	1.69	35,844,037	37,848,624	1,529,516	75,222,177	72,630,436
Obligations under finance leases	4.04	287,995	330,008	-	618,003	577,076
Debentures	4.67	32,105,313	65,035,318	14,865,120	112,005,751	98,398,831
Short term finance bills payable	3.14	5,156,900	-	-	5,156,900	5,000,000
Notes	5.50	20,390,366	-	-	20,390,366	20,051,050
Financial liabilities held-for-trading	-	7,777,553	-	-	7,777,553	7,777,553
Financial liabilities designated at FVTPL	-	2,431,537	-	-	2,431,537	2,431,537
		305,337,640	111,202,747	17,001,041	433,541,428	411,573,780
Financial guarantee contracts	-	4,841,787	-	-	4,871,787	N/A
Derivatives - net settlement						
Interest rate swaps	-	392,849	-	-	392,849	392,849
Bond futures	-	1,655	-	-	1,655	1,655
Equity return swaps	-	19,477	-	-	19,477	19,477
Stock index futures	-	18	-	-	18	18
Options	-	166,537	-	-	166,537	166,537
Credit default swap	-	1,123	-	-	1,123	1,123
Commodity futures	-	446,322	-	-	446,322	446,316
Commodity swaps	-	264,023	-	-	264,023	264,023
Commodity	-	12,205	-	-	12,205	12,205
Forward contracts	-	4,100	-	-	4,100	4,106
		1,308,309	-	-	1,308,309	1,308,309

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

Liquidity and interest risk tables - continued

	Weighted average effective interest rate %	On demand or less than 1 year RMB'000	1 - 5 years RMB'000	Over 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount at December 31, 2017 RMB'000
2017 (restated)						
Non-derivative financial liabilities						
Trade, bills and other payables	-	22,510,583	-	-	22,510,583	22,510,583
Accounts payable to brokerage clients of securities dealing business	-	51,095,335	-	-	51,095,335	51,095,335
Placement from banks	6.04	1,471,653	-	-	1,471,653	1,470,000
Financial assets sold under repurchase agreements	0.30	33,407,975	-	-	33,407,975	33,382,970
Amounts due to related parties						
- non-interest bearing	-	43,321,079	-	-	43,321,079	43,321,079
- interest-bearing (fixed-rate)	4.13	9,134,553	52,175	-	9,186,728	8,820,000
- interest-bearing (variable-rate)	5.00	241,849	-	-	241,849	230,333
Amounts due to non-controlling shareholders of subsidiaries	4.65	-	-	458,366	458,366	371,899
Bank borrowings						
- fixed-rate	4.55	1,890,440	2,976,134	26,712	4,893,286	4,530,289
- variable-rate	2.17	30,425,106	33,831,471	1,890,335	66,146,912	63,182,984
Obligations under finance leases	4.68	217,981	391,702	-	609,683	566,052
Debentures	6.22	49,516,518	33,447,505	18,439,113	101,403,136	85,706,791
Notes	5.69	24,470,962	8,454,995	-	32,925,957	32,015,670
Financial liabilities held-for-trading	-	3,457,872	-	-	3,457,872	3,457,872
Financial liabilities designated at FVTPL	-	2,034,637	-	-	2,034,637	2,034,637
		273,196,543	79,153,982	20,814,526	373,165,051	352,696,494
Financial guarantee contracts	-	3,536,884	-	-	3,536,884	N/A
Derivatives - net settlement						
Interest rate swaps	-	112,576	-	-	112,576	112,576
Equity return swaps	-	3,665	-	-	3,665	3,665
Stock index futures	-	1,241	-	-	1,241	1,241
Options	-	363,915	-	-	363,915	363,915
Commodity futures	-	990,684	-	-	990,684	990,684
Forward contracts	-	116,909	-	-	116,909	116,909
		1,588,990	-	-	1,588,990	1,588,990

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements.

50. FINANCIAL INSTRUMENTS - continued

(b) Financial risk management objectives and policies - continued

Liquidity risk - continued

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee, which is a function of the likelihood that the financial receivables held by the counterparties which are guaranteed suffer any credit losses.

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial instruments are measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, management uses judgement in selecting an appropriate valuation technique for the financial instruments. Valuation techniques commonly used by the market practitioners are applied, which include reference to the fair value of another financial instrument that is substantially the same, discounted cash flow analysis and option pricing models.

When valuation techniques are used, observable inputs from the market are adopted. In cases where market observable inputs cannot be obtained, management estimates the inputs by calibrating market observable data as closely as possible, or uses inputs based on management's best estimates. The inputs used in the valuation techniques mainly include risk-free and benchmark interest rates, credit spreads and foreign exchange rates.

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2018			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets at FVTPL				
Mandatorily measured at FVTPL	7,781,532	91,665,377	29,447,359	128,894,268
Derivative financial instruments (not under hedge accounting)	488,766	664,509	-	1,153,275
	8,270,298	92,329,886	29,447,359	130,047,543
Equity instrument at FVTOCI	20,925	7,234,753	786,462	8,042,140
Debt instrument at FVTOCI	94,181	41,642,341	1,995,811	43,732,333
Financial Liabilities at FVTPL				
Designated at FVTPL	-	2,431,537	-	2,431,537
Held-for-trading	258,023	6,839,015	680,515	7,777,553
Derivative financial instruments (not under hedge accounting)	564,954	743,355	-	1,308,309
	822,977	10,013,907	680,515	11,517,399

	2017 (restated)			
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
AFS investments				
Equity securities	3,354,682	44,525	10,980,946	14,380,153
Debt securities	14,245,484	10,567,403	560,000	25,372,887
Funds	421,931	-	398,000	819,931
Others	-	8,453,528	3,674,393	12,127,921
	18,022,097	19,065,456	15,613,339	52,700,892
Financial assets at FVTPL				
Held-for-trading	19,454,140	51,704,222	39,768	71,198,130
Designated at FVTPL	-	287,153	1,861,226	2,148,379
Derivative financial instruments (not under hedge accounting)	503,410	521,569	-	1,024,979
	19,957,550	52,512,944	1,900,994	74,371,488
Financial liabilities at FVTPL				
Held-for-trading	3,127,072	330,800	-	3,457,872
Designated at FVTPL	-	2,034,637	-	2,034,637
Derivative financial instruments (not under hedge accounting)	1,052,283	536,707	-	1,588,990
	4,179,355	2,902,144	-	7,081,499

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	2018 RMB'000	2017 RMB'000 (restated)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Financial assets at FVTPL						
Debt securities						
- Traded on stock exchanges	2,024,410	4,721,302	Level 1	Quoted closing prices in an active market.	N/A	N/A
	536,057	-	Level 2	Based on the adjusted quoted price for the factor of discount for lack of marketability	Discount for lack of marketability.	The higher the discount, the lower the fair value.
	22,086,234	-	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.		
- Traded on inter-bank market	44,770,677	31,885,121	Level 2	Discounted cash flows with future cashflows that are estimated based on yield curves of different securities.	N/A	N/A
- Unlisted	51,056	-	Level 3	Discounted cash flows with future cashflows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	Credit risk spread.	The higher the credit risk spread, the lower the fair value.
	3,071,460	-	Level 3	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Net asset value or net fund asset value	The higher the net asset value, the higher the fair value.
	1,548,930	-	Level 3	Adjusted recent transaction prices.	Recent transaction price/liquidity discount	The higher the recent transaction price, the higher the fair value.
	164,697	-	Level 3	Adjusted recent transaction prices.	Recent transaction price	The higher the recent transaction price, the higher the fair value.
	22,002	-	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and coupon rates.	Liquidity discount	The higher the liquidity discount, the lower the fair value.
	34,689	-	Level 3	Determined with reference to market multiples, prices of listed securities in similar nature, volatilities and coupon rate of similar securities that are traded in a public market with an adjustment of discount for lack of marketability.	Discount for lack of marketability	The higher the discount rate, the lower the fair value.

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2018 RMB'000	2017 RMB'000 (restated)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Financial assets at FVTPL - continued						
Equity securities						
- Traded on stock exchanges	4,526,005	9,889,010	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Traded on National Securities Exchange and Quotation System	-	659,375	Level 1	Based on recent trading prices in an active market.	N/A	N/A
	402,179	-	Level 2	Bid prices made by market dealers.	N/A	N/A
	82,561	-	Level 3	Adjusted quoted prices.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
- Traded on stock exchanges (inactive)	112,661	-	Level 2	Adjusted quoted closing prices for stocks suspended for trading.	N/A	N/A
- Restricted shares traded on stock exchange	1,388,589	1,657,627	Level 2	Adjusted quoted prices.	N/A	N/A
- Unlisted	1,628,033	177,756	Level 3	Adjusted recent transaction prices.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
	6,698,605	-	Level 3	Based on Guideline Publicly Traded Company method, determined with reference to market multiples, share prices of listed enterprises in similar industries, volatilities and dividend yields of similar companies that are traded in a public market with an adjustment of discount for lack of marketability.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
	14,730,763	-	Level 3	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Net asset value or net fund asset value.	The higher the net asset value, the higher the fair value.
	472,207	-	Level 3	Discounted cash flows with future cash flows that are estimated based on contractual amounts and bond yield rates	Bond yield rate.	The higher the bond yield rate, the lower the fair value.
	145,473	256,112	Level 3	Based on net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
Funds						
- Listed	1,119,929	4,308,344	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Unlisted	20,085,715	16,662,778	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2018 RMB'000	2017 RMB'000 (restated)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Others						
- Wealth management and trust products and others	3,271,174	163,262	Level 1	Quoted closing prices in an active market.	N/A	N/A
	2,283,265	1,498,696	Level 2	Based on the net asset values of the investment, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	27,147	1,467,126	Level 3	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
	769,676	-	Level 3	Comparable companies analysis valuation.	Discount for lack of marketability.	The higher the discount, the lower the fair value.
AFS investments						
Debt securities						
- Traded on stock exchanges	-	14,245,484	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Traded on inter-bank market	-	10,567,403	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
- Unlisted	-	560,000	Level 3	Based on Guideline Publicly Traded Company method, determined with reference to market multiples, share prices of listed enterprises in similar industries, volatilities and dividend yields of similar companies that are traded in a public market with an adjustment of discount for lack of marketability.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
Equity investment						
- Traded on stock exchanges	-	3,064,802	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Traded National Securities Exchange and Quotation System	-	289,880	Level 1	Based on recent trading prices in an active market.	N/A	N/A
- Restricted share traded on National Securities Exchange and Quotation System	-	44,525	Level 2	Based on quoted market prices with an adjustment of discount for lack of marketability.	N/A	N/A
	-	10,980,946	Level 3	Adjusted recent transaction prices.	Recent transaction price.	The higher the recent transaction price, the higher the fair value.
- Unlisted	-	674,983	Level 3	Based on Guideline Publicly Traded Company method, determined with reference to market multiplies, share prices of listed enterprises in similar industries, volatilities and dividend yields of similar companies that re traded in a public market with an adjustment of discounts for back of marketability.	Discount factor for back of marketability.	The higher the discount factor, the lower the fair value.
	-	10,332,963	Level 3	Recent transaction prices	Recent transaction prices.	The higher the recent transaction prices, the higher the fair value.

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2018 RMB'000	2017 RMB'000 (restated)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Funds						
- Listed	-	421,931	Level 1	Quoted closing price is an active market	N/A	N/A
- Unlisted	-	398,000	Level 3	Based on Guideline Publicly Traded Company method, determined with reference to market multiplies, share prices of listed enterprises in similar industries, volatilities and dividend yields of similar companies that re traded in a public market with an adjustment of discounts for back of marketability.	Discount factor for back of marketability.	The higher the discount factor, the lower the fair value.
Others	-	8,453,528	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
	-	3,674,393	Level 2	Based on the net asset values of the investment, determined with reference to third party valuation of underlying investment portfolio and adjustments of related expenses.	Third party valuation of underlying investment portfolio.	The higher the third party valuation, the higher the fair value.
Debt instruments at FVTOCI						
- Trade on stock exchanges	20,790,141	-	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
- Trade on interbank market	22,942,192	-	Level 2	Discounted cash flows with future cash flows that are estimated based on yield curves of different securities.	N/A	N/A
Equity instruments at FVTOCI						
- Unlisted securities	1,298,608	-	Level 3	Based on Guideline Publicly Traded Company (the "GPTC") method whereas the key inputs to the valuation models include the market multiples, share prices, volatilities and dividend yields of similar companies that re traded in a public market, discount of lack of marketability with reference to the share prices of listed enterprises in similar industries.	N/A	N/A
- Listed securities	20,925	-	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Special accounts	6,722,607	-	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2018 RMB'000	2017 RMB'000 (restated)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Derivative financial instruments - assets						
- Interest rate swaps	394,434	112,806	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
- Equity return swaps	210,192	38,633	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
- Treasury bond futures (Note)	-	700	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Commodity swaps	10,486	262,359	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Commodity futures (Note)	446,665	469,952	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Options	42,101	32,758	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Over-the-counter options	7,722	102,822	Level 2	Option pricing model.	N/A	N/A
- Forward contracts	3,043	1,610	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
	-	3,339	Level 2	Measured at fair value based on brokers quoted price - market brokers' quoted price.	N/A	N/A
- Commodity	38,143	-	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Credit default swap	489	-	Level 2	Calcuated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	N/A	N/A

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2018 RMB'000	2017 RMB'000 (restated)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Derivative financial instruments - liabilities						
- Interest rate swaps	392,849	112,576	Level 2	Discounted cash flows. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the Reporting Period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
- Equity return swaps	19,477	3,665	Level 2	Calculated based on the difference between the equity return of underlying equity securities based on stock index and quoted prices from stock exchanges in the PRC and the fixed income agreed in the swap agreements between the Company and the counterparty.	N/A	N/A
- Stock index futures (Note)	17	1,241	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Treasury bond futures (Note)	1,655	-	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Commodity swaps	264,024	-	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Commodity futures (Note)	446,316	990,684	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Options	116,966	60,358	Level 1	Quoted closing prices in an active market.	N/A	N/A
- Over-the-counter options	49,571	303,557	Level 2	Option pricing model.	N/A	N/A
- Forward contracts	1,482	112,829	Level 2	Discounted cash flows with future cash flows that are estimated based on future rates and contractual rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A
	2,624	4,080	Level 2	Measured at fair value based on brokers quoted price-Market brokers' quoted price.	N/A	N/A
- Commodity	12,205	-	Level 2	Calculated based on the difference between the underlying commodity market price and the reference price agreed by the counterparty.	N/A	N/A
- Credit default swaps	1,123	-	Level 2	Calculated based on the difference between discounted cash flows with future cash flows that are estimated based on unsecured rates and secured rates.	N/A	N/A

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis - continued

	2018 RMB'000	2017 RMB'000 (restated)	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs	Relationship of unobservable input to fair value
Financial liabilities at FVTPL						
- Designated at FVTPL	2,431,537	2,034,637	Level 2	Based on the net asset values of the funds, determined with reference to observable (quoted) prices of underlying investment portfolio and adjustments of related expenses.	N/A	N/A
- Financial liabilities held-for-trading	258,023	3,127,072	Level 1	Quoted closing prices in an active market.	N/A	N/A
	6,839,015	330,800	Level 2	Discounted cash flows with future cash flows, that are estimated based on yield curves of different securities.	N/A	N/A
	680,515	-	Level 3	Discounted cash flows with future cashflows that are estimated based on contractual amounts and coupon rates, discounted at a rate that reflects the credit risk of counterparty.	N/A	N/A

Note: Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in the PRC stock index futures, treasury bond futures and commodity futures contracts were settled daily and the corresponding receipts and payments were included in "clearing settlement funds". Accordingly, the net onshore position of these contracts was nil at the year-end date.

(ii) Reconciliation of Level 3 fair value measurements

	2018				
	Financial assets at FVTPL RMB'000	Equity instruments at FVTOCI RMB'000	Debt instruments at FVTOCI RMB'000	Financial liabilities at FVTPL RMB'000	Total RMB'000
As at January 1, 2018, as previously reported	1,900,994	-	-	-	1,900,994
Effect of initial application of HKFRS 9	1,515,045	-	-	-	1,515,045
As at January 1, 2018, as restated	3,416,039	-	-	-	3,416,039
Net gains for the year recognised in profit or loss	691,399	-	-	-	691,399
Purchases	32,466,567	786,462	1,995,811	(680,515)	34,568,325
Sales and settlements	(7,049,979)	-	-	-	(7,049,979)
Unrealised fair value loss recognised in profit or loss	(63,200)	-	-	-	(63,200)
Transfers into level 3	23,137	-	-	-	23,137
Transfer at of level 3	(18,204)	-	-	-	(18,204)
Exchange adjustments	(18,400)	-	-	-	(18,400)
As at December 31, 2018	29,447,359	786,462	1,995,811	(680,515)	31,549,117

50. FINANCIAL INSTRUMENTS - continued

(c) Fair value measurements of financial instruments - continued

(ii) Reconciliation of Level 3 fair value measurements - continued

	2017 (restated)		
	AFS investments RMB'000	Financial assets at FVTPL RMB'000	Total RMB'000
As at January 1, 2017	517,517	1,163,318	1,680,835
Business combination under common control	5,798,057	-	5,798,057
As at 1 January 2017, as restated	6,135,574	1,163,318	7,478,892
Net gains for the year recognised in profit or loss	-	48,941	48,941
Changes in fair value recognised in other comprehensive income	5,167,174	-	5,167,174
Fair value adjustments on acquisition of subsidiaries	5,506	-	5,506
Purchases	4,138,415	5,130,154	9,268,569
Sales and settlements	-	(4,441,419)	(4,441,419)
Exchange adjustments	(13,330)	-	(13,330)
As at December 31, 2017	15,613,339	1,900,994	17,514,333

(iii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of the reporting period.

51. TRANSFERS OF FINANCIAL ASSETS

Financial assets held under repurchase agreements

As set out in note 38, the Group entered into repurchase agreements with certain counterparties to sell Group's securities and interests in margin loans and the proceeds are presented as financial assets sold under repurchase agreements. In accordance with the terms of the repurchase agreements, the legal title of those securities and interests in margin loans are not transferred to the counterparties during the year and both parties simultaneously agree to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group are still exposed to substantially all the credit risks, market risks and rewards of those securities and rights and interests in margin loans sold. These securities and margin loans are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retain substantially all the risks and rewards of these securities and rights and interest in margin loans.

51. TRANSFERS OF FINANCIAL ASSETS - continued

Financial assets held under repurchase agreements - continued

The summary of the carrying amounts and fair values related to the transferred financial assets and the carrying amounts of the associated liabilities is as follows:

As at December 31, 2018

	Debt instruments at amortised costs RMB'000	Financial assets at FVTPL RMB'000	Debt instrument at FVTOCI RMB'000	Securities held under securities borrowing agreements RMB'000	Others RMB'000	Total RMB'000
Carrying amount of transferred assets	930,185	32,208,680	22,850,421	6,870,858	158,609	63,018,753
Carrying amount of associated liabilities	(921,864)	(31,629,612)	(22,439,602)	(6,747,329)	(158,609)	(61,897,016)
Net position	8,321	579,068	410,819	123,529	-	1,121,737

As at December 31, 2017

	AFS investments RMB'000	Financial assets at FVTPL RMB'000	Securities held under securities borrowing agreements RMB'000	Total RMB'000
Carrying amount of transferred assets	9,872,519	12,619,277	13,759,245	36,251,041
Carrying amount of associated liabilities	(9,092,221)	(11,620,503)	(12,670,246)	(33,382,970)
Net position	780,298	998,774	1,088,999	2,868,071

Securities lending arrangements

As set out in note 18, the Group lends securities classified as financial assets held at FVTPL with carrying amounts of RMB357,730,000 (2017: RMB304,291,000) to clients under securities lending arrangements, which are secured by the client's securities and deposits held as collaterals. As stipulated in the securities lending agreements, the legal ownership of these securities is transferred to the clients. Although the clients are allowed to sell these securities during the covered period, they have obligations to return these securities to the Group at specified future dates. The Group have determined that it retains substantially all the risks and rewards of these securities and therefore have not derecognised these securities in the consolidated financial statements.

51. TRANSFERS OF FINANCIAL ASSETS - continued

Securities borrowing arrangements

The Group borrows securities from banks through interbank securities markets that are platforms for transactions of financial assets sold under repurchase agreements and securities short-selling, and simultaneously offers debt securities classified as financial assets at FVTPL, debt instruments at FVTOCI and debt instruments at amortised costs (2017: AFS investments and financial assets at FVTPL) as collaterals to the counterparties. As the Group has the obligations to return those borrowed securities to the banks at specified future dates upon expiry of the period of borrowing, the securities held by the Group are not recognised as assets in the consolidated statement of financial position.

As at December 31, 2018, the Group borrowed treasury bonds, local government bonds and policy bank debt with fair values of RMB4,988,382,000 (2017: RMB5,840,960,000), RMB514,808,000 (2017: RMB7,401,674,000) and RMB9,458,056,000 (2017: RMB762,388,000), respectively, from banks through interbank securities markets trading platforms for the purpose of selling financial assets under repurchase agreements as disclosed in note 38.

The securities borrowing transactions as at December 31, 2018 are due before May 16, 2019 (2017: June 29, 2018).

As at December 31, 2018 and 2017, securities of the Group pledged for the securities borrowing arrangements comprise corporate bonds that are classified as follows:

	2018 RMB'000	2017 RMB'000
AFS investments	-	4,194,748
Financial assets at FVTPL	6,190,055	7,835,104
Debts instruments at FVTOCI	5,982,207	-
Debts instruments at amortised cost	80,527	-
	12,252,789	12,029,852

Asset-backed securities

The Group enters into securitisation transactions in the normal course of business by which it transfers credit assets to special purpose trusts which in turn issue asset-backed securities to investors. As the underlying assets, the finance lease receivables did not meet the criteria of derecognition, the Group did not derecognise such finance lease receivables, and the consideration received was treated as financial liabilities. As at December 31, 2018, the carrying amount of such transferred but not derecognised finance lease receivables amounted to RMB1,985 million (2017: nil), the carrying amount of the corresponding financial liabilities which are recognised as bonds and notes issued amounted to RMB1,711 million (2017: nil).

52. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000 (restated)
Land and buildings		
Within one year	648,798	639,415
In the second to fifth year inclusive	1,164,303	1,032,149
Over five years	1,525,260	1,544,789
	3,338,361	3,216,353
Plant and equipment		
Within one year	1,363	4,189
In the second to fifth year inclusive	1,066	1,856
	2,429	6,045
	3,340,790	3,222,398

Operating lease payments represent rentals payable by the Group for land and for port-operating office premises, warehouse, staff quarters and equipment. Leases are negotiated for terms of one to thirty-five years (2017: one to thirty-five years), and rentals are fixed.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018 RMB'000	2017 RMB'000
Land and buildings		
Within one year	241,058	152,138
In the second to fifth year inclusive	437,182	379,285
Over five years	259,125	157,386
	937,365	688,809
Plant and equipment		
Within one year	319,369	89,070
In the second to fifth year inclusive	815,267	405,526
Over five years	-	76,319
	1,134,636	570,915
	2,072,001	1,259,724

Operating lease income represent rentals received and receivable by the Group for the Group's investment properties including land and office premises, warehouse and staff quarters and plant and equipment. Leases are negotiated for terms of one to fifteen years (2017: one to ten years).

53. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
- investments in subsidiaries, joint ventures and associates	291,455	6,460,500
- acquisition of property, plant and equipment and intangible assets	5,063,914	2,967,307
- acquisition of port projects	4,250,287	5,015
	9,605,656	9,432,822

54. CONTINGENT LIABILITIES

At the end of the reporting period, the Group had the following significant contingent liabilities:

	2018 RMB'000	2017 RMB'000
Financial guarantees given to banks in respect of banking facilities granted to:		
- fellow subsidiaries	4,723,157	3,314,703
- associates (Note i)	118,630	197,830
- joint venture	-	24,351
Potential litigation claims (Note ii)	323,559	-
	5,165,346	3,536,884

Note:

(i) As at December 31, 2018, the other shareholder of an associate of which a non-wholly owned subsidiary of the Company held as to 49% of its issued share capital provided corporate guarantees to the full amount for certain loan facilities granted by banks to and other obligations borne by the relevant associate. A counter indemnity in favour of the other shareholder of the associate is executed pursuant to which a non-wholly owned subsidiary of the Company undertakes to indemnify the other shareholder 49% of the liabilities in the aggregate amount of approximately RMB95 million (2017: RMB110 million) arising from the above loan facilities and other obligations.

In addition to the above amounts, the Group also provides guarantees for banking facilities granted to and other obligations borne by associates of the Group. The total amount guaranteed by the Group is approximately RMB343 million (2017: RMB327 million) and the aggregate amount utilised by the relevant associates amounted to approximately RMB24 million (2017: RMB54 million).

The directors of the Company assessed the risk of default of the associate in serving the aforesaid loan facilities and other obligations at the end of the reporting period and considered the risk to be insignificant and it is not likely that any guaranteed amount will be claimed.

54. CONTINGENT LIABILITIES - continued

(ii) As at December 31, 2018, TCP Group has significant contingent liabilities arising from pending legal proceedings in Brasil in respect of disputes with local tax authorities, employees or former employees of TCP Group and other parties, amounting to RMB324 million (2017: nil), which, based on the latest estimates of the management of the Group, is not probable that outflows of resources embodying economic benefits will be required to settle these obligations. Accordingly, no provision for litigation claims in respect of the above cases has been made in the consolidated financial statements. A counter indemnity in favour of the Group is executed by the Selling Shareholders pursuant to which the latter indemnify to the Group for the above contingent liabilities for and up to predetermined amounts and specified length of time.

55. PLEDGE OF ASSETS

Certain of the Group's borrowings are secured by assets of the Group, the carrying amounts of assets pledged at the end of the reporting period are:

	2018 RMB'000	2017 RMB'000
Investment properties	745,384	768,928
Property, plant and equipment	5,868,686	756,383
Land use rights	161,408	164,784
	6,775,478	1,690,095

At December 31, 2018 and 2017, the entire shareholdings in certain subsidiaries owned by the Group are also pledged to various banks for bank facilities granted to those subsidiaries.

56. SHARE-BASED PAYMENT TRANSACTIONS

A subsidiary of the Company, CMPH, which is listed on The Stock Exchange of Hong Kong Limited, has adopted a share option scheme for the purpose of providing CMPH with flexible means of incentivising, rewarding, remunerating, compensating and/or providing benefits to employees and directors of CMPH, its subsidiaries and associates, as well as employees and directors of the Company.

The existing share option scheme was approved by the shareholders' resolutions of the Company and adopted on December 9, 2011 (the "New Scheme"), under which the Company's directors may, at their discretion, grant to any director or employee of the Company, the intermediate holding company of the Company or any of its subsidiaries or associates at a price of not less than the higher of (i) the closing price of shares as stated in the daily quotation sheet of the HKSE on the date of the offer of grant; and (ii) the average closing price of shares as stated in the daily quotation sheets of the HKSE for the five trading days immediately preceding the date of the offer of grant. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the old scheme and any other share option schemes adopted must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The New Scheme is valid and effective for a period of 10 years.

56. SHARE-BASED PAYMENT TRANSACTIONS - continued

Upon termination of the old scheme on December 9, 2011, no further options will be granted thereunder. However, the rules of the old scheme will remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior to its termination, or otherwise to the extent as may be required in accordance with the rules of the old scheme. All options granted under the old scheme prior to its termination will continue to be valid and exercisable in accordance with the rules of the old scheme. The terms of the New Scheme and the old scheme are generally similar.

No share options have been granted under the New Scheme since its adoption nor outstanding during the year upon the expiry of the old scheme.

57. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Borrowings RMB'000	Interest payable RMB'000	Amounts due to group companies RMB'000	Amounts due to associates RMB'000	Amounts due to joint ventures RMB'000	Amount due to non-controlling interests of subsidiaries RMB'000	Dividend payable to non-controlling interests of subsidiaries RMB'000	Total RMB'000
At January 1, 2017	140,093,220	3,074,947	36,247,992	93,258	65,223	392,931	37,686	180,005,257
Effect of business combination under common control	-	1,008	-	-	-	-	-	1,008
At January 1, 2017 (restated)	140,093,220	3,075,955	36,247,992	93,258	65,223	392,931	37,686	180,006,265
Financing cash flows	47,980,002	(3,073,120)	7,204,094	230,333	3,362	(21,032)	(3,648,009)	48,675,630
Non-cash changes								
Exchange realignment	(2,345,657)	-	-	-	-	-	-	(2,345,657)
Finance cost	24,221	2,194,382	-	-	-	-	-	2,218,603
Arising from acquisition of subsidiaries	250,000	-	-	-	-	-	-	250,000
Interest capitalised	-	307,544	-	-	-	-	-	307,544
Declaration of dividends	-	-	-	-	-	-	4,409,760	4,409,760
At December 31, 2017 (restated)	186,001,786	2,504,761	43,452,086	323,591	68,585	371,899	799,437	233,522,145
Financing cash flows	10,268,981	(3,553,843)	14,041,080	172,521	(51,821)	18,759	(3,557,896)	17,337,781
Non-cash changes								
Exchange realignment	3,117,924	-	-	-	-	-	-	3,117,924
Finance cost	35,990	3,898,917	-	-	-	-	-	3,934,907
Arising from acquisition of subsidiaries	2,204,789	-	-	-	-	-	-	2,204,789
Interest capitalised	-	222,316	-	-	-	-	-	222,316
Reclassification	-	(2,267,236)	-	-	-	-	-	(2,267,236)
Declaration of dividends	-	-	-	-	-	-	3,418,353	3,418,353
At December 31, 2018	201,629,470	804,915	57,493,166	496,112	16,764	390,658	659,894	261,490,979

58. MAJOR NON-CASH TRANSACTION

During the year ended December 31, 2017, CMID redeemed PCS issued to CMU with an aggregate principal amount of US$640,021,000 (equivalent to RMB3,725,195,000) which was settled by 163,918,012 ordinary shares of CMPH.

59. SIGNIFICANT RELATED PARTY DISCLOSURES

(a) Related party transactions

Other than disclosed elsewhere in the consolidated financial statements, the Group entered into the following transactions with related parties during the year:

Related party	Nature of transaction	2018 RMB'000	2017 RMB'000 (restated)
Ultimate holding company	Interest income	-	2,212
	Interest expense	552,308	16,254
	Trading income	423	10,305
	Service fee income	10,728	2,562
Immediate holding company	Interest expense	56,310	8,247
	Trading expense	5,063	-
Fellow subsidiaries	Rental income	25,506	26,140
	Rental expense	102,320	17,510
	Interest income	73,798	41,250
	Interest expense	93,166	227,099
	Port income	64,846	17,112
	Port services expenses	8,448	2,171
	Logistics income	9,935	930,572
	Logistics services expenses	3,766	460,195
	Management fee expense	69,773	134,277
	Management fee income	6,724	1,319
	Trading income	665,241	2,127,982
	Trading expense	26	5,562
	Construction income	569,589	-
	Construction expense	12,347	-
	Service fee income	39,014	-
Associates	Rental income	3,506	-
	Rental expense	81,670	-
	Commission income	90,185	74,634
	Interest income	2,633	-
	Interest expense	24,719	-
	Construction income	1,377,648	-
	Port services income	32,783	-
	Port service expenses	1,080	-
Joint ventures	Service fee income	5,226	2,666
	Interest income	34,488	-
	Trading income	1,378	5,744
	Port income	127,620	-
	Port services expense	15,359	-
CMB (Note)	Interest income	430,992	609,942
	Interest expense	173,440	85,047
	Dividend income	2,813,944	2,760,074
	Commission income	194,292	289,678
	Commission expense	-	90,721
	Rental income	4,627	403
	Service fee expense	443,602	15,378
	Rental expense	8,345	5,826
	Management fee expense	7,164	-

Note: In June 2017, CMB was reclassified from an AFS investment to an associate of the Group. Further details are set out in note 16(ii).

59. SIGNIFICANT RELATED PARTY DISCLOSURES - continued

(b) Related party balances

Other than disclosed elsewhere in the consolidated financial statements, the Group had the following material balances with CMB an associate of the Group:

Related party	Nature of transaction	2018 RMB'000	2017 RMB'000
CMB	Bank deposits placed	16,836,563	21,145,108
	Structured bank deposits placed	116,300	24,370
	Placements from banks received	1,500,625	-
	Bank borrowings granted	5,997,548	2,906,125

(c) Contingent liabilities

Details of contingent liabilities in respect of guarantees given to related companies are set out in note 54.

(d) Compensation of key management personnel

The remuneration of directors of the Company, being the key management personnel of the Group, during the year was as follows:

	2018 RMB'000	2017 RMB'000
Short-term benefits	14,230	13,415
Post-employment benefits	2,640	2,485
	16,870	15,900

(e) Transactions/balances with government-related entities in the PRC

The Group itself is part of a larger group of companies under CMG which is controlled by the PRC government. Thus, the directors of the Company consider that the Group is ultimately controlled by the PRC government. In addition, the Group operates in an economic environment currently predenominated by entities controlled, jointly controlled or significantly influenced by the PRC government (the "PRC government-related entities"). Apart from the transactions with related parties set out in (a) to (d) above, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business. The Group's restricted bank deposits, bank deposits and bank borrowings are entered into with certain banks which are PRC government-related entities in its ordinary course of business. In addition, the Group entered into various transactions, including purchases of land use rights, construction of properties and other operating expenses with other PRC government-related entities in the ordinary course of business. In view of the nature of those transactions, the directors of the Company are of the opinion that separate disclosures would not be meaningful.

60. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at December 31, 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2018	2017	2018	2017	
Best Winner Investment Limited	BVI	-	-	100%	100%	Securities trading
China Merchants Aluminium Manufacturing (Chongqing) Limited 招商局鋁業(重慶)有限公司	The PRC	-	-	100%	100%	Manufacturing of aluminium and related products
China Merchants Capital Investment Co., Ltd (Note iii)	The PRC	-	-	100%	100%	Private equity
China Merchants Finance Holdings Company Limited 招商局金融集團有限公司	Hong Kong	100%	100%	-	-	Investment holding in companies carrying on insurance brokerage, security brokerage, fund investment and asset management businesses
China Merchants Heavy Industrial (Jiang Su) Co., Ltd 招商局重工(江蘇)有限公司	The PRC	-	-	100%	100%	Manufacturing of offshore platforms and ships and provision of ship repairs services
China Merchants Hoi Tung Trading Company Limited 招商局海通貿易有限公司	Hong Kong	100%	100%	-	-	Trading of marine machineries, accessories and food products
China Merchants Industry Holdings Company Limited 招商局工業集團有限公司	Hong Kong	100%	100%	-	-	Investment holding in companies carrying on offshore platforms and ship manufacturing and repairs businesses
China Merchants International Finance Company Limited 招商局國際財務有限公司	Hong Kong	100%	100%	-	-	Provision of finance and treasury services to group companies
China Merchants Investment Development Company Limited 招商局投資發展有限公司	BVI	100%	100%	-	-	Investment holding
China Merchants Port Holdings Company Limited 招商局港口控股有限公司 (Listed in Hong Kong) (Note i)	Hong Kong	-	-	42.76%	45.31%	Ports operation, bonded logistics operation and property investment
China Merchants Securities Co. Ltd. ("CMS") 招商証券股份有限公司 (Listed in Hong Kong and A shares listed in the PRC) (Note i)	The PRC	-	-	44.09%	41.50%	Securities dealing
Guangdong Yide Port Limited 廣東頤德港口有限公司 (Note ii)	The PRC	-	-	51%	51%	Port operations
Hambantota International Port Group (Private) Limited (Note ii)	Republic of Sri Lanka	-	-	85%	85%	Port development, management and operation

60. PRINCIPAL SUBSIDIARIES - continued

Name of subsidiary	Place of incorporation/ establishment	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2018	2017	2018	2017	
深圳市招商平安資產管理有限責任公司 (Note ii)	The PRC	-	-	51%	51%	Provision of asset management service
招商局仁和人壽保險股份有限公司 (Notes i and ii)	The PRC	-	-	20%	20%	Provision of insurance service
Lomé Container Terminal S.A. (Notes i and ii)	Togolese Republic	-	-	35%	35%	Provision of container terminal services
Mega Shekou Container Terminals Limited (Note ii)	BVI	-	-	80%	80%	Investment holding
Shekou Container Terminals Ltd. 蛇口集裝箱碼頭有限公司 (Note ii)	The PRC	-	-	80%	80%	Operation of berths No. 1 and 2 in Shekou, the PRC
Shekou Container Terminals (Phase II) Company Limited 深圳聯運捷集裝箱碼頭有限公司 (Note ii)	The PRC	-	-	80%	80%	Operation of berths No. 3 and 4 in Shekou, the PRC
Shekou Container Terminals (Phase III) Company Limited 安迅捷集裝箱碼頭(深圳)有限公司 (Note ii)	The PRC	-	-	80%	80%	Operation of berth No. 5 to No. 9 in Shekou, the PRC
Shenzhen China Merchants Qianhaiwan Property Company Limited 深圳市招商前海灣置業有限公司 (Note ii)	The PRC	-	-	100%	100%	Property holding
Shenzhen Jinyu Rongtai Investment Development Company Limited 深圳金域融泰投資發展有限公司 (Note ii)	The PRC	-	-	100%	100%	Property holding
China Merchants Port Group Co., Ltd. ("CMPG") 招商局港口集團股份有限公司 (formerly known as Shenzhen Chiwan Wharf Holdings Limited 前稱深圳赤灣港航股份有限公司) (A and B shares listed in the PRC) (Notes i and ii)	The PRC	-	-	79.69%	45.66%	Ports operations
Shenzhen Haixing Harbour Development Company Ltd. 深圳海星港口發展有限公司 (Note ii)	The PRC	-	-	67%	67%	Provision of container terminal services
Shenzhen Mawan Port Service Co., Ltd. 深圳媽灣港務有限公司 (Note ii)	The PRC	-	-	70.00%	83.70%	Operation of berth No. 5 in Mawan, Shenzhen, the PRC
Shenzhen Mawan Terminals Co., Ltd. 深圳媽灣倉碼有限公司 (Note ii)	The PRC	-	-	70.00%	83.70%	Operation of berths No. 6 and 7 in Mawan, Shenzhen, the PRC
Shenzhen Mawan Wharf Co., Ltd. 深圳媽灣港航有限公司 (Note ii)	The PRC	-	-	70.00%	83.70%	Operation of berth No. 0 in Mawan, Shenzhen, the PRC
Yiu Lian Dockyards Limited 友聯船廠有限公司	Hong Kong	-	-	100%	100%	Provision of ship repairs services
Zhangzhou China Merchants Port Co., Limited 漳州招商局碼頭有限公司 (Note ii)	The PRC	-	-	60%	60%	Operation of berths No. 3 to No. 6 in the Zhangzhou Economic Development Zone, Fujian Province, the PRC

60. PRINCIPAL SUBSIDIARIES - continued

Notes:

(i) These entities are considered to be subsidiaries of the Company despite the fact that the Group holds less than half of the equity interest therein as the Group (1) is entitled to exercise the management rights and has the power to direct the voting rights of more than half of the total issued share capital of the entity by virtue of agreements with other investors, and/or (2) has control over the board of directors of the relevant entities.

(ii) These entities are held through certain non-wholly owned subsidiaries of the Company.

(iii) The entity under common control is transferred from the immediate holding company to the Group during the year as set out in note 3.

The above table only lists the subsidiaries of the Company which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

61. PRINCIPAL ASSOCIATES

Details of the Group's principal associates at December 31, 2018 and 2017 are as follows:

Name of associate	Place of incorporation/ establishment and operation	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2018	2017	2018	2017	
Asia Airfreight Terminal Company Limited 亞洲空運中心有限公司 (Note i)	Hong Kong	-	-	20%	20%	Airfreight services
Bosera Asset Management Co., Ltd. 博時基金管理有限公司 (Note i)	The PRC	-	-	49%	49%	Fund investment
China Merchants Bank Co., Ltd 招商銀行股份有限公司 (Note ii) (Listed in Hong Kong and A shares listed in the PRC)	The PRC	-	-	14.81%	14.81%	Provision of corporate and personal banking services conducting treasury business, provision of asset management and other financial services.
China International Marine Containers (Group) Co., Ltd. 中國國際海運集裝箱(集團)股份有限公司 (Listed in Hong Kong and B shares listed in the PRC)	The PRC	-	-	24.58%	24.56%	Design, manufacture and sales of dry freight containers and refrigerated containers, road transportation vehicle, energy, chemical and food equipment and offshore engineering
China Merchants China Direct Investments Company Limited 招商局中國基金有限公司 (Listed in Hong Kong)	Hong Kong	-	-	27.59%	27.59%	Fund investment
China Merchants Fund Management Co., Ltd. 招商基金管理有限公司 (Note i)	The PRC	-	-	45%	45%	Fund investment
China Merchants Zhangzhou Economic Development Zone Ltd. 招商局漳州開發區有限公司	The PRC	-	30%	-	-	Investment holding, property and infrastructure development, provision of utility and transportation services
China Nanshan Development (Group) Incorporation 中國南山開發(集團)股份有限公司 (Note i)	The PRC	-	-	37.01%	37.01%	Investment holding

61. PRINCIPAL ASSOCIATES - continued

Name of associate	Place of incorporation/ establishment and operation	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
		Directly		Indirectly		
		2018	2017	2018	2017	
Dalian Port (PDA) Company Limited 大連港股份有限公司 (Listed in Hong Kong and A shares listed in the PRC) (Note i)	The PRC	-	-	21.05%	21.05%	Provision of terminal business and logistic service
Modern Terminals Limited 現代貨箱碼頭有限公司 (Note i)	Hong Kong	-	-	27.01%	27.01%	Provision of container terminal services and warehouse services
Port de Djibouti S.A. (Note i)	Republic of Djibouti	-	-	23.50%	23.50%	Operations of seaports and terminals and port related business in Djibouti
Shanghai International Port (Group) Co., Ltd. 上海國際港務(集團)股份有限公司 (A shares listed in the PRC) (Note i)	The PRC	-	-	26.77%	26.45%	Port and container terminal business and related services
Terminal Link SAS (Note i)	French Republic	-	-	49%	49%	Operations of container terminals in Europe, Mediterranean Basil, Africa, Americas and Asia
Tin-Can Island Container Terminal Ltd. (Note i)	Federal Republic of Nigeria	-	-	28.50%	28.50%	Provision of container terminal services

Notes:

(i) These entities are held through certain non-wholly owned subsidiaries of the Company.
(ii) The entity had been accounted for as an associate of the Group since July 2017 as set out in note 16(ii).

The above table only lists the associates of the Group which, in the opinion of the directors of the Company, principally affect the results or form a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors of the Company, result in particulars of excessive length.

62. PRINCIPAL JOINT VENTURES

Details of the Group's principal joint ventures at December 31, 2018 and 2017 are as follows:

Name of joint venture	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
	Directly		Indirectly		
	2018	2017	2018	2017	
China Merchants Union (BVI) Limited	50%	50%	-	-	Investment holding
PONI Corporate Trust Group	-	-	50%	-	Management of port operation and port development
PONI Property Trust Group	-	-	50%	-	Provision of finance of port operation and property development

62. PRINCIPAL JOINT VENTURES - continued

Name of joint venture	Proportion of ownership interests held by the relevant entities of the Group				Principal activities
	Directly		Indirectly		
	2018	2017	2018	2017	
Euro-Asia Oceangate S.ar.l (Note)	-	-	40%	40%	Ports and container terminal business
Ningbo Daxie China Merchants International Terminals Co., Ltd. 寧波大榭招商國際碼頭有限公司 (Note)	-	-	45%	45%	Ports and container terminal business
Qingdao Port Dongjiakon Ore Terminal Co., Ltd. 青島港董家口礦石碼頭有限公司 (Note)	-	-	25%	25%	Ports and bulk cargo terminal business
Qingdao Qianwan United Container Terminal Co., Ltd. 青島前灣聯合集裝箱碼頭有限責任公司 (Note)	-	-	50%	50%	Ports and container terminal business
Qingdao Qianwan West Port United Terminal Co., Ltd. 青島前灣西港聯合碼頭有限責任公司 (Note)	-	-	49%	49%	Ports and bulk cargo terminal business
Zhanjiang Port (Group) Co., Ltd. 湛江港(集團)股份有限公司 (Note)	-	-	40.29%	40.29%	Ports and container terminal business

Note: These entities are held through certain non-wholly owned subsidiaries of the Company.

The above table only lists the joint ventures of the Group which, in the opinion of the directors of the Company, principally affect the results or form a substantial portion of the net assets of the Group. To give details of other joint ventures would, in the opinion of the directors of the Company, result in particulars of excessive length.

63. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

Name of subsidiary	Proportion of voting rights/ ownership interests held by non-controlling interests		Profit (loss) attributable to non-controlling interests		Accumulated non-controlling interests	
	2018	2017	2018 RMB'000	2017 RMB'000 (restated)	2018 RMB'000	2017 RMB'000 (restated)
CMS (Note i)	55.91%/55.91%	58.50%/58.50%	2,866,510	3,673,705	51,841,737	52,719,774
CMPH (Note ii)	N/A	38.28%/54.69%	N/A	3,213,721	N/A	45,037,083
CMPG (Note ii)	20.31%/20.31%	N/A	1,618,295	N/A	44,271,250	N/A
Individually immaterial subsidiaries with non-controlling interests			(229,614)	133,360	13,151,046	8,339,857
Total			4,255,191	7,020,786	109,264,033	106,096,714

63. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

Notes:

(i) As explained in Note (vi) to the consolidated statement of changes in equity, the Group acquired its equity interest in CMS by 2.59% from the non-controlling shareholder.

(ii) As explained in Note (v) to the consolidated statement of changes in equity, before the Reorganisation and as at December 31, 2017, CMPG was a non-wholly owned subsidiary of CMPH that financial information of CMPG has been consolidated in CMPH.

After the Reorganisation and as at December 31, 2018, CMPH became a non-wholly owned subsidiary of CMPG that the financial information of CMPH has been consolidated in CMPG.

Summarised financial information in respect of subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	CMS	
	2018	2017
	RMB'000	RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	18,060,189	19,345,697
Other income and gains, net	926,832	758,678
Expenses and taxation	(14,540,759)	(14,299,666)
Profit for the year	4,446,262	5,804,709
Other comprehensive income	186,911	476,241
Total comprehensive income for the year	4,633,173	6,280,950
Profit for the year, attributable to:		
Equity holders of the Company	1,579,752	2,131,004
Non-controlling interests of the Group	2,866,510	3,673,705
	4,446,262	5,804,709
Total comprehensive income for the year, attributable to:		
Equity holders of the Company	1,662,162	2,328,865
Non-controlling interests of the Group	2,971,011	3,952,085
	4,633,173	6,280,950
Dividends paid to non-controlling interests of the Group	2,105,427	1,208,728

63. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

	CMS	
	2018	2017
	RMB'000	RMB'000
Financial information of consolidated statement of financial position		
Non-current assets	61,675,950	27,048,586
Current assets	243,254,755	258,594,969
Current liabilities	(186,132,561)	(176,365,849)
Non-current liabilities	(38,005,790)	(29,944,002)
	80,792,354	79,333,704
Equity attributable to:		
Equity holders of the Company	28,950,617	26,613,930
Non-controlling interests of the Group	51,841,737	52,719,774
	80,792,354	79,333,704
Financial information of consolidated statement of cash flows		
Net cash inflow (outflow) from operating activities	34,165,708	(27,311,295)
Net cash outflow from investing activities	(18,268,029)	(7,631,703)
Net cash (outflow) inflow from financing activities	(21,082,665)	36,659,731
Net cash inflow	(5,184,986)	1,716,733

63. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

	CMPG	
	2018	2017
	RMB'000	RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	9,703,395	N/A
Other income and gains, net	4,024,008	N/A
Expenses and taxation	(10,841,488)	N/A
Profit for the year	2,885,915	N/A
Other comprehensive income	204,603	N/A
Total comprehensive income for the year	3,090,518	N/A
Profit for the year, attributable to:		
Equity holders of the Company	1,267,620	N/A
Non-controlling interests of the Group	1,618,295	N/A
	2,885,915	N/A
Total comprehensive income for the year, attributable to:		
Equity holders of the Company	1,958,321	N/A
Non-controlling interests of the Group	1,132,197	N/A
	3,090,518	N/A
Dividends paid to non-controlling interests of the Group	1,312,926	N/A

63. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

	CMPG	
	2018	2017
	RMB'000	RMB'000
Financial information of consolidated statement of financial position		
Non-current assets	117,483,628	N/A
Current assets	10,534,457	N/A
Current liabilities	(9,910,429)	N/A
Non-current liabilities	(37,690,729)	N/A
	80,416,927	N/A
Equity attributable to:		
Equity holders of the Company	36,145,677	N/A
Non-controlling interests of the Group	44,271,250	N/A
	80,416,927	N/A
Financial information of consolidated statement of cash flows		
Net cash inflow from operating activities	4,288,575	N/A
Net cash outflow from investing activities	(15,148,562)	N/A
Net cash outflow from financing activities	8,875,199	N/A
Net cash outflow	(1,984,788)	N/A

63. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

	CMPH	
	2018	2017
	RMB'000	RMB'000
Financial information of consolidated statement of profit or loss and other comprehensive income		
Revenue	N/A	7,536,179
Other income and gains, net	N/A	5,988,193
Expenses and taxation	N/A	(7,898,166)
Profit for the year	N/A	5,626,206
Other comprehensive income	N/A	644,009
Total comprehensive income for the year	N/A	6,270,215
Profit for the year, attributable to:		
Equity holders of CMPH	N/A	2,412,485
Non-controlling interests of CMPH	N/A	3,213,721
	N/A	5,626,206
Total comprehensive income for the year, attributable to:		
Equity holders of CMPH	N/A	2,685,655
Non-controlling interests of CMPH	N/A	3,584,560
	N/A	6,270,215
Dividends paid to non-controlling interests of CMPH	N/A	1,237,683

63. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES OF THE COMPANY THAT HAVE MATERIAL NON-CONTROLLING INTERESTS - continued

	CMPH	
	2018	2017
	RMB'000	RMB'000
Financial information of consolidated statement of financial position		
Non-current assets	N/A	7,204,622
Current assets	N/A	1,157,722
Current liabilities	N/A	(885,218)
Non-current liabilities	N/A	(523,273)
	N/A	6,953,853
Equity attributable to:		
Equity holders of CMPH	N/A	3,807,524
Non-controlling interests of CMPH	N/A	3,146,329
	N/A	6,953,853
Financial information of consolidated statement of cash flows		
Net cash inflow from operating activities	N/A	1,162,647
Net cash outflow from investing activities	N/A	(97,104)
Net cash outflow from financing activities	N/A	(771,630)
Net cash inflow	N/A	293,913

64. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Group is involved in structured entities through financial investments. These structured entities generally purchase assets through financing. The Group determines whether these structured entities are consolidated depending on whether the Group exercises control over these entities. The interests held by the Group in the unconsolidated structured entities are set out as below:

Structured entities sponsored by the Group

Unconsolidated structured entities sponsored by the Group mainly include asset management schemes and partnerships. The purpose of such structured entities is to manage the investors' assets and collect management fees. These structured entities are financed through investment products issued to investors. The interests held by the Group in the unconsolidated structured entities mainly involve management fees and performance fees collected from structured entities managed or held by the Group.

As at December 31, 2018, the total assets of the unconsolidated structured entities sponsored by the Group amounted to approximately RMB729,590 million (2017: RMB784,148 million).

Investments and income derived from these unconsolidated structured entities held by the Group were not significant.

Structured entities sponsored by third party institutions

Unconsolidated structured entities sponsored by third party institutions include funds, asset management schemes, trust schemes, and wealth management products issued by banks or other financial institutions in which the Group holds an interest. The purpose of such structured entities is to generate fees from managing assets on behalf of the investors. These vehicles are financed through the issue of units to investors.

The carrying amount of the related accounts in the consolidated statement of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at December 31, 2018 and 2017, which are listed below:

	2018		
	Financial assets at FVTOCI	Financial assets at FVTPL	Total
	RMB'000	RMB'000	RMB'000
Funds	-	20,774,943	20,774,943
Wealth management products	-	459,694	459,694
Others	6,722,607	6,425,640	13,148,247
	6,722,607	27,660,277	34,382,884

64. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES - continued

Structured entities sponsored by third party institutions - continued

	2017		
	AFS investments	Financial assets at FVTPL	Total
	RMB'000	RMB'000	RMB'000
Funds	-	20,683,969	20,683,969
Trust schemes	609,084	-	609,084
Wealth management products	51,280	754,966	806,246
Others	7,636,599	-	7,636,599
	8,296,963	21,438,935	29,735,898

65. EVENTS AFTER THE REPORTING PERIOD

Disposal of certain land parcels in Qianhai

On February 25, 2019, an ordinary resolution at the extraordinary general meeting of the shareholders of a non-wholly-owned subsidiary of the Company was passed approving various transactions to affect participation of the Group in the development of the Qianhai-Shekou Free Trade Zone. These involves, among others:

(a) disposal of certain land parcels held by two subsidiaries of the Group in Qianhai, Shenzhen, the PRC, to Shenzhen Qianhai Shenzhen-Hong Kong Modern Services Commission ("QHSH"), an authority established by the government of the PRC. The consideration for the disposal includes cash of approximately RMB5,693 million and another piece of land located in Dachan Bay Port Phase II (大鏟灣港區二期);

(b) the establishment of a joint venture company by a company in which the Group holds 14% equity interest and a subsidiary of QHSH; and

(c) the injection into the joint venture company of certain land parcels and cash of up to RMB2,100 million.

Other parties' participation in the Qianhai-Shekou Free Trade Zone include, among others:

(a) the injection into the joint venture company of certain land parcels and cash of up to RMB12,900 million by certain companies of the CMG Group; and

(b) the injection into the joint venture company of certain land parcels by QHSH.

66. RECLASSIFICATION

Certain comparative figures have been reclassified to conform to the current year presentation.

67. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investment properties	7,534	8,095
Property, plant and equipment	70,759	91,760
Land use rights	156,220	150,496
Investments in subsidiaries	31,757,895	21,439,297
Investment in an associate	-	240,200
Investment in a joint venture	4,243,703	4,048,518
Other non-current assets	2,705,570	1,310,776
	38,941,681	27,289,142
CURRENT ASSETS		
Other receivables	12,200,158	8,733,214
Bank balances and cash	95,275	1,991,492
	12,295,433	10,724,706
CURRENT LIABILITIES		
Other payables	8,998,964	5,886,900
Borrowings - due within one year	3,360,984	3,796,858
	12,359,948	9,683,758
NET CURRENT (LIABILITIES) ASSETS	(64,515)	1,040,948
TOTAL ASSETS LESS CURRENT LIABILITIES	38,877,166	28,330,090
NON-CURRENT LIABILITY		
Borrowings - due after one year	13,797,899	16,130,444
	25,079,267	12,199,646
CAPITAL AND RESERVES		
Share capital	15,467,445	5,467,445
Reserves	9,611,822	6,732,201
	25,079,267	12,199,646

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on April 30, 2019 and are signed on its behalf by:

Fu Gangfeng
DIRECTOR

Zhou Song
DIRECTOR

67. STATEMENT OF FINANCIAL POSITION OF THE COMPANY - continued

Notes:

(a) The movements of the Company's reserves are as follows:

	Capital reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
At January 1, 2017	31,374	1,160,728	5,462,435	6,654,537
Profit for the year	-	-	903,154	903,154
Exchange differences arising on translation	-	(825,490)	-	(825,490)
Total comprehensive (expense) income for the year	-	(825,490)	903,154	77,664
At December 31, 2017	31,374	335,238	6,365,589	6,732,201
Profit for the year	-	-	2,276,345	2,276,345
Exchange differences arising on translation	-	603,276	-	603,276
Total comprehensive income for the year	-	603,276	2,276,345	2,879,621
At December 31, 2018	31,374	938,514	8,641,934	9,611,822

(b) The profits of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Revenue	15,037	15,081
Direct costs	(7,560)	(6,308)
Gross profit	7,477	8,773
General and administrative expenses	(471,594)	(351,507)
Finance costs, net	(716,249)	(440,206)
Net income and gains from investments	529,814	1,798,832
Net other gains (losses)	3,184,618	(113,925)
Profit before taxation	2,534,066	901,967
Income tax (expense) credit	(257,721)	1,187
Profit for the year	2,276,345	903,154

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