CITIC Limited
中國中信股份有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00267)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholders,

For the first six months of 2018, CITIC Limited recorded a profit attributable to ordinary shareholders of HK$30.7 billion, 5% less than the same period in 2017, which included revaluation gains of HK$5.4 billion. When excluding the 2017 gains as well as the RMB to HK dollar exchange rate effect, profit grew 6%. The growth in earnings was driven by the solid performance of our businesses, particularly contributions from the investments we have made in recent years.

The board has decided to raise the interim dividend by HK$0.04 to HK$0.15 per share. Our intention is to increase the dividend steadily over time.

Business Performance

Our financial services segment recorded HK$24.3 billion in profit for the first six months of 2018. Excluding the RMB to HK dollar exchange rate effect, this is 5% more than the corresponding period in 2017. The increase came primarily from CITIC Bank and CITIC Securities.

CITIC Bank's profit rose 7% to RMB25.7 billion compared with the same period in 2017. Non-interest income continued its upward trend, contributing 39% of revenue compared with 35% a year ago as a result of the bank's ongoing efforts to improve its income mix. During the period, CITIC Bank remained focused on optimising its asset structure. The low-yielding interbank business was further reduced, while more resources were allocated to its lending business. Net interest margin improved 12 basis points to 1.89%.

CITIC Trust's core business remained stable, but its overall profit declined 24% due to mark-to-market loss recognised from its investment in China Hongqiao Group. CITIC-Prudential's premium and investment income experienced double-digit growth; however, its net profit declined 5% as a result of higher income tax. During the reporting period, CITIC Securities outperformed the market with a 13% increase in net profit to RMB5.6 billion.

Profit from our manufacturing business rose by 37% to HK$2.4 billion, driven by strong results at CITIC Pacific Special Steel and CITIC Dicastal. Special steel profit grew 31% to HK$1.6 billion. In the first half of 2018, a total of 5.7 million tonnes of special steel products were sold by our three plants, 34% more than last year. The increase in tonnage sold was primarily due to the contribution from newly-acquired Qingdao Special Steel. In June, we acquired Hualing Special Steel, which has been renamed Jingjiang Special Steel. Strategically located by the Yangtze River in Jiangsu province, Jingjiang Special Steel adds 600,000 tonnes of annual seamless steel tube production capacity and another 600,000 tonnes of bar steel capacity each year.

Driven by strong demand for its aluminium wheels and casting products, CITIC Dicastal's strong performance continued in the first half of 2018, with profit climbing 30% to RMB597 million. A total of 27 million aluminium wheels and 40,000 tonnes of castings were sold during the period, up 10% and 3.4% respectively year-on-year. To meet increasing demand, CITIC Dicastal has been expanding its production facilities at its Qinhuangdao headquarters as well as in Chengdu and Wuxi. It is also improving the production utilisation rate at its plant in the United States.

CITIC Heavy Industries recorded a profit of RMB63 million for the first six months of 2018, mainly from its specialty robotics business, which has seen tremendous demand for its products. Its heavy machinery business also showed an improvement.

Our resources and energy business recorded a profit of HK$1.3 billion for the first six months of 2018, as higher commodity prices and a reduced loss at Sino Iron benefited the sector. CITIC Resources achieved a profit of HK$529 million, a growth of 186% driven primarily by higher oil prices and stringent ongoing cost control. CITIC Metal's profit also registered an impressive expansion of 41% to HK$776 million for the same period. In June this year, CITIC Metal signed an agreement to acquire a 19.5% stake in Canadian company Ivanhoe Mines. Upon completion of the transaction, CITIC Metal will become the single-largest shareholder in Ivanhoe Mines, which is developing projects in Southern Africa.

At our Sino Iron mine in Western Australia, the operational focus has been on increasing production and improving efficiencies. I am glad to report that for the first six months of this year, we achieved record production of magnetite concentrate with more than 9.4 million wet metric tonnes exported, 20% higher than the same period a year ago. The number of shipments also increased by 18% due to greater landside automation at the port and the introduction of a self-unloading vessel, which complements our existing transshipment operations. The mine's operating costs continue to trend downwards as a result of rising production across all six processing lines and ongoing cost-reduction measures, which include optimisation of processes and technology.

We are experiencing strong demand for Sino Iron's magnetite concentrate product, which has around 65% iron content, as steel mills seek out quality feedstock in an effort to lower carbon emissions and enhance plant efficiency. The spread in price between high grade and low grade iron ore products continues to increase and, as a producer of premium concentrate, Sino Iron is benefiting from this shift in the market.

Despite improvements in price and our operational achievements, Sino Iron must still overcome distinct challenges to become financially viable. Our costs have increased as a result of last year's judgment in the Supreme Court of Western Australia, related to the payment of Royalty Component B to tenement-holder Mineralogy. We have appealed this decision. Another matter is Mineralogy's refusal to submit to the Government vital approval requests that are required for the continuation of operations, including for storage of waste material and tailings. This situation has resulted in costly and suboptimal workarounds, which are temporary in nature. As I've said previously, the cooperation, understanding and support of all stakeholders is vital to secure the future of Sino Iron. This is in everyone's interests.

The engineering contracting business division recorded a profit of over HK$700 million, mainly due to solid results at CITIC Engineering Design, but also from tax savings and investment gains at CITIC Construction. Both companies continued to make inroads securing new projects. New contracts signed at CITIC Construction in the first half of 2018 included a road project in Kazakhstan, a social housing development project in the Maldives and an integrated resort in Korea, totalling over RMB15 billion. Leveraging its strong design capabilities, CITIC Engineering Design won its largest design contract ever to build a logistics centre in Hubei province for RMB700 million.

Profit contribution from our property business was HK$4.7 billion, a 17% reduction from the same period in 2017, which was higher than 2018 owing to the booking of two office buildings in Shanghai. The profit for the first six months of 2018 was principally attributable to our 10% interest in China Overseas Land and Investment (COLI) and the delivery of units at Kadooria, a luxury residential development in Hong Kong.

Seizing Opportunities for Value Accretion

The improved performance of our businesses drove our earnings growth in this period, and our results reflect sound management and operations across the board. We've invested and expanded strategically in businesses that can leverage CITIC's resources and expertise, and these investments are now making a meaningful contribution to our bottom line. Let me give you two examples.

McDonald's mainland China and Hong Kong business became part of the CITIC family a little over a year ago. Together with our partners, we've achieved tangible operational progress in terms of the number of stores opened, as well as improved profitability. McDonald's has benefited from CITIC's knowledge of the real estate market and its relationships with major property developers, having signed agreements with Evergrande, COLI, Country Garden and Sunac that have enabled McDonald's to secure prime locations. More than 300 new McDonald's restaurants were opened in mainland China in the last twelve months, bringing the new total to more than 3,000 nationwide. CITIC also assisted McDonald's in securing cooperation agreements with Tencent and SF Express, which have enabled McDonald's to further digitise the dining experience and food delivery.

The other example is special steel. Since the acquisition of Qingdao Special Steel last year, we've leveraged our existing special steel production expertise across multiple areas, both technical and managerial. Enhanced production efficiency, product quality, centralised raw material procurement, and better sales team incentives have collectively contributed to a profitable Qingdao Special Steel. The recently acquired Jingjiang Special Steel, whose thin-to-medium walled seamless steel tubes complement our existing medium-to-thick walled product, gives us a full steel tube product offering. All of the above solidify the leading position of our special steel business.

Our strategies have also included the disposal of assets that are not essential to our future development. Early this year, we sold three toll roads in mainland China, generating a total of HK$1.3 billion in profit. Partnering with industry leaders to realise better returns on assets led to the divestment of our mainland China residential property assets to COLI which in turn gave us a 10% stake in that business. Over 9% of our profit in the first half of 2018 can be credited to the COLI transaction and recent investment decisions.

In Conclusion

I am pleased with the results we have achieved. We pride ourselves on being good managers and solid operators, and I would like to thank all the employees who contributed to our results. We hope we've demonstrated to you that our businesses are sound and well-positioned. Our board and management team will remain vigilant in identifying additional opportunities to create value for shareholders.

Chang Zhenming
Chairman
Hong Kong, 29 August 2018

CONSOLIDATED INCOME STATEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Note	Unaudited Six months ended 30 June **2018** ***HK$ million***	 2017 *HK$ million* (Restated)
Interest income		**139,019**	125,331
Interest expenses		**(76,806)**	(68,574)
Net interest income	*4(a)*	**62,213**	56,757
Fee and commission income		**32,300**	30,278
Fee and commission expenses		**(2,986)**	(2,240)
Net fee and commission income	*4(b)*	**29,314**	28,038
Sales of goods and services	*4(c)*	**155,244**	110,045
Other revenue	*4(d)*	**11,552**	5,150
		166,796	115,195
Total revenue		**258,323**	199,990
Cost of sales and services		**(126,526)**	(97,013)
Other net income		**3,067**	8,639
Impairment losses		**(249)**	(27,885)
Expected credit losses		**(31,696)**	N/A
Other operating expenses		**(46,859)**	(33,081)
Net valuation gain on investment properties		**543**	400
Share of profits of associates, net of tax		**4,030**	3,506
Share of profits of joint ventures, net of tax		**1,312**	3,899
Profit before net finance charges and taxation		**61,945**	58,455
Finance income		**805**	651
Finance costs		**(6,153)**	(5,365)
Net finance charges	*5*	**(5,348)**	(4,714)

CONSOLIDATED INCOME STATEMENT (CONTINUED)
FOR THE SIX MONTHS ENDED 30 JUNE 2018

		Unaudited	
		Six months ended 30 June	
		2018	2017
	Note	***HK$ million***	*HK$ million*
			(Restated)
Profit before taxation	*6*	**56,597**	53,741
Income tax	*7*	**(11,797)**	(10,755)
Profit for the period		**44,800**	42,986
Attributable to:			
– Ordinary shareholders of the Company		**30,668**	32,234
– Holders of perpetual capital securities		**336**	336
– Non-controlling interests		**13,796**	10,416
Profit for the period		**44,800**	42,986
Basic and diluted earnings per share for profit attributable to ordinary shareholders of the Company during the period (HK$):	*9*	**1.05**	1.11

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Unaudited Six months ended 30 June 2018 *HK$ million*	2017 *HK$ million* (Restated)
Profit for the period	**44,800**	42,986
Other comprehensive (loss)/income for the period (after tax and reclassification adjustments)		
Items that have been reclassified or may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets: net movement in the fair value reserve	**N/A**	(3,901)
Fair value changes on financial assets at fair value through other comprehensive income	**4,365**	N/A
Loss allowance on financial assets at fair value through other comprehensive income	**142**	N/A
Cash flow hedge: net movement in the hedging reserve	**239**	433
Share of other comprehensive (loss)/income of associates and joint ventures	**(374)**	730
Exchange differences on translation of financial statements and others	**(7,383)**	19,682
Items that have not been reclassified or may not be reclassified subsequently to profit or loss:		
Reclassification of owner-occupied property as investment property revaluation gain	**–**	19
Fair value changes on investments in equity instruments designated at fair value through other comprehensive income	**(730)**	N/A
Other comprehensive (loss)/income for the period, net of tax	**(3,741)**	16,963
Total comprehensive income for the period	**41,059**	59,949
Attributable to:		
– Ordinary shareholders of the Company	**27,726**	44,814
– Holders of perpetual capital securities	**336**	336
– Non-controlling interests	**12,997**	14,799
Total comprehensive income for the period	**41,059**	59,949

CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2018

	Note	**30 June 2018** *HK$ million* **(Unaudited)**	31 December 2017 *HK$ million* (Audited)
Assets			
Cash and deposits		**822,519**	924,584
Placements with banks and non-bank financial institutions		**244,419**	205,346
Financial assets at fair value through profit or loss		**N/A**	91,350
Derivative financial instruments		**46,016**	79,339
Trade and other receivables		**171,278**	149,204
Amounts due from customers for contract work		**N/A**	1,820
Contract assets		**3,436**	N/A
Inventories		**60,956**	58,552
Financial assets held under resale agreements		**80,986**	65,349
Loans and advances to customers and other parties	*10*	**3,904,130**	3,721,886
Investments in financial assets	*11*		
– Financial assets at fair value through profit and loss		**405,874**	N/A
– Financial assets at fair value through other comprehensive income		**588,631**	N/A
– Financial assets at amortised cost		**809,964**	N/A
Available-for-sale financial assets		**N/A**	807,912
Held-to-maturity investments		**N/A**	261,654
Investments classified as receivables		**N/A**	644,789
Interests in associates		**100,735**	98,644
Interests in joint ventures		**40,144**	37,418
Fixed assets		**198,438**	196,047
Investment properties		**33,068**	33,073
Intangible assets		**13,444**	23,721
Goodwill		**23,705**	23,989
Deferred tax assets		**46,442**	48,585
Other assets		**34,765**	47,477
Total assets		**7,628,950**	7,520,739

CONSOLIDATED BALANCE SHEET (CONTINUED)
AS AT 30 JUNE 2018

	Note	**30 June 2018** *HK$ million* **(Unaudited)**	31 December 2017 *HK$ million* (Audited)
Liabilities			
Borrowing from central banks		**315,621**	284,818
Deposits from banks and non-bank financial institutions		**812,023**	954,638
Placements from banks and non-bank financial institutions		**80,095**	90,131
Financial liabilities at fair value through profit and loss		**2,334**	–
Derivative financial instruments		**45,205**	80,075
Trade and other payables		**249,753**	226,110
Amounts due to customers for contract work		**N/A**	3,334
Contract liabilities		**5,159**	N/A
Financial assets sold under repurchase agreements		**83,393**	160,902
Deposits from customers	*12*	**4,226,730**	4,056,158
Employee benefits payables		**17,751**	20,429
Income tax payable		**8,862**	13,446
Bank and other loans	*13*	**147,031**	142,442
Debt instruments issued	*14*	**777,729**	653,371
Provisions		**11,356**	5,474
Deferred tax liabilities		**9,075**	9,438
Other liabilities		**22,155**	26,332
Total liabilities		**6,814,272**	6,727,098
Equity			
Share capital		**381,710**	381,710
Perpetual capital securities		**7,873**	7,873
Reserves		**176,621**	161,368
Total ordinary shareholders' funds and perpetual capital securities		**566,204**	550,951
Non-controlling interests		**248,474**	242,690
Total equity		**814,678**	793,641
Total liabilities and equity		**7,628,950**	7,520,739

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

CITIC Limited (the "Company") was incorporated in Hong Kong, the shares of which are listed on the Main Board of the Stock Exchange of Hong Kong Limited. The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in financial services, resources and energy, manufacturing, engineering contracting, real estate and other businesses.

The parent and the ultimate holding company of the Company is CITIC Group Corporation ("CITIC Group").

These condensed unaudited consolidated interim accounts (the "Accounts") are presented in millions of Hong Kong dollars ("HK$"), unless otherwise stated.

The financial information relating to the year ended 31 December 2017 that is included in the Accounts as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is abstracted from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

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

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

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The Accounts have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Accounts should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

On 19 September and 24 October 2017, the Group acquired control of Star Thrive Investment Limited ("Star Thrive") and Qingdao Special Iron and Steel Co., Ltd. ("Qingdao Special Steel") respectively through business combination under common control. Qingdao Special Steel was acquired by CITIC Group from Qingdao Steel Holding Group Co., Ltd. on 15 May 2017. The financial statements of Star Thrive and Qingdao Special Steel are included in the Group's comparative interim accounts as at 30 June 2017 and for the six-month period then ended as if the combination had occurred from the date when the ultimate controlling party first obtained control. The comparative interim accounts were prepared and restated using the carrying amount of the assets and liabilities of Star Thrive and Qingdao Special Steel respectively.

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

The accounting policies adopted in the preparation of the Accounts are consistent with those adopted in the Company's annual financial statements for the year ended 31 December 2017, except for the adoption of the following new standards and amendments:

HKFRS 9	Financial Instruments [(1)]
HKFRS 15	Revenue from Contracts with Customers [(1)]
HKFRS 2 (Amendments)	Classification and Measurement of Share-based Payment Transactions [(2)]
HKFRS 4 (Amendments)	Applying HKFRS 9 Financial Instrument with HKFRS 4 Insurance Contracts [(2)]
HKFRS 1 (Amendments)	First-time Adoption of Hong Kong Financial Reporting Standards [(2)]
HKAS 28 (Amendments)	Investments in Associates and Joint Ventures [(2)]
HKAS 40 (Amendments)	Transfers of Investment Property [(2)]
HK (IFRIC) 22	Foreign Currency Transactions and Advance Consideration [(2)]

(1) The impact of the adoption of the new standards are disclosed in Note 2(c).

(2) Adoption of the amendments and interpretation does not have a significant impact on the Accounts.

The Group has not applied the following amendments to standards and new standards which are not yet effective for the financial year beginning on or after 1 January 2018 and which have not been early adopted in the Accounts:

HKFRS 16	Leases [(1)]
HK (IFRIC) 23	Uncertainty Over Income Tax Treatments [(1)]
HKAS 28 and HKFRS 10 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture [(2)]

(1) Effective for the annual periods beginning on or after 1 January 2019.

(2) Originally effective for annual periods beginning on or after 1 January 2016. The effective date has not been determined.

None of the above amendments to standards and new standards are expected to have a significant effect on the consolidated financial statements of the Group, except as set out below:

HKFRS 16 will affect primarily the accounting for the Group's operating leases. As at 30 June 2018, the Group has non-cancellable operating lease commitments amounted to HK$27,861 million.

(b) Changes in significant accounting policies and accounting estimates

HKFRS 9 Financial Instruments

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

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in significant accounting policies and accounting estimates (Continued)

HKFRS 9 Financial Instruments (Continued)

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

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

Set out below are specific HKFRS 9 accounting policies applied in the current period. The impact of the adoption of HKFRS 9 on the Group are described in Note 2(c).

Financial Instruments

Financial instruments refer to a contract that forms one party's financial asset and another party's liabilities or equities. Financial assets and financial liabilities are recognised when the Group becomes a party of the financial instrument contracts.

(i) Financial assets

(1) Classification and Measurement

The Group classifies its financial assets into the following categories based on their business model and the contractual cash flow characteristics:

– Financial assets at amortised cost;

– Financial assets at fair value through other comprehensive income ("FVOCI");

– Financial assets at fair value through profit or loss ("FVPL").

At initial recognition, the Group measures a financial asset at its fair value. For financial assets that are at FVPL, the transaction costs are expensed in profit or loss; for financial assets with other categories, the transaction costs are recognised in the initial carrying amounts. For trade and other receivables arising from rendering goods or services with no significant financing component, the Group measures their initial carrying amount as the cash flows that the Group is entitled and expected to receive.

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, and are measured at the following three categories:

– Amortised cost:

The business model the Group manages these financial assets is to collect the contractual cash flows where those cash flows' characteristics are consistent with those of the basic loans arrangement, i.e, the contractual cash flows of these financial assets at certain date represent solely payments of principal and interest based on the principal amount ("SPPI"). Interest income from these financial assets is recognised using the effective interest rate method.

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in significant accounting policies and accounting estimates (Continued)

Financial Instruments (Continued)

(i) Financial assets (Continued)

(1) Classification and Measurement (Continued)

Debt instruments (Continued)

– FVOCI:

The business model the Group manages these financial assets is to collect contractual cash flows and to sell the assets, and those cash flows' characteristics are consistent with those of the basic loans arrangements. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, foreign exchange gains and losses and interest income on the instrument's amortised cost which are recognised in profit or loss.

– FVPL:

Assets that do not meet the criteria for amortised cost or FVOCI are at FVPL. The Group may also irrevocably designate financial assets as at FVPL at initial recognition to eliminate or significantly reduce an accounting mismatch.

Equity instruments

The Group subsequently measures all equity investments at FVPL, except where the Group has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. When this election is made, fair value gains and losses are recognised in other comprehensive income ("OCI") and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, are recognised in profit or loss when the Group's right to receive payments is established.

(2) Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its financial assets at amortised cost, debt instrument assets carried at FVOCI, contract assets and financial guarantee contracts.

When calculating the probability-weighted present value of the difference between the contractual and forecasted cash flows to be received, the Group takes reasonable and supportable information such as the past events, current conditions and forecasts of future economic conditions into consideration and uses probabilities of default as the weightings. The difference is recognised as the ECL.

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in significant accounting policies and accounting estimates (Continued)

Financial Instruments (Continued)

(i) Financial assets (Continued)

(2) Impairment (Continued)

At each balance sheet date, the Group calculates the ECL of financial instruments in different stages. Stage 1 refers to financial instruments that have not had a significant increase in credit risk since initial recognition; Stage 2 refers to financial instruments that have had a significant increase in credit risk since initial recognition but that do not have objective evidence of impairment; Stage 3 refers to financial assets for which there are objective evidence of impairment at the reporting date since initial recognition. For these assets at Stage 1, 12-month ECL are recognised and for assets at stage 2 and 3, life-time ECL are recognised.

For financial assets in stage 1 and stage 2, interest income is calculated based on the gross carrying amount of the asset, that is, without deduction for credit allowance, and the effective interest rates. For financial assets in stage 3, interest income is calculated on the net carry amount, that is, net of credit allowances, and the effective interest rates.

The Group recognises the provision and reversal of ECL in profit or loss. For debt instrument at FVOCI, the Group makes relevant adjustments to other comprehensive income at the same time as recognising ECL in profit and loss.

For trade and other receivables and contract assets, whether there is significant financial component or not, the Group recognises life-time ECL.

(3) Derecognition

The Group derecognises a financial asset if the portion being considered for derecognition meets one of the following conditions:

- The contractual rights to receive the cash flows from the financial asset expire;
- The financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of such financial asset;
- The financial asset has been transferred, the Group has not retained any control over the financial asset, even if the Group neither transfers nor retains substantially all the risks and rewards of ownerships of the financial asset.

For the Group’s equity instruments not held for trading purposes and those designated at FVOCI, when they are derecognised, the difference between the carrying amount and the consideration is recognised in retained earnings, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to the retained earnings; for other financial assets measured at FVOCI, the difference between the carrying amount and the consideration is recognised in profit and loss, also, the cumulative gains or losses previously recognised in other comprehensive income are recycled to profit and loss.

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in significant accounting policies and accounting estimates (Continued)

Financial Instruments (Continued)

(ii) Financial liabilities

The financial liabilities are classified into those measured at amortised cost and those at fair value through profit and loss at initial recognition.

The Group's major financial liabilities are those measured at amortised cost which are measured initially at fair value less transaction costs and are measured subsequently using the effective interest method.

Financial liabilities or a portion thereof, are derecognised when their current obligation are fully or partially expired. The difference between the carrying amount of the derecognised portion and the consideration is recognised in profit or loss.

HKFRS 15 Revenue from Contracts with Customers

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

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

Set out below are specific HKFRS 15 accounting policies applied in the current period. The impact of the adoption of HKFRS 15 on the Group are described in Note 2(c).

Revenue

The Group recognises revenue when it satisfies a performance obligation by transferring a promised good to a customer, which is when the customer obtains control of a good, has the ability to direct the use of, and obtain substantially all of the remaining benefits from that good. If the control of the goods and services is transferred over a period of time, the Group recognises revenue by reference to the extent of progress toward completion in fulfilling its performance obligations during the entire contract period.

For the amounts of revenue recognised for goods transferred and services provided, the Group recognises any unconditional rights to consideration separately as a receivable and the rest as a contract asset, and recognises provisions for loss allowance of the receivable and the contract asset based on ECL; if the consideration received or receivable exceeds the obligation performed by the Group, a contract liability is recognised. The Group presents a net contract asset or a net contract liability under each contract.

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in significant accounting policies and accounting estimates (Continued)

Revenue (Continued)

Contract costs include costs to fulfill a contract and of obtaining a contract. The cost incurred for providing services by the Group is recognised as the costs to fulfill a contract, and is amortised based on the progress towards completion of the service provided when recognising revenue. The incremental cost incurred by the Group of obtaining a contract is recognised as the costs of obtaining a contract. For costs of obtaining a contract that will be amortised within one year, the Group recognises it in profit and loss. For the costs of obtaining a contract that will be amortised for more than one year period, it is amortised in profit and loss based on same progress towards completion as recognising revenue. The Group recognises the excess of the carrying amounts of contract costs over the expected remaining consideration less any costs not yet recognised as an impairment loss. As at the balance sheet date, the Group presents the costs to fulfill and of obtaining a contract, in the net amount after deducting relevant asset impairment provisions, as other assets.

The Group recognises revenue for each of its activities in the income statement in accordance with below policies:

(i) Interest Income

Interest income is recognised according to HKFRS 9, refer to note 2(b) financial instruments for details.

(ii) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised.

(iii) Sales of goods

Revenue from the sale of goods is recognised when the goods are transferred to and accepted by a customer.

When volume discounts are provided to customers, the Group, based on historical experiences, estimates the volume discounts using the expected value method, and recognises revenue net of the estimated volume discounts.

When the customer has a right to return the product within a given period, the Group recognises a provision for returns using the expected value method based on historical experience, and reduce the revenue by the expected value of the returns. The Group recognises a refund liability for the expected refunds to customers; meanwhile, a return receivable is to be recognised according to the carry amount of the goods expected to be returned, deducting the expected cost for taking the related goods back.

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in significant accounting policies and accounting estimates (Continued)

Revenue (Continued)

(iii) Sales of goods (Continued)

The Group offers warranties for specific products. If the duration and terms of the warranties are offered in accordance with the requirements of laws and regulations and the Group does not provide any additional services or warranties, such warranties are not recognisied as separate performance obligation.

(iv) Services rendered to customers

Revenue for construction services of the Group is recognised over the period of the contract by reference to the progress towards completion. Progress towards completion is calculated based on actual costs incurred as to the end of each period as a proportion to the total forecasted costs of the contract. As at each balance sheet date, the Group reassesses the progress towards completion to reflect the changes in performance.

Revenue for other services provided by the Group is recognised based on the pattern of performance obligation of specific services, either over the period in which the services are rendered or at the point of service completion. For revenue recognised over the period by reference to the progress towards completion, progress towards completion is calculated based on actual costs incurred as to the end of each period as a proportion to the total forecasted costs of the contract. As at each balance sheet date, the Group reassesses the estimate of the progress towards completion to reflect the changes in performance.

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impact of changes in significant accounting policies

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

	As at 31 December 2017 *HK$ million*	Impact of first-time adoption of HKFRS 9 *HK$ million* *(Note 2(c)(ii)(iii))*	Impact of first-time adoption of HKFRS 15 *HK$ million*	As at 1 January 2018 *HK$ million*
Cash and deposits	924,584	(72)	–	924,512
Placements with banks and non-bank financial institutions	205,346	(196)	–	205,150
Financial assets at FVPL	91,350	(91,350)	–	–
Derivative financial instruments	79,339	–	–	79,339
Trade and other receivables	149,204	(8,563)	(2,089)	138,552
Amounts due from customers for contract work	1,820	–	(1,820)	–
Contract assets	–	–	3,526	3,526
Financial assets held under resale agreements	65,349	(44)	–	65,305
Loans and advances to customers and other parties	3,721,886	(8,374)	–	3,713,512
Investments in financial assets				
– At FVPL	–	531,754	–	531,754
– At FVOCI	–	512,451	–	512,451
– At amortised cost	–	774,199	–	774,199
Available-for-sale financial assets	807,912	(807,912)	–	–
Held-to-maturity investments	261,654	(261,654)	–	–
Investments classified as receivables	644,789	(644,789)	–	–
Interests in associates	98,644	14	(497)	98,161
Deferred tax assets	48,585	555	5	49,145
Other assets	47,477	(188)	–	47,289
Total assets	7,520,739	(4,169)	(875)	7,515,695
Trade and other payables	226,110	–	(1,825)	224,285
Amounts due to customers for contract work	3,334	–	(3,334)	–
Contract liabilities	–	–	4,708	4,708
Income tax payable	13,446	(1,752)	(8)	11,686
Provisions	5,474	4,971	–	10,445
Other liabilities	26,332	–	165	26,497
Total liabilities	6,727,098	3,219	(294)	6,730,023
Reserves	161,368	(4,711)	(550)	156,107
Non-controlling interests	242,690	(2,677)	(31)	239,982
Total equity	793,641	(7,388)	(581)	785,672
Total liabilities and equity	7,520,739	(4,169)	(875)	7,515,695

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

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

	As at 31 December 2017 HKAS 39 carrying amount *HK$ million*	Reclassification *HK$ million*	Remeasurement *HK$ million*	As at 1 January 2018 HKFRS 9 carrying amount *HK$ million*
Financial assets at FVPL				
– At FVPL	75,560	(75,560)	–	–
– Designated as measured at FVPL	15,790	(15,790)	–	–
Available-for-sale financial assets				
– At FVOCI	807,912	(807,912)	–	–
Held-to-maturity investments				
– At amortised cost	261,654	(261,654)	–	–
Investments classified as receivables				
– At amortised cost	644,789	(644,789)	–	–
Investments in financial assets				
– At FVPL	–	524,283	7,471	531,754
– At FVOCI	–	507,884	(463)	507,421
– Designated as measured at FVOCI	–	5,363	(333)	5,030
– At amortised cost	–	768,175	6,024	774,199
	1,805,705	–	12,699	1,818,404

Note:

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

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

	As at 31 December 2017 Loss allowances under HKAS 39 /Provision under HKAS 37 *HK$ million*	Reclassification *HK$ million*	Remeasurement *HK$ million*	As at 1 January 2018 Loss allowances under HKFRS 9 *HK$ million*
Cash and deposits	–	–	72	72
Placements with banks and non-bank financial institutions	1	–	196	197
Financial assets held under resale agreements	–	–	44	44
Trade and other receivables	9,699	–	1,227	10,926
Loans and advances to customers and other parties				
– At amortised cost	113,321	–	8,368	121,689
– At FVOCI *(note(b))*	–	–	8	8
Available-for-sale financial assets	1,653	(1,653)	–	–
Investments classified as receivables				
– At amortised cost	4,064	(4,064)	–	–
Investments in financial assets				
– At FVPL	–	900	(900)	–
– At FVOCI *(note(b))*	–	403	733	1,136
– Designated as measured at FVOCI	–	240	(240)	–
– At amortised cost	–	4,174	431	4,605
	128,738	–	9,939	138,677
Off-balance sheet credit assets	481	–	4,971	5,452
	129,219	–	14,910	144,129

Note:

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

2 BASIS OF PREPARATION AND CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

3 SEGMENT REPORTING

(a) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the board of directors for the purposes of resources allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 is set out below:

	Six months ended 30 June 2018								
	Financial services *HK$ million*	Resources and energy *HK$ million*	Manufacturing *HK$ million*	Engineering contracting *HK$ million*	Real estate *HK$ million*	Others *HK$ million*	Operation management *HK$ million*	Elimination *HK$ million*	Total *HK$ million*
Revenue from external customers	103,068	34,994	61,125	4,015	5,270	49,822	29	–	258,323
Inter-segment revenue	(220)	2,065	111	63	3,123	624	–	(5,766)	–
Reportable segment revenue	102,848	37,059	61,236	4,078	8,393	50,446	29	(5,766)	258,323
Share of profits/(losses) of associates, net of tax	1,167	695	51	54	2,169	(134)	28	–	4,030
Share of profits of joint ventures, net of tax	200	694	18	–	31	369	–	–	1,312
Finance income *(Note 5)*	–	159	188	177	166	71	680	(636)	805
Finance costs *(Note 5)*	–	(1,040)	(680)	(22)	(303)	(903)	(3,711)	506	(6,153)
Depreciation and amortisation *(Note 6)*	(1,728)	(1,405)	(2,109)	(68)	(106)	(2,011)	(30)	–	(7,457)
Impairment losses	1	(88)	(113)	–	–	(49)	–	–	(249)
Expected credit losses	(31,707)	22	(33)	1	62	(41)	–	–	(31,696)
Profit/(loss) before taxation	44,228	2,084	3,391	739	6,395	4,836	(3,920)	(1,156)	56,597
Income tax	(8,664)	(358)	(752)	(40)	(1,165)	(996)	(95)	273	(11,797)
Profit/(loss) for the period	35,564	1,726	2,639	699	5,230	3,840	(4,015)	(883)	44,800
Attributable to:									
– Ordinary shareholders of the Company	24,256	1,279	2,406	704	4,747	2,498	(4,339)	(883)	30,668
– Non-controlling interests and holders of perpetual capital securities	11,308	447	233	(5)	483	1,342	324	–	14,132

	As at 30 June 2018								
	Financial services *HK$ million*	Resources and energy *HK$ million*	Manufacturing *HK$ million*	Engineering contracting *HK$ million*	Real estate *HK$ million*	Others *HK$ million*	Operation management *HK$ million*	Elimination *HK$ million*	Total *HK$ million*
Reportable segment assets	7,010,250	129,313	138,195	46,260	159,637	158,456	183,941	(197,102)	7,628,950
Including:									
Interests in associates	35,488	14,776	978	688	37,163	10,649	993	–	100,735
Interests in joint ventures	7,509	6,389	192	–	20,043	6,011	–	–	40,144
Reportable segment liabilities	6,437,663	166,905	84,389	32,884	94,246	84,901	202,223	(288,939)	6,814,272
Including:									
Bank and other loans	5,114	39,851	32,002	2,353	7,936	33,138	52,312	(25,675)	147,031
Debt instruments issued	662,613	–	150	–	–	3,862	111,104	–	777,729

3 SEGMENT REPORTING (CONTINUED)

(a) Segment results, assets and liabilities (Continued)

	Six months ended 30 June 2017 (Restated)								
	Financial services *HK$ million*	Resources and energy *HK$ million*	Manufacturing *HK$ million*	Engineering contracting *HK$ million*	Real estate *HK$ million*	Others *HK$ million*	Operation management *HK$ million*	Elimination *HK$ million*	Total *HK$ million*
Revenue from external customers	89,943	32,172	40,937	3,653	1,228	32,037	20	–	199,990
Inter-segment revenue	(233)	1,821	119	106	55	494	–	(2,362)	–
Reportable segment revenue	89,710	33,993	41,056	3,759	1,283	32,531	20	(2,362)	199,990
Share of profits of associates, net of tax	1,065	363	28	–	2,003	45	2	–	3,506
Share of profits of joint ventures, net of tax	304	543	–	–	2,786	266	–	–	3,899
Finance income *(Note 5)*	–	178	151	89	291	47	430	(535)	651
Finance costs *(Note 5)*	–	(1,082)	(457)	(42)	(218)	(686)	(3,281)	401	(5,365)
Depreciation and amortisation *(Note 6)*	(1,663)	(1,462)	(1,716)	(70)	(93)	(1,223)	(47)	–	(6,274)
Impairment losses	(27,625)	58	(66)	2	(81)	(173)	–	–	(27,885)
Profit/(loss) before taxation	39,037	264	2,348	362	6,250	8,701	(3,245)	24	53,741
Income tax	(8,345)	(317)	(491)	(53)	(431)	(1,063)	(53)	(2)	(10,755)
Profit/(loss) for the period	30,692	(53)	1,857	309	5,819	7,638	(3,298)	22	42,986
Attributable to:									
– Ordinary shareholders of the Company	21,276	(266)	1,751	310	5,691	7,084	(3,634)	22	32,234
– Non-controlling interests and holders of perpetual capital securities	9,416	213	106	(1)	128	554	336	–	10,752

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

3 SEGMENT REPORTING (CONTINUED)

(b) Geographical information

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

	Revenue from external customers Six months ended 30 June		Reportable segment assets	
			30 June	31 December
	2018	2017	**2018**	2017
	HK$ million	*HK$ million* (Restated)	***HK$ million***	*HK$ million*
Mainland China	**212,973**	159,335	**6,992,838**	6,902,597
Hong Kong, Macau and Taiwan	**28,351**	26,595	**521,810**	505,686
Overseas	**16,999**	14,060	**114,302**	112,456
	258,323	199,990	**7,628,950**	7,520,739

4 REVENUE

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

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

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

4 REVENUE (CONTINUED)

(a) Net interest income

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Interest income arising from:		
Deposits with central banks, banks and non-bank financial institutions	**6,452**	6,133
Placements with banks and non-banks financial institutions	**5,419**	3,051
Financial assets held under resale agreements	**801**	684
Investments in financial assets	**29,140**	N/A
Investments classified as receivables	**N/A**	24,315
Loans and advances to customers and other parties	**97,135**	76,823
Investments in debt securities	**N/A**	14,286
Others	**72**	39
	139,019	125,331
Interest expenses arising from:		
Borrowing from central banks	**(4,942)**	(2,947)
Deposits from banks and non-bank financial institutions	**(16,583)**	(23,407)
Placements from banks and non-bank financial institutions	**(2,067)**	(1,500)
Financial assets sold under repurchase agreements	**(1,392)**	(1,330)
Deposits from customers	**(37,700)**	(29,361)
Debt instruments issued	**(13,973)**	(10,013)
Others	**(149)**	(16)
	(76,806)	(68,574)
Net interest income	**62,213**	56,757

(b) Net fee and commission income

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
Guarantee and advisory fees	**3,386**	4,147
Bank card fees	**19,313**	15,295
Settlement and clearing fees	**849**	731
Agency fees and commission	**3,005**	2,920
Trustee commission and fees	**5,404**	6,998
Others	**343**	187
	32,300	30,278
Fee and commission expenses	**(2,986)**	(2,240)
Net fee and commission income	**29,314**	28,038

4 REVENUE (CONTINUED)

(c) Sales of goods and services

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Sales of goods	**136,645**	94,646
Services rendered to customers		
– Revenue from construction contracts	**4,482**	3,819
– Revenue from other services	**14,117**	11,580
	155,244	110,045

(d) Other revenue

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
Net trading gain *(note (i))*	**4,304**	3,929
Net gain on investments in financial assets under financial services segment	**3,775**	603
Net gain from securitisation of financial assets	**3,769**	246
Others	**(296)**	372
	11,552	5,150

(i) Net trading gain

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
Trading profit:		
– debt securities and certificates of deposits	**2,900**	1,429
– foreign currencies	**1,680**	127
– derivatives	**(276)**	2,373
	4,304	3,929

5 NET FINANCE CHARGES

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Finance costs		
– Interest on bank and other loans	**3,123**	2,245
– Interest on debt instruments issued	**2,958**	3,103
	6,081	5,348
Less: interest expense capitalised	**(88)**	(145)
	5,993	5,203
Other finance charges	**160**	162
	6,153	5,365
Finance income	**(805)**	(651)
	5,348	4,714

6 PROFIT BEFORE TAXATION

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

(a) Staff costs

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Salaries and bonuses	**22,127**	15,893
Contributions to defined contribution retirement schemes	**2,301**	1,868
Others	**4,249**	3,658
	28,677	21,419

6 PROFIT BEFORE TAXATION (CONTINUED)

(b) Other items

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Amortisation	**1,262**	1,233
Depreciation	**6,195**	5,041
Operating lease charges	**4,066**	2,761
Tax and surcharges	**1,318**	1,137
Property management fees	**565**	401
Non-operating expenses	**144**	134
Professional fees	**515**	445
	14,065	11,152

7 INCOME TAX EXPENSE

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Current tax – Mainland China		
Provision for enterprise income tax	**9,756**	10,848
Land appreciation tax	**141**	12
	9,897	10,860
Current tax – Hong Kong		
Provision for Hong Kong profits tax	**1,017**	480
Current tax – Overseas		
Provision for the period	**71**	259
	10,985	11,599
Deferred tax		
Origination and reversal of temporary differences	**812**	(844)
	11,797	10,755

The statutory income tax rate of the Company and its subsidiaries located in Hong Kong for the six months ended 30 June 2018 is 16.5% (six months ended 30 June 2017: 16.5%).

Except for the preferential tax treatments, the income tax rate applicable to the Group's other subsidiaries in Mainland China for the six months ended 30 June 2018 is 25% (six months ended 30 June 2017: 25%).

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

8 DIVIDENDS

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
2017 Final dividend paid: HK$0.25 (2016: HK$0.23) per share	**7,273**	6,691
2018 Interim dividend proposed: HK$0.15 (2017: HK$0.11) per share	**4,364**	3,200

9 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders of the Company of HK$30,668 million for the six months ended 30 June 2018 (six months ended 30 June 2017: HK$32,234 million), calculated as follows:

	Six months ended 30 June	
	2018	2017
	HK$ million	*HK$ million*
		(Restated)
Profit attributable to ordinary shareholders of the Company	**30,688**	32,234
Weighted average number of ordinary shares (in million)	**29,090**	29,090

The diluted earnings per share for the six months ended 30 June 2018 and 2017 are the same as the basic earnings per share. As at 30 June 2018, there are no share options or other equity securities of the Company in issue which if exercised would have a dilutive effect on the issued ordinary share capital as at 30 June 2018 (30 June 2017: Nil).

The basic and diluted earnings per share for the six months ended 30 June 2018 are HK$1.05 (six months ended 30 June 2017: HK$1.11).

10 LOANS AND ADVANCES TO CUSTOMERS AND OTHER PARTIES

Loans and advances

	30 June 2018 *HK$ million*	31 December 2017 *HK$ million*
Loans and advances to customers and other parties at amortised cost		
Corporate loans		
– Loans	**2,192,554**	2,177,528
– Discounted bills	**173,225**	130,190
– Finance lease receivables	**56,665**	54,143
	2,422,444	2,361,861
Personal loans		
– Residential mortgages	**671,873**	604,498
– Business loans	**206,503**	198,604
– Credit cards	**388,012**	399,228
– Personal consumption	**270,344**	271,016
	1,536,732	1,473,346
	3,959,176	3,835,207
Less: allowance for impairment losses	**(113,353)**	(113,321)
Carrying amount of loans and advances to customers and other parties at amortised cost	**3,845,823**	3,721,886
Loans and advances to customers and other parties at FVOCI		
Corporate loans		
– Loans	**461**	N/A
– Discounted bills	**57,846**	N/A
Carrying amount of loans and advances to customers and other parties at FVOCI *(note)*	**58,307**	N/A
	3,904,130	3,721,886

Note:

As at 30 June 2018, the fair value changes in the carrying amount of Loans and advances at FVOCI is HK$6 million.

11 INVESTMENTS IN FINANCIAL ASSETS

	30 June 2018 HK$ million
Investment funds	**228,114**
Debt securities	**976,638**
Trust investment plans *(note)*	**217,429**
Equity investment	**24,177**
Wealth management products	**2,433**
Certificates of deposit and certificates of interbank deposit	**38,888**
Investment management products managed by securities companies *(note)*	**316,108**
Others	**5,268**
	1,809,055
Less: allowance for impairment losses	**(4,586)**
	1,804,469

Note:

As at 30 June 2018, certain of the Group's investments with an aggregate amount of HK$87,023 million (31 December 2017: HK$116,069 million) were managed by certain subsidiaries and related parties of the Group.

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

12 DEPOSITS FROM CUSTOMERS

(a) Types of deposits from customers

	30 June 2018 *HK$ million*	31 December 2017 *HK$ million*
Demand deposits		
– Corporate customers	**1,807,798**	1,947,517
– Personal customers	**317,377**	281,084
	2,125,175	2,228,601
Time and call deposits		
– Corporate customers	**1,626,325**	1,463,098
– Personal customers	**461,976**	357,069
	2,088,301	1,820,167
Outward remittance and remittance payables	**13,254**	7,390
	4,226,730	4,056,158

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

	30 June 2018 *HK$ million*	31 December 2017 *HK$ million*
Bank acceptances	**183,844**	233,647
Letters of credit	**10,885**	11,112
Guarantees	**26,852**	29,837
Others	**124,970**	130,193
	346,551	404,789

13 BANK AND OTHER LOANS

(a) Types of loans

	30 June 2018 *HK$ million*	31 December 2017 *HK$ million*
Bank loans		
Unsecured loans	**99,759**	78,106
Loan pledged with assets	**26,895**	37,408
Guaranteed loans	**–**	5,955
	126,654	121,469
Other loans		
Unsecured loans	**17,589**	17,765
Loan pledged with assets	**2,788**	3,077
Guaranteed loans	**–**	131
	20,377	20,973
	147,031	142,442

(b) Maturity of loans

	30 June 2018 *HK$ million*	31 December 2017 *HK$ million*
Bank and other loans are repayable:		
– Within 1 year or on demand	**36,813**	31,062
– Between 1 and 2 years	**19,057**	14,318
– Between 2 and 5 years	**46,640**	39,200
– Over 5 years	**44,521**	57,862
	147,031	142,442

14 DEBT INSTRUMENTS ISSUED

	30 June 2018 *HK$ million*	31 December 2017 *HK$ million*
Corporate bonds issued	**82,865**	91,644
Notes issued	**148,447**	147,002
Subordinated bonds issued	**87,484**	88,200
Certificates of deposit issued	**2,937**	3,409
Certificates of interbank deposit issued	**455,996**	323,116
	777,729	653,371
Analysed by remaining maturity:		
– Within 1 year or on demand	**491,560**	370,069
– Between 1 and 2 years	**96,713**	7,073
– Between 2 and 5 years	**96,570**	156,004
– Over 5 years	**92,886**	120,225
	777,729	653,371

The Group did not have any defaults of principal, interest or other breaches with respect to its debt instruments issued during the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES

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

(i) Investigation into 2008 forex incident

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

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

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

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES (CONTINUED)

(i) Investigation into 2008 forex incident (Continued)

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

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

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

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

(ii) Mineralogy Pty Ltd. ("Mineralogy") disputes

Each of Sino Iron Pty Ltd ("Sino Iron") and Korean Steel Pty Ltd ("Korean Steel"), subsidiary companies of the Company, is a party to a Mining Right and Site Lease Agreement ("MRSLA") with Mineralogy. Among other things, those agreements, together with other project agreements, provide Sino Iron and Korean Steel the right to construct and operate the Group's Sino Iron project in Western Australia ("Sino Iron Project") and take an aggregate of two billion tonnes of magnetite ore.

A number of disputes have arisen in relation to the MRSLAs and associated agreements, a number of which are described below. The Group intends to contest all claims vigorously.

Option Agreement Dispute

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

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

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES (CONTINUED)

(ii) Mineralogy Pty Ltd. ("Mineralogy") disputes (Continued)

Option Agreement Dispute (Continued)

Notwithstanding the making of these declarations, Mineralogy has not taken the action necessary to permit completion of the transaction resulting from the Company's exercise of the first option under the Option Agreement. On 31 March 2016, the CITIC Parties commenced a proceeding in the Supreme Court of Western Australia seeking orders compelling Mineralogy and Mr. Palmer to take the steps necessary under the Option Agreement to complete the transfer of a further company having the right to mine one billion tonnes of magnetite ore.

On 26 February 2018, Justice Kenneth Martin granted leave for Cape Preston Resource Holdings Pty Ltd ("Cape Preston"), a subsidiary of the Company, to be added as a plaintiff to the proceeding and for the writ to be amended for that purpose. On 19 March 2018, the CITIC Parties and Cape Preston filed an amended statement of claim that addressed issues arising from the joinder of Cape Preston and certain other matters. On 31 May 2018, Mineralogy and Mr. Palmer filed their defence and counterclaim and, on 31 July 2018, Mineralogy and Mr. Palmer filed an amended defence and amended counterclaim.

No trial date has been set for this proceeding.

Royalty Component B Dispute

The MRSLAs provide that Sino Iron and Korean Steel must pay a royalty to Mineralogy, a component of which ("Royalty Component B") is payable on products produced and calculated by reference to 'prevailing published annual FOB prices' for certain iron ore products. Sino Iron and Korean Steel's position was that, among other things, because this phrase refers to the Annual Benchmark Pricing System ("Benchmark"), which ceased to exist in early 2010, it is no longer possible to calculate Royalty Component B. Mineralogy's position was that the phrase is not limited to a reference to the Benchmark and Royalty Component B is still ascertainable from other published data. Mineralogy commenced a proceeding in the Supreme Court of New South Wales that was transferred to the Supreme Court of Western Australia following a successful application by the CITIC Parties. In the proceeding transferred to the Supreme Court of Western Australia ("Proceeding CIV 1808/2013"), Mineralogy pursued a claim against Sino Iron and Korean Steel for payment of sums for Royalty Component B on products produced up to 31 March 2017, damages for alleged breaches of the MRSLAs and certain other relief.

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES (CONTINUED)

(ii) Mineralogy Pty Ltd. ("Mineralogy") disputes (Continued)

Royalty Component B Dispute (Continued)

The trial in Proceeding CIV 1808/2013 commenced on 14 June 2017 and ran for 10 sitting days. On 24 November 2017, Justice Kenneth Martin delivered his reasons for decision in that proceeding, finding in favour of Mineralogy. In particular, his Honour found in favour of Mineralogy as to the proper construction of the relevant clauses of the MRSLAs and the calculation of Royalty Component B.

Following delivery of the reasons for decision in Proceeding CIV 1808/2013, Mineralogy commenced a further proceeding in the Supreme Court of Western Australia against the CITIC Parties ("Proceeding CIV 3024/2017") seeking the same relief as that sought in Proceeding CIV 1808/2013. On 18 December 2017, Justice Kenneth Martin ordered, among other things, that Proceeding CIV 1808/2013 and Proceeding CIV 3024/2017 be consolidated and that all claims be determined in the as consolidated proceeding.

Also on 18 December 2017, Justice Kenneth Martin made final orders in the consolidated proceeding. His Honour ordered, among other things, that judgment be entered for Mineralogy:

(i) against each of Sino Iron and Korean Steel in the amount of US$82,409,227.91 (including US$7,702,492.91 interest); and

(ii) against the Company in the amount of US$153,859,032.00 (including US$4,445,562.00 interest), pursuant to the guarantee in the Fortescue Coordination Deed ("FCD").

Justice Kenneth Martin ordered that the obligations to pay the above amounts to Mineralogy be suspended until the close of business on 15 January 2018.

Mineralogy could have enforced the judgment against either Sino Iron and Korean Steel, on the one hand, or against the Company, on the other. However, it could not recover the judgment sums from both Sino Iron/Korean Steel and the Company.

On 12 January 2018, Sino Iron paid to Mineralogy the judgment sums plus interest ordered by Justice Kenneth Martin on behalf of itself and Korean Steel. On the same day, Sino Iron paid Mineralogy the sum of US$113,332,300 in respect of payments of Royalty Component B for the quarters ended 30 June 2017, 30 September 2017 and 31 December 2017 in conformity with the judgment in Proceedings CIV 1808/2013 and CIV 3024/2017.

The CITIC Parties have appealed the consolidation orders and final orders made by Justice Kenneth Martin on 18 December 2017. The Court of Appeal is considering listing the hearing of the appeals on 4 and 5 December 2018.

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES (CONTINUED)

(ii) Mineralogy Pty Ltd. ("Mineralogy") disputes (Continued)

FCD Indemnity Disputes

Mineralogy and Mr. Palmer have commenced and threatened to commence proceedings to pursue claims pursuant to an indemnity given by the Company under the FCD to Mineralogy and Mr. Palmer that extends to losses suffered by Mineralogy and Mr. Palmer in relation to failure by Sino Iron and Korean Steel to perform their obligations under the project agreements.

(i) Queensland Nickel FCD Indemnity Claim

On 29 June 2017, the final day of the trial of Proceeding CIV 1808/2013, Mr. Palmer commenced a proceeding against the Company in the Supreme Court of Western Australia claiming damages in the sum of AUD2.324 billion (now reduced by an amended statement of claim to AUD1.8065 billion). This amount is alleged to represent the reduction in the value of the assets of the Joint Venture business carried on by Queensland Nickel group of companies ("Queensland Nickel") controlled by Mr. Palmer. The Joint Venture business was a nickel and cobalt refinery located at Yabulu in North Queensland.

Mr. Palmer's claim purports to be made pursuant to an indemnity given by the Company under the FCD to Mr. Palmer and Mineralogy, that extends to losses suffered by Mr. Palmer and Mineralogy in relation to failure by Sino Iron and Korean Steel to perform their obligations under the project agreements.

Mr. Palmer claims that, in or around November 2015, Mineralogy agreed and/or determined to provide to Queensland Nickel Pty Limited, the manager of the Queensland Nickel joint venture, AUD28 million and such further funds as it might require for working capital, funded from the payment of Royalty Component B, to enable it to continue to manage and operate the Joint Venture business, while nickel prices remained low. As Sino Iron and Korean Steel had not paid amounts sought by Mineralogy on account of Royalty Component B, Mr. Palmer claims that Mineralogy did not, and was unable to, provide the funds to Queensland Nickel Pty Limited to enable it to continue managing and operating the Joint Venture business. Mr. Palmer alleges that Queensland Nickel Pty Limited was subsequently placed in administration, followed by liquidation, because it did not receive those funds from Mineralogy.

On 5 February 2018, the Company filed and served its defence and counterclaim in the proceeding. The Company has pleaded a number of defences, including that there has been no breach of the project agreements, construction arguments, causation and mitigation.

On 26 February 2018, Justice Kenneth Martin made, inter alia, orders adding Mineralogy (as a plaintiff) and Sino Iron and Korean Steel (as defendants) in the proceeding.

For the first half of 2018, the plaintiffs and defendants delivered their respective pleadings. At a directions hearing on 31 May 2018, Justice Martin made programming orders to deal with issues including the timetabling of this claim and the Palmer Petroleum FCD Indemnity Claim. A further directions hearing has been listed for 21 September 2018.

No trial date has been set for this proceeding.

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES (CONTINUED)

(ii) Mineralogy Pty Ltd. ("Mineralogy") disputes (Continued)

FCD Indemnity Disputes (Continued)

(ii) Palmer Petroleum FCD Indemnity Claim

On 16 February 2018, Mineralogy commenced another proceeding against the CITIC Parties in the Supreme Court of Western Australia, Proceeding CIV 1267/2018, in which it claims damages in the sum of AUD2.675 billion. The statement of claim pleads that Mineralogy had agreed to provide:

(1) from December 2009, funding; and

(2) in or about 2013, all future working capital,

to its wholly owned subsidiary, Palmer Petroleum Pty Ltd (now named Aspenglow Pty Ltd) ("Palmer Petroleum"). As the CITIC Parties had not paid Royalty Component B from the fourth quarter of 2013 to the second quarter of 2016, it is claimed that Mineralogy did not, and was unable to, provide the funds to Palmer Petroleum.

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

On 24 April 2018, the CITIC parties filed and served a defence. The CITIC Parties have pleaded a number of defences, including that there has been no breach of the project agreements, construction arguments, causation and mitigation.

At a directions hearing on 31 May 2018, Justice Martin made programming orders to deal with issues including the timetabling of this claim and the Queensland Nickel FCD Indemnity Claim. A further directions hearing has been listed for 21 September 2018.

No trial date has been set for this proceeding.

(iii) Other Threatened FCD Indemnity Claims

Mr. Palmer and Mineralogy have also foreshadowed further claims under the indemnity in the FCD relating to other losses alleged to have been suffered by various other entities controlled by Mr. Palmer.

Minimum Production Royalty Dispute

On 21 December 2017, Mineralogy commenced another proceeding against the CITIC Parties in the Supreme Court of Western Australia, Proceeding CIV 3166/2017, in which it revived its claim for the minimum production royalty. Mineralogy sought, among other things, payment by Sino Iron and Korean Steel each of US$97,802,036, and payment by the Company of US$195,604,070 pursuant to the guarantee and indemnity in the FCD.

15 CONTINGENT LIABILITIES AND COMMITMENTS – OUTSTANDING LITIGATION AND DISPUTES (CONTINUED)

(ii) Mineralogy Pty Ltd. ("Mineralogy") disputes (Continued)

Minimum Production Royalty Dispute (Continued)

The MRSLAs required each of Sino Iron and Korean Steel to produce a minimum of six million tonnes of product by 21 March 2013, unless prevented from doing so by factors outside their control. If Sino Iron and Korean Steel failed to do so, they were each required, within one month of that date, to pay Mineralogy the equivalent of the Mineralogy Royalty on six million tonnes of product.

Mineralogy served the CITIC Parties with a Notice of Discontinuance on 15 April 2018, and indicated that it would bring a new claim (with further parties included). On 8 May 2018, Mineralogy filed the notice of discontinuance at the Supreme Court of Western Australia. Mineralogy has not, to our knowledge, commenced a new minimum production royalty proceeding as foreshadowed in its letter dated 15 April 2018.

(iii) Metallurgical Corporation of China ("MCC") claim

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

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

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

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

As set out in the Company's announcement dated 24 December 2013, Sino Iron and MCC WA entered into a supplemental contract pursuant to which Sino Iron will take over the management of the construction and commissioning of the remaining four production lines of the Sino Iron Project. An independent audit will opine on various matters including the contract price for the hand over pursuant to the supplemental contract and related fees and expenses, the value of the supporting services provided by Sino Iron to MCC WA in carrying out its responsibilities under the contract, the extent of the works completed by MCC WA in respect of the first two production lines, and the liability of MCC WA in respect of the extensive delays on completion of the works under the contract. By reference to such findings of the independent audit, Sino Iron and MCC WA expect to enter into further negotiations to determine the amount of liabilities to be borne between the parties. Outcomes are not yet known as at 30 June 2018.

FINANCIAL REVIEW AND ANALYSIS

In HK$ million	Six months ended 30 June **2018**	2017 (Restated)	Increase/ (Decrease)
Revenue	**258,323**	199,990	58,333
Profit before taxation	**56,597**	53,741	2,856
Profit attributable to ordinary shareholders	**30,668**	32,234	(1,566)
Earnings per share (HK$)	**1.05**	1.11	(0.06)
Dividend per share (HK$)	**0.15**	0.11	0.04
Net cash generated from/(used in) operating activities	**11,427**	(92,504)	103,931
Capital expenditure	**17,349**	9,939	7,410

	As at 30 June 2018	As at 31 December 2017	Increase/ (Decrease)
Total assets	**7,628,950**	7,520,739	108,211
Total liabilities	**6,814,272**	6,727,098	87,174
Total ordinary shareholders' funds and perpetual capital securities	**566,204**	550,951	15,253

Profit/(loss) and assets by business

	Profit/(loss)		**Assets**	
In HK$ million	**Six months ended 30 June 2018**	2017 (Restated)	**As at June 30 2018**	As at 31 December 2017
Financial services	**35,564**	30,692	**7,010,250**	6,925,076
Resources and energy	**1,726**	(53)	**129,313**	129,438
Manufacturing	**2,639**	1,857	**138,195**	130,381
Engineering contracting	**699**	309	**46,260**	46,127
Real estate	**5,230**	5,819	**159,637**	159,664
Others	**3,840**	7,638	**158,456**	163,835
Underlying business operations	**49,698**	46,262	**7,642,111**	7,554,521
Operation management	**(4,015)**	(3,298)		
Elimination	**(883)**	22		
Profit attributable to non-controlling interests and holders of perpetual capital securities	**14,132**	10,752		
Profit attributable to ordinary shareholders	**30,668**	32,234		

Revenue by business

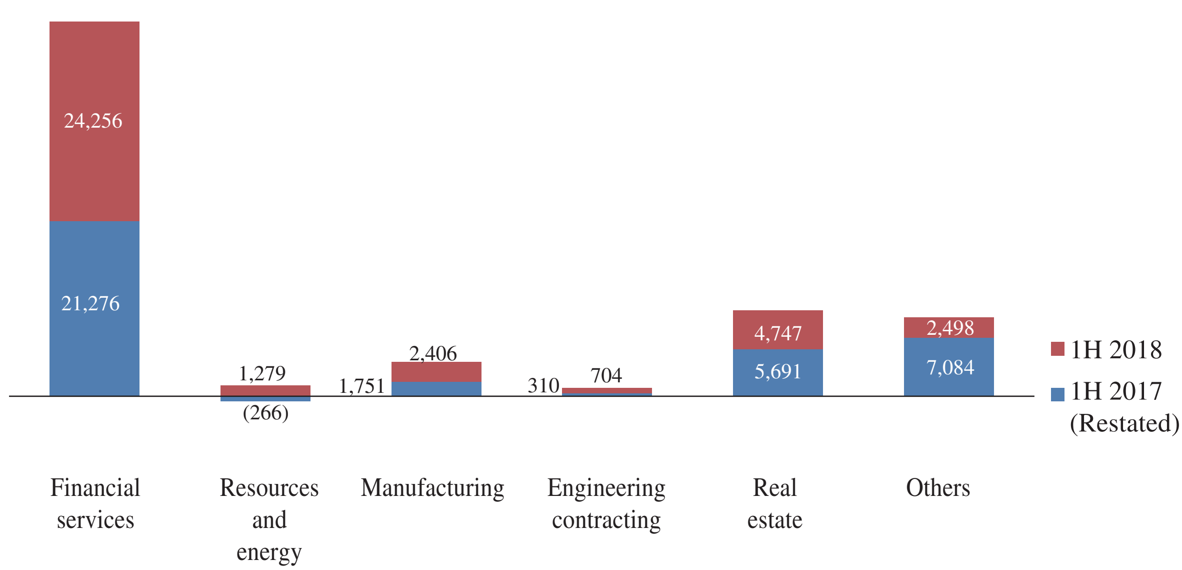
In HK$ million	Six months ended 30 June **2018**	2017 (Restated)	Increase/(decrease) Amount	%
Financial services	**103,068**	89,943	13,125	15
Resources and energy	**34,994**	32,172	2,822	9
Manufacturing	**61,125**	40,937	20,188	49
Engineering contracting	**4,015**	3,653	362	10
Real estate	**5,270**	1,228	4,042	329
Others	**49,822**	32,037	17,785	56

Revenue by nature

In HK$ million	Six months ended 30 June **2018**	2017 (Restated)	Increase/(decrease) Amount	%
Net interest income	**62,213**	56,757	5,456	10
Net fee and commission income	**29,314**	28,038	1,276	5
Sales of goods and services	**155,244**	110,045	45,199	41
– Sales of goods	**136,645**	94,646	41,999	44
– Services rendered to customers	**18,599**	15,399	3,200	21
Other revenue	**11,552**	5,150	6,402	124

Profit Attributable to Ordinary Shareholders by Business

In HK$ million



Capital Expenditures

In HK$ million	**Six months ended 30 June** **2018**	2017	Increase/(decrease) Amount	%
Financial services	**1,734**	1,027	707	69
Resources and energy	**835**	2,419	(1,584)	(65)
Manufacturing	**6,479**	1,798	4,681	260
Engineering contracting	**1,010**	922	88	10
Real estate	**1,016**	869	147	17
Others	**6,275**	2,904	3,371	116
Total	**17,349**	9,939	7,410	75

Group Financial Position

In HK$ million	**As at 30 June 2018**	As at 31 December 2017	Increase/(decrease) Amount	%
Total assets	**7,628,950**	7,520,739	108,211	1
Loans and advances to customers and other parties	**3,904,130**	3,721,886	182,244	5
Investments in financial assets	**1,804,469**	N/A	1,804,469	N/A
Cash and deposits	**822,519**	924,584	(102,065)	(11)
Available-for-sale financial asset	**N/A**	807,912	(807,912)	N/A
Investment classified as receivables	**N/A**	644,789	(644,789)	N/A
Held-to-maturity investment	**N/A**	261,654	(261,654)	N/A
Placement with banks and non-bank financial institutions	**244,419**	205,346	39,073	19
Fixed assets	**198,438**	196,047	2,391	1
Trade and other receivable	**171,278**	149,204	22,074	15
Total liabilities	**6,814,272**	6,727,098	87,174	1
Deposits from customers	**4,226,730**	4,056,158	170,572	4
Deposits from banks and non-bank financial institutions	**812,023**	954,638	(142,615)	(15)
Debt instruments issued	**777,729**	653,371	124,358	19
Borrowing from central banks	**315,621**	284,818	30,803	11
Total ordinary shareholders' funds and perpetual capital securities	**566,204**	550,951	15,253	3

Loans and advances to customers and other parties

As at 30 June 2018, the net loans and advances to customers and other parties of the Group was HK$3,904,130 million, an increase of HK$182,244 million, increased 5% compared to 31 December 2017. The proportion of loans and advances to customers and other parties to total assets was 51.18%, an increase of 1.69% compared to 31 December 2017.

In HK$ million	**As at 30 June 2018**	As at 31 December 2017	Increase/(decrease) Amount	%
Corporate loans	**2,249,219**	2,231,671	17,548	1
Discounted bills	**173,225**	130,190	43,035	33
Personal loans	**1,536,732**	1,473,346	63,386	4
Total loans and advances to customers and other parties	**3,959,176**	3,835,207	123,969	3
Impairment allowances	**(113,353)**	(113,321)	(32)	(0.03)
Loans and advances to customers and other parties at fair value through other comprehensive income	**58,307**	N/A	N/A	N/A
Net loans and advances to customers and other parties	**3,904,130**	3,721,886	182,244	5

Deposits from customers

As at 30 June 2018, deposits from customers of the financial institutions under the Group were HK$4,226,730 million, an increase of HK$170,572 million, 4% compared to 31 December 2017. The proportion of deposits from customers to total liabilities was 62.03%, an increase of 1.73% compared to 31 December 2017.

In HK$ million	**As at 30 June 2018**	As at 31 December 2017	Increase/(decrease) Amount	%
Corporate deposits				
Time deposits	**1,626,325**	1,463,098	163,227	11
Demand deposits	**1,807,798**	1,947,517	(139,719)	(7)
Subtotal	**3,434,123**	3,410,615	23,508	0.7
Personal deposits				
Time deposits	**461,976**	357,069	104,907	29
Demand deposits	**317,377**	281,084	36,293	13
Subtotal	**779,353**	638,153	141,200	22
Outward remittance and remittance payables	**13,254**	7,390	5,864	79
Total	**4,226,730**	4,056,158	170,572	4

Risk Management

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

Financial Risk

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

Asset and liability management

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

1. *Debt*

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

As at 30 June 2018, consolidated debt of CITIC Limited(1) was HK$924,760 million, including loans of HK$147,031 million and debt instruments issued(2) of HK$777,729 million. Debt of the head office of CITIC Limited(3) accounted for HK$90,761 million and debt of CITIC Bank(4) HK$658,876 million. In addition, the head office of CITIC Limited had cash and deposits of HK$10,168 million and available committed facilities from banks of HK$16,826 million.

The details of debt are as follows:

As at 30 June 2018		*HK$ million*
Consolidated debt of CITIC Limited		924,760
Among which:	Debt of the head office of CITIC Limited	90,761
	Debt of CITIC Bank	658,876

Note:

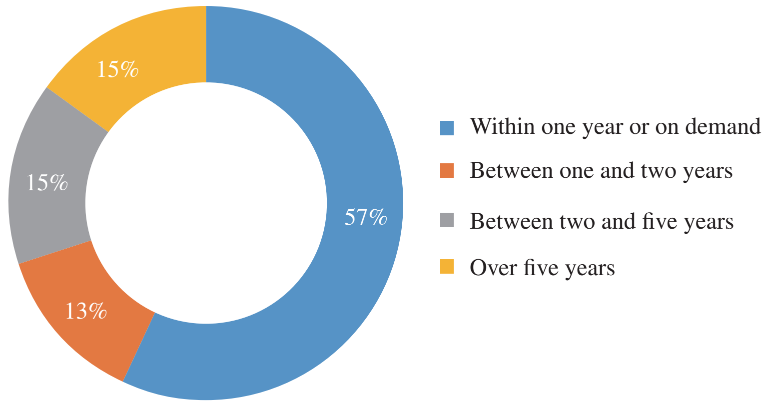
(1) Consolidated debt of CITIC Limited is the sum of "bank and other loans" and "debt instruments issued" in the Consolidated Balance Sheet of CITIC Limited;

(2) Debt instruments issued include corporate bonds, notes, subordinated bonds, certificates of deposit and certificates of interbank deposit issued;

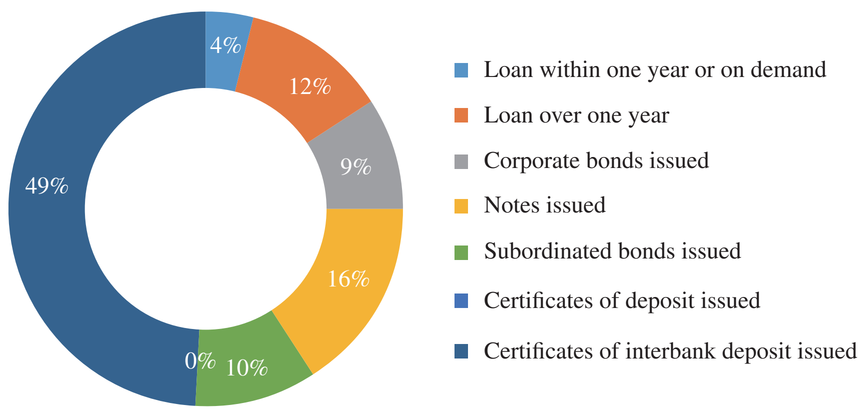
(3) Debt of the head office of CITIC Limited is the sum of "bank and other loans", "long-term borrowings" and "debt instruments issued" in the Balance Sheet of CITIC Limited;

(4) Debt of CITIC Bank refers to CITIC Bank's consolidated debt securities issued, including long-term debt securities, subordinated bonds, certificates of deposit and certificates of interbank deposit issued.

Consolidated debt by maturity as at 30 June 2018



Consolidated debt by type as at 30 June 2018



The debt to equity ratio of CITIC Limited as at 30 June 2018 is as follows:

In HK$ million	**Consolidated**	**Head office**
Debt	924,760	90,761
Total equity[(5)]	814,678	395,300
Debt to equity ratio	114%	23%

Note:

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

2. *Liquidity risk management*

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

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

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

3. *Credit ratings*

	Standard & Poor's	Moody's
30 Jun. 2018	BBB+/Stable	A3/Stable

Treasury risk management

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

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

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

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

1. Interest rate risk

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

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

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

2. Currency risk

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

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

3. *Counterparty risk for financial products*

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

4. *Commodity risk*

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

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

5. *Market price risk*

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

Economic Environment

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

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

Operational Risk

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

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

Credit Risk

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

Competitive Markets

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

– The financial services business faces fierce competition from domestic and international commercial banks and other financial institutions.

– The engineering contracting business is challenged by global peers as well as China’s large state-owned enterprises and private companies.

– Resources and energy, manufacturing, real estate operations, and other businesses in different sectors also face severe competition over resources, technologies, prices and services.

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

Other External Risks and Uncertainties

Impact of local, national and international laws and regulations

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

Impact of new accounting standards

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

Natural disasters or events, terrorism and diseases

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

HUMAN RESOURCES

Equality

The labour contracts with our employees have been entered into and modified in strict compliance with relevant laws and regulations to safeguard the legal rights of our staff and to establish harmonious and stable employment relationships with them. In recruitment, we provide equal opportunities for all candidates in accordance with the principle of "Open Selection Based on Merit". Child labour and forced labour are strictly forbidden, and no discrimination in relation to, amongst others, race, nationality, religion, physical disability and gender would be tolerated.

Incentives

The remuneration management system of the Company and its subsidiaries which has been formulated in accordance with the guiding remuneration policies of local governments is designed to provide our employees with competitive and fair remuneration based on their individual performance and prevailing market condition, with reference to remuneration statistics provided by professional consultancy firm. We have been constantly improving our insurance coverage, benefit scheme, working hours and leave benefit system. Substantially all the employees have been covered by basic social insurance, and most of our subsidiaries are offering the staff supplement pension insurance and supplement medical insurance. We continued to optimise our performance appraisal and remuneration management mechanism. Under the principle of managing based on different classification, we conducted differential performance appraisal with a focus on the value and shareholder return created by the subsidiaries, the results of which would be closely linked to remuneration incentives.

Training

In line with our people-oriented philosophy and with the advantage of being a consolidated group and synergy effects, we arrange for staff postings and exchanges between our headquarters and subsidiaries, among subsidiaries, and between CITIC and relevant provincial and municipal governments. This has broadened the training of our staff and given them greater exposure to our diverse operations. To implement our Talent Strategy during the 13th FYP period, we formed five talent teams.

Caring

The quality of life of our employees is one of our most significant concerns. In order to improve employees' sense of achievement and enhance their cohesion, we have taken various measures including providing public recognition, giving publicity, organizing cultural and sports activities, conducting visit at special time points and offering regular help and caring.

CORPORATE GOVERNANCE

CITIC Limited is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to promote investor confidence and protect the interests of our shareholders. Looking ahead, we will keep our governance practices under continual review to ensure their consistent application and will continue to improve our practices having regard to the latest developments. Details of our corporate governance practices can be found in CITIC Limited's Annual Report 2017 and on CITIC Limited's website at www.citic.com.

Board Changes

On 20 March 2018, Mr Wu Youguang was appointed as a non-executive director of CITIC Limited.

On 18 April 2018, Mr Noriharu Fujita resigned as an independent non-executive director and a member of the strategic committee of CITIC Limited. On the same date, Mr Shohei Harada was appointed as an independent non-executive director and a member of the strategic committee of CITIC Limited.

On 24 May 2018, Mr Liu Yeqiao resigned as a non-executive director and a member of the audit and risk management committee of CITIC Limited. On the same date, Mr Peng Yanxiang was appointed as a non-executive director and a member of the audit and risk management committee of CITIC Limited.

Board Committees

Currently the board has the following committees to discharge its functions:

- An audit and risk management committee to oversee the relationship with the external auditor; and to review CITIC Limited's financial reporting, annual audit and interim report. The committee acts on behalf of the board in providing oversight of CITIC Limited's financial reporting system, risk management and internal control systems, reviews and monitors the effectiveness of the internal audit function, and reviews CITIC Limited's policies and practices on corporate governance. The committee comprises three independent non-executive directors, Mr Francis Siu Wai Keung (who serves as the chairman of the committee), Dr Xu Jinwu and Mr Anthony Francis Neoh, and two non-executive directors, Mr Yang Xiaoping and Mr Peng Yanxiang (appointed as a committee member in place of Mr Liu Yeqiao with effect from 24 May 2018).

- A nomination committee to determine the policy for the nomination of directors, set out the nomination procedures and the process and criteria adopted to select and recommend candidates for directorship which shall take into consideration the principle of diversity. It also reviews the structure, size, composition and diversity of the board annually. The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members include an executive director, Mr Wang Jiong (being vice chairman and president of CITIC Limited), a non-executive director, Ms Yan Shuqin, and four independent non-executive directors, Mr Francis Siu Wai Keung, Dr Xu Jinwu, Mr Anthony Francis Neoh and Ms Lee Boo Jin.

- A remuneration committee to determine the remuneration packages of individual executive directors and senior management, including salaries, bonuses, benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of office or appointment). The committee comprises four independent non-executive directors, Mr Anthony Francis Neoh (who serves as the chairman of the committee), Mr Francis Siu Wai Keung, Dr Xu Jinwu and Mr Paul Chow Man Yiu, and a non-executive director, Mr Liu Zhuyu.

- A strategic committee to accommodate the strategic development of CITIC Limited and enhance its core competitiveness, make and implement the development plan of CITIC Limited, streamline the investment-related decision making procedures and procure well-advised and efficient decision making. The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members include an executive director, Mr Wang Jiong (being vice chairman and president of CITIC Limited), three non-executive directors, Mr Song Kangle, Ms Yan Shuqin and Mr Yang Xiaoping, and two independent non-executive directors, Mr Anthony Francis Neoh and Mr Shohei Harada (appointed as a committee member in place of Mr Noriharu Fujita with effect from 18 April 2018). Mr Li Rucheng, being a former non-executive director of CITIC Limited, serves as a consultant to the committee.

- A special committee to deal with all matters relating to all investigations (including enquiries) of, and proceedings involving, CITIC Limited and its directors, arising from the 2008 forex incident, including but not limited to, by the Market Misconduct Tribunal, the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force. The committee comprises two members, Mr Zhang Jijing and Mr Francis Siu Wai Keung.

Management Committees

- The executive committee is the highest authority of the management of CITIC Limited accountable to the board. The functions and powers of the executive committee are: to formulate CITIC Limited's material strategic plans; to formulate CITIC Limited's annual material investment and financing plans (including reviewing material investment plans, feasibility studies, proposed disposals/divestments, mergers and acquisitions and other significant transactions of CITIC Limited); to review CITIC Limited's annual business plan and finance plans; to review monthly reports of CITIC Limited, and to submit to the board before each month-end the monthly report for the previous month; to manage and monitor CITIC Limited's core activities; to appoint and remove mid-level and above key personnel (other than personnel above the rank of assistant to general manager, and those appointed and removed by the board); to approve internal rules on day-to-day operations of CITIC Limited; to review and approve proposals to establish and adjust CITIC Limited's management and organizational structure; and to discharge other powers and functions conferred on it by the board. The first three items and other matters within the authority of the board should be submitted for approval by the board, and thereafter implemented by the executive committee. The committee is chaired by Mr Chang Zhenming, the chairman of the board, and other members are Mr Wang Jiong (being executive director, vice chairman and president of CITIC Limited and also serves as vice chairman of the committee), Mr Cai Huaxiang (serving as vice chairman of the committee), Ms Li Qingping (being executive director and vice president of CITIC Limited), Mr Pu Jian (being executive director and vice president of CITIC Limited), Mr Cai Xiliang (being vice president of CITIC Limited) and Mr Cui Jun (appointed as a committee member with effect from 29 August 2018). On 29 August 2018, Mr Zhu Gaoming resigned as vice president of CITIC Limted and a member of the executive committee; and Mr Feng Guang also resigned as a member of the executive committee of CITIC Limited.

- The strategy and investment management committee has been established as a sub-committee under the executive committee to enhance strategy management, to prevent investment risks and to promote high quality development. The principal responsibilities of the strategy and investment management committee are to study and draw up CITIC Limited's integral development, medium and long-term development plan and industries investment guideline, approve development strategies and plans of subsidiaries; to establish a mechanism of empowered operation and management, organize and implement it; and to organize and implement full life-circle management of investment activities within the group. The committee is led by the chairman of the committee Mr Wang Jiong (being executive director, vice chairman and president of CITIC Limited) and two vice chairmen of the committee Mr Pu Jian (being executive director and vice president of CITIC Limited) and Mr Cai Xiliang (being vice president of CITIC Limited, appointed as vice chairman of the committee with effect from 13 August 2018), and other members of the committee include Mr Zhang Youjun (being assistant president of CITIC Limited), responsible persons of the strategic development department, financial control department, treasury department and legal and compliance functions.

- The asset and liability management committee (the "ALCO") has been established as a sub-committee under the executive committee to be in charge of monitoring and controlling the financial risks of CITIC Limited. The principal responsibilities of the ALCO are to monitor and control the asset and liability financial position of CITIC Limited on a regular basis and to monitor and control the asset and liability structure, counterparties, currencies, interest rates, commodities and commitments and contingent liabilities of CITIC Limited. It also reviews financing plans and manages the cash flow of CITIC Limited on the basis of the annual budget and establishes hedging policies and approves the use of new financial instruments for hedging. The members of the ALCO include responsible persons of the financial control department, treasury department, strategic development department, the office of the board of directors and legal and compliance functions.

Compliance with Corporate Governance Code

Save as disclosed below, CITIC Limited has applied the principles and complied with all the code provisions of the corporate governance code ("CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 June 2018. In respect of code provision A.6.7 of the CG Code, Dr Xu Jinwu (independent non-executive director) was not able to attend the annual general meeting of CITIC Limited held on 14 June 2018 due to other engagements.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The audit and risk management committee of the board reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 in conjunction with the management and CITIC Limited's external auditor.

The interim financial information is prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". It has been reviewed by CITIC Limited's independent auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

INTERIM DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The directors have declared an interim dividend of HK$0.15 per share (2017: HK$0.11 per share) for the year ending 31 December 2018, payable on Thursday, 4 October 2018 to shareholders whose names appear on CITIC Limited's register of members on Tuesday, 18 September 2018. The register of members of CITIC Limited will be closed from Friday, 14 September 2018 to Tuesday, 18 September 2018, both days inclusive, during which period no transfer of shares will be effected. To qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with CITIC Limited's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 13 September 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

Save as disclosed above, neither CITIC Limited nor any of its subsidiary companies has purchased, sold or redeemed any of CITIC Limited's listed securities during the six months ended 30 June 2018.

FORWARD LOOKING STATEMENTS

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

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

HALF-YEAR REPORT AND FURTHER INFORMATION

A copy of the announcement is posted on CITIC Limited's website (www.citic.com) and Hong Kong Exchanges and Clearing Limited's website (www.hkexnews.hk). The Half-Year Report 2018 will be made available on the respective websites of CITIC Limited and Hong Kong Exchanges and Clearing Limited on or about 10 September 2018.

By Order of the Board
CITIC Limited
Chang Zhenming
Chairman

Hong Kong, 29 August 2018

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