中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

Stock Code : 03311

Exercise Caution in Details and Implementation

Build a Strong Foundation to Seek Greater Success

Annual Report 2018

Vision

The Group is dedicated to its core value of

Exercising Caution in Details and Implementation; Building a Strong Foundation to Seek Greater Success.

In strict compliance with the industry standard and dedicating to contribute to the industry, the Group will strive for growth and continuous innovation under China State's principle of "Good Quality and Value Creation". With the development of individual staff and strengths of teamwork, the Group will achieve a win-win situation with the shareholders, employees and society and become a new role model in the new era. The Group will insist on developing into a leading corporation with competitive international complex construction and infrastructure investment.

Contents

Corporate Structure

中國建築國際集團有限公司
CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

Corporate Structure (continued)

MAINLAND CHINA

- Infrastructure Investment (PPP* and other models)
- Operation of Infrastructure Assets
- Prefabricated Construction
- Other Construction Related Business

HONG KONG

- Building Construction
- Civil Engineering Works
- Foundation Engineering Works
- Mechanical and Electrical Engineering Works
- Investment-driven Contracting Business
- Other Construction Related Business

MACAU

- Building Construction
- Foundation Engineering Works
- Mechanical and Electrical Engineering Works
- Investment-driven Contracting Business
- Other Construction Related Business

OTHERS

- Curtain Wall System**
- Operation Management Business**

* "PPP" — "Public-Private-Partnership"

** Operate through a listed subsidiary, Far East Global Group Limited (Stock Code: 00830)

Board of Directors and Committees

Board of Directors
(see Notes below)

Chairman and Non-executive Director
Yan Jianguo

Executive Directors
Zhang Haipeng *(Chief Executive Officer)*
Tian Shuchen
Zhou Hancheng
Hung Cheung Shew

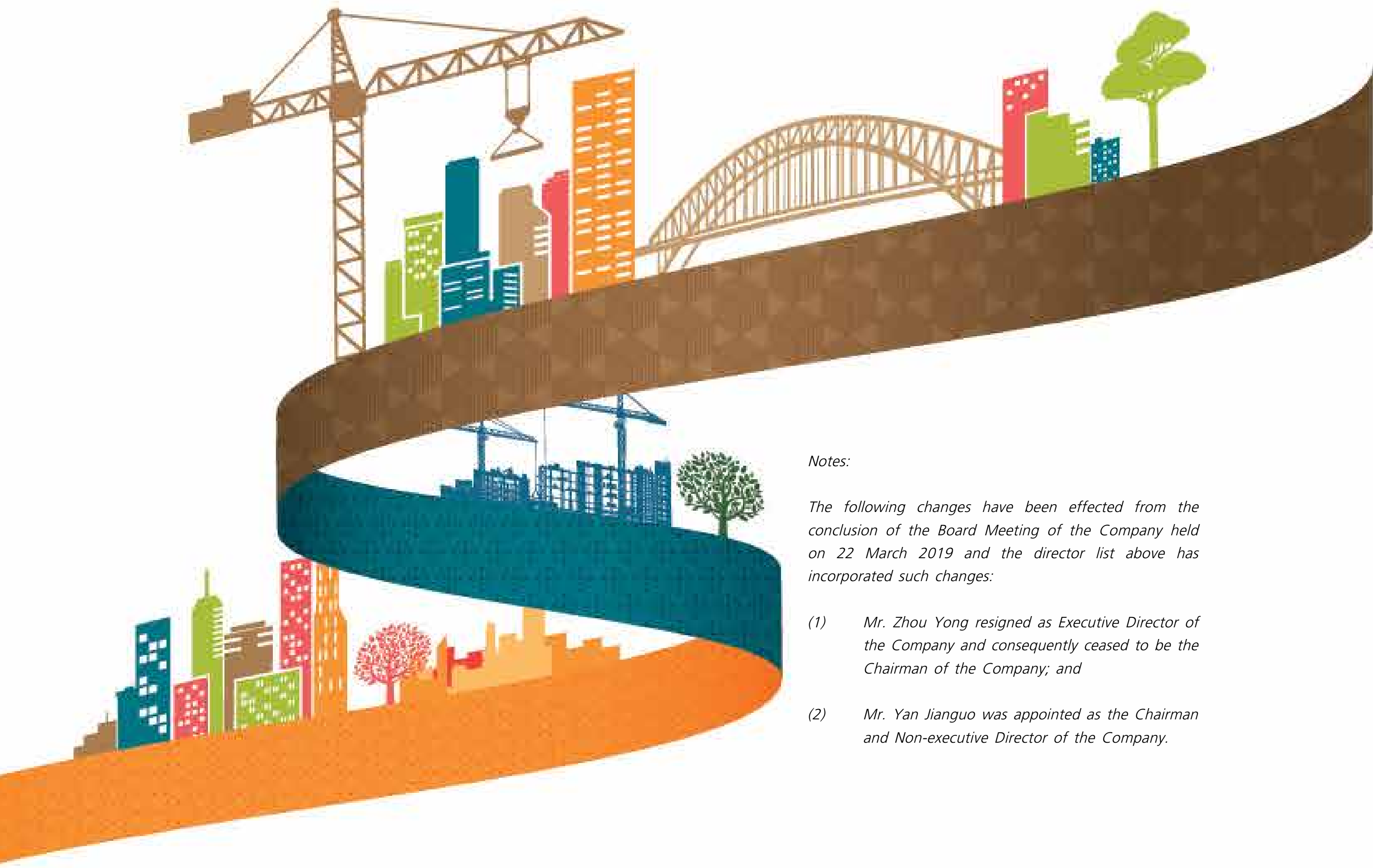
Independent Non-executive Directors
Raymond Ho Chung Tai
Adrian David Li Man Kiu
Raymond Leung Hai Ming
Lee Shing See

Committees

Audit Committee
Raymond Ho Chung Tai *(Chairman)*
Adrian David Li Man Kiu
Raymond Leung Hai Ming
Lee Shing See

Remuneration Committee
Adrian David Li Man Kiu *(Chairman)*
Raymond Ho Chung Tai
Raymond Leung Hai Ming
Lee Shing See

Nomination Committee
Lee Shing See *(Chairman)*
Raymond Ho Chung Tai
Adrian David Li Man Kiu
Raymond Leung Hai Ming



Notes:

The following changes have been effected from the conclusion of the Board Meeting of the Company held on 22 March 2019 and the director list above has incorporated such changes:

(1) Mr. Zhou Yong resigned as Executive Director of the Company and consequently ceased to be the Chairman of the Company; and

(2) Mr. Yan Jianguo was appointed as the Chairman and Non-executive Director of the Company.

Corporate Information

Authorised Representatives

Yan Jianguo
Zhang Haipeng

Company Secretary

Tse Sui Ha

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House — 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

28th Floor, China Overseas Building
139 Hennessy Road, Wanchai
Hong Kong

AUDITOR

PricewaterhouseCoopers

Legal Advisor

Mayer Brown JSM

Principal Bankers

Agricultural Bank of China Limited
Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
BNP Paribas Hong Kong Branch
China Construction Bank Corporation
China Development Bank Corporation
Hang Seng Bank Limited
Industrial and Commercial Bank of China Ltd.
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited
Wing Lung Bank, Limited

Listing Information

Shares

Hong Kong Stock Exchange: 03311

Guaranteed Notes (CSCFIN II N2211)

Hong Kong Stock Exchange: 05037
US$550,000,000 3.375% Guaranteed Notes due 2022 issued by China State Construction Finance (Cayman) II Limited

Guaranteed Notes (CSCFIN II N2711)

Hong Kong Stock Exchange: 05038
US$250,000,000 3.875% Guaranteed Notes due 2027 issued by China State Construction Finance (Cayman) II Limited

Senior Guaranteed Perpetual Capital Securities (CSC FIN SGPS)

Hong Kong Stock Exchange: 05462
US$500,000,000 6.0% Senior Guaranteed Perpetual Capital Securities issued by China State Construction Finance (Cayman) I Limited

Website

www.csci.com.hk

Financial Calendar

Closure of Register of Members — Annual General Meeting
29 May 2019 to 3 June 2019 (both days inclusive)

Annual General Meeting
3 June 2019

Closure of Register of Members — Final Dividend
11 June 2019

Payment of Proposed Final Dividend
3 July 2019

Financial Highlights

	For the year ended 31 December (Note a)				
	2014 (restated)	2015 (restated)	2016	2017	**2018**
Results (HK$'000)					
Revenue	34,522,262	38,001,876	46,207,508	50,152,524	**55,626,304**
EBITDA (Note b)	5,118,701	6,103,727	7,061,232	8,223,304	**8,369,258**
Profit from core business (Note c)	3,575,331	4,524,126	4,153,546	5,072,521	**5,323,976**
Profit attributable to owners of the Company	3,575,331	4,524,126	5,130,066	5,490,091	**4,500,148**
Financial Ratios					
Net margin (%)	10.4	11.9	11.1	11.0	**8.2**
Current ratio (times)	1.07	1.02	1.01	1.07	**1.12**
Financial Information Per share					
Earnings (HK cents) (Note d)	91.77	112.37	119.51	118.85	**89.13**
Dividend (HK cents)	26.00	33.00	33.00	35.00	**27.00**
Net assets (HK$)	5.40	5.74	5.72	7.62	**8.53**
Other Information					
Value of incomplete contracts at 31 December (HK$ billion)	93.10	127.06	153.89	188.01	**236.56**

Notes:

(a) The figures from 2014 to 2015 have been restated for the application of merger accounting for common control combination, acquisition of Precious Deluxe Global Limited and its subsidiaries and changes of measurement of investment properties.

(b) EBITDA represents Profit before Tax, Finance costs, Depreciation and Amortisation charged to the Income Statement during the year.

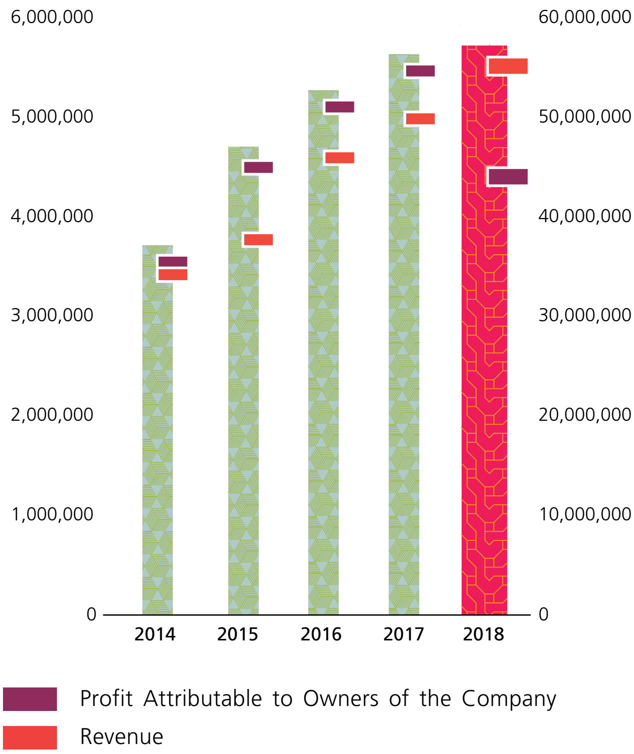
(c) Excluding gain on fair value changes of investment properties, impairment loss on concession operating rights and loss on disposal of a subsidiary.

(d) The weighted average number of ordinary share used in the calculation of earnings per share for the year ended 31 December 2017 has accounted for the bonus element of the rights issue which was completed on 12 October 2017. The earnings per share for the corresponding year of 2016 have been retrospectively adjusted to reflect the bonus element of the rights issue.

Financial Highlights (continued)

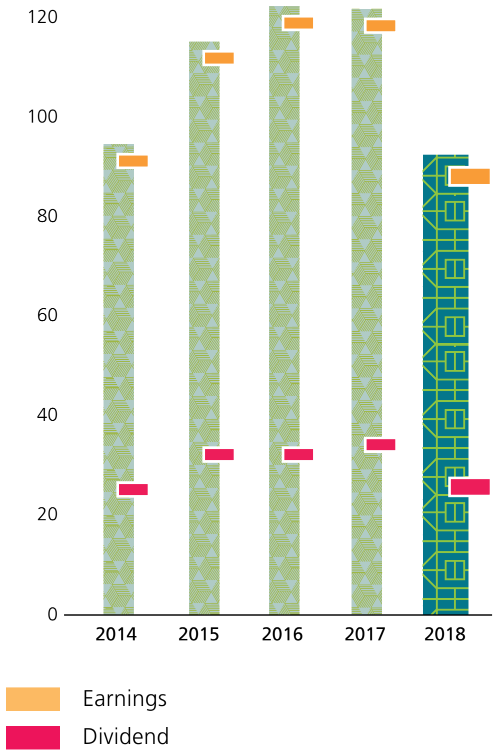
Results

Profit Attributable to Owners of the Company (HK'000) — **Revenue** (HK'000)



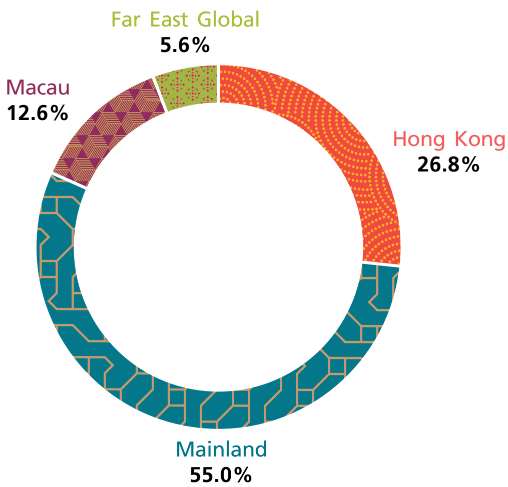
Financial Information Per Share

(HK cents)



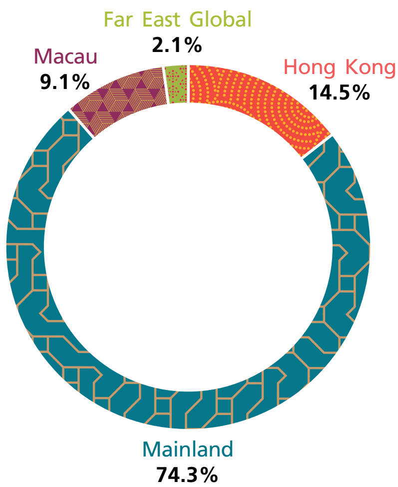
Breakdown of Segment Revenue

for the year ended 31 December 2018



Breakdown of Segment Results*

for the year ended 31 December 2018



*Excluding loss of Overseas Segment

Major Events of the Year 2018

JANUARY

Walk for Millions by Community Chest was fully supported by employees of the Group

On 14 January, nearly 400 employees of the Group and their family members participated in the first large fund-raising activity for the year by the Community Chest: Hong Kong and Kowloon Walk for Millions 2017/18. The opening ceremony was officiated by the Chief Executive, the Hon Mrs. Carrie Lam Cheng Yuet-ngor. All funds raised by this event were allocated to Family and Child Welfare to offer assistance to family in need, to encourage mutual support relationship among family members, as well as to maintain and strengthen family bonding.

JANUARY

CSCI was awarded the "Golden Hong Kong Stocks Award 2017" industry award

On 18 January, the New Value of Hong Kong Stocks Summit and Golden Hong Kong Stocks Awards 2017 award presentation ceremony for the listed companies held in Shenzhen. At which, CSCI was awarded the Most Valuable Vehicle and Industrial Manufacturing Company in the Golden Hong Kong Stocks Awards.

Major Events of the Year 2018 (continued)

MARCH

China State Construction Macau (CSC Macau, 中建澳門) was awarded Good Citizen Award

On 11 March, CSC Macau was awarded Good Citizen Award by the Public Security Police Force of Macau. The award aims to recognize the outstanding contribution of CSC Macau regarding the prevention and rescue work after the "8.23 Typhoon".

FEBRUARY

Groundbreaking ceremony of Airport 3801 Construction Project constructed by China State Construction (Hong Kong) (CSCHK, 中建香港) was held successfully

On 8 February, the groundbreaking ceremony of Airport 3801 Construction Project in Hong Kong was held successfully. The contract sum of the project was HK$2.37 billion and this was part of the construction of the Three-Runway System.

Major Events of the Year 2018 (continued)

MARCH

Groundbreaking ceremony of the Lohas Park Phase VII constructed by CSCHK successfully held in the new year

On 16 March, groundbreaking ceremony of the Lohas Park Phase VII in Hong Kong successfully held in the new year. The contract sum of the project was HK$4.92 billion and occupied a land of approximately 65,000 square meter.

APRIL

The unveiling ceremony of China State Construction Investment (Zhuhai) Co., Ltd. (中建投資(珠海)有限公司) was held successfully

On 20 April, the unveiling ceremony of China State Construction Investment (Zhuhai) Co., Ltd. (中建投資(珠海)有限公司) was held successfully. China State Construction Investment (Zhuhai) Co., Ltd. will take this unveiling as an opportunity, remain true to our original aspiration and keep our mission firmly in mind and progress despite challenges. We actively explored market in Zuhai and western part of Guangdong and contributed positive power for the Group and CSC Macau.

Major Events of the Year 2018 (continued)

JUNE

CSCI was awarded the Tien-Yow Jeme Civil Engineering Prize

On 3 June, the Harbour Area Treatment Scheme of Hong Kong, constructed by CSCI, was awarded the 15th Tien-Yow Jeme Civil Engineering Prize.

MAY

CSCI and the Management Committee of Chongqing Liangjiang New Area held the contract signing ceremony

On 18 May, CSCI and the Management Committee of Chongqing Liangjiang New Area held the contract signing ceremony in Chongqing for the precast construction, production and R&D base project.

Major Events of the Year 2018 (continued)

JUNE

China State Construction Portugal Company (中建葡萄牙公司) was unveiled and set up

On 20 June (Portugal Local Time), China State Construction Portugal Company (中建葡萄牙公司) under CSCI was unveiled and set up in Lisbon, Portugal.

JULY

Two projects constructed by CSCHK won the National Annual Award by Australian Institute of Building

On 12 July, Hong Kong Children's Hospital and One Kai Tak Residential Development Project in Hong Kong, constructed by CSCHK won the National Annual Award 2018 organized by Australian Institute of Building.

Major Events of the Year 2018 (continued)

AUGUST

Opening ceremony of the office of China State Construction International Investments (Guangdong) Limited

On 10 August, China State Construction International Investments (Guangdong) Limited held a special opening ceremony for its office.

JULY

Chairman Zhou Yong and others visited the leaders of Macau Government

On 17 July, Chairman Zhou Yong, Party Secretary of China Overseas Holdings Limited and others visited Mr. Chui Sai On, the Chief Executive of Macau, Zheng Xiao Song, Head of the Liaison Office of the Central People's Government in Macao SAR and Mr. Zhou Wu Gang, Political Commissar of the PLA Macau Garrison.

Major Events of the Year 2018 (continued)

SEPTEMBER

CSCI participated in rescue work after Typhoon Mangkhut

Between 17 September and 30 September, after the Super Typhoon Mangkhut, CSCI put 1,558 people and 254 large machineries into the prevention and rescue work across Hong Kong and Macau and offered their assistance sparing no efforts. The Company was highly commended by the public.

SEPTEMBER

Kickstart ceremony of "Star of Safety Practice" (行為安全之星)

On 19 September, the kickstart ceremony of "Star of Safety Practice" of China Overseas Holdings Limited was held successfully in Lohas Park Phase 7A & B, which are constructed by CSCHK.

Major Events of the Year 2018 (continued)

NOVEMBER

CSCHK received commendation certificate under the Secretary for Home Affairs' Commendation Scheme

On 5 November, CSCHK received commendation certificate under the Secretary for Home Affairs' Commendation Scheme 2018.

OCTOBER

Hong Kong-Zhuhai-Macau Bridge, constructed by CSCI, was officially opened to public

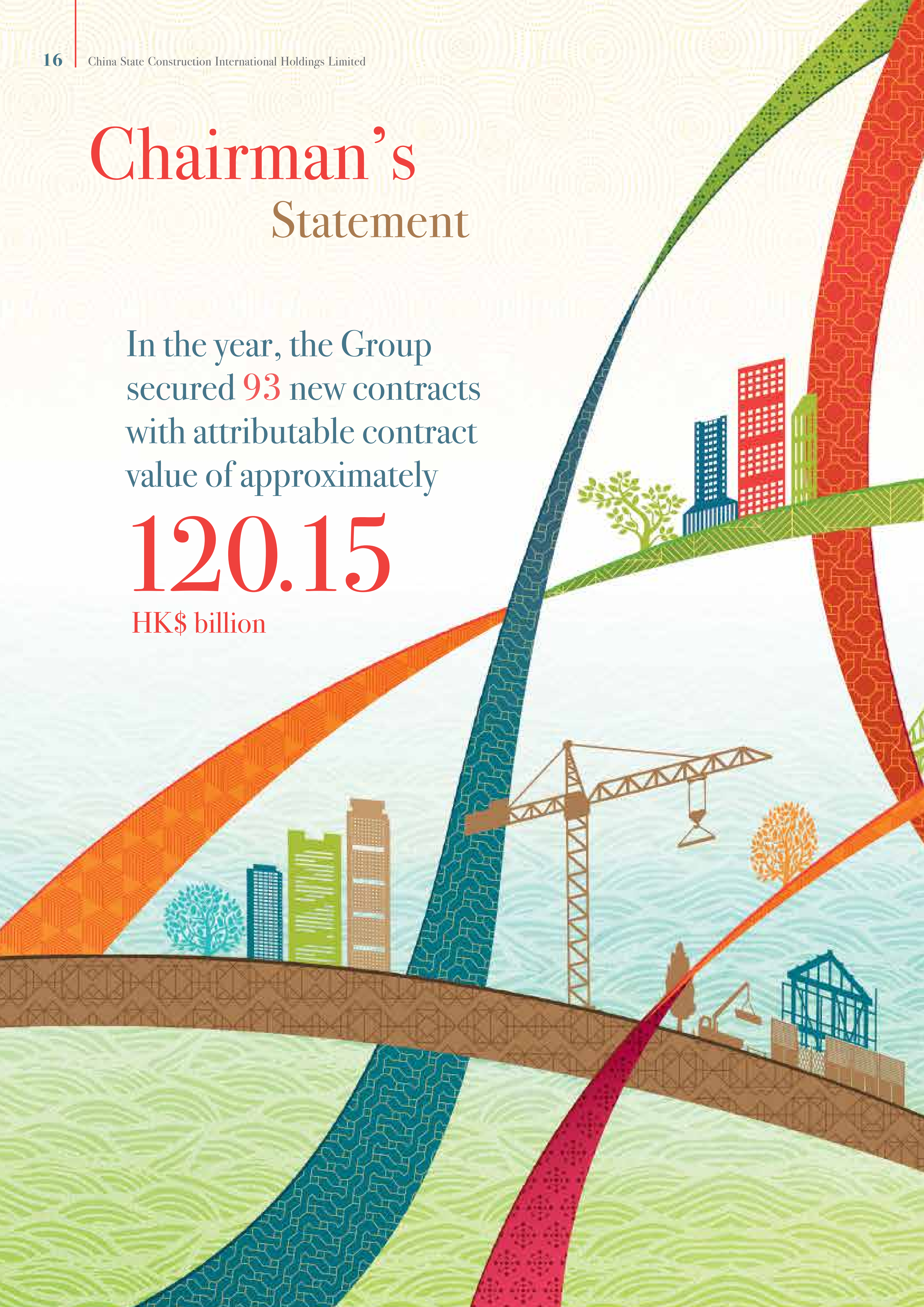
On 23 October, the opening ceremony of the Hong Kong-Zhuhai-Macau Bridge, constructed by CSCI, was held at 9:30 am in Zuhai. President Xi Jinping announced the official opening of the Bridge and it was opened to public at 9:30 am on the next day.

DECEMBER

CSCI was awarded "Listed Company with the Most Valuable Brand"

On 5 December, CSCI was awarded the "Listed Company with the Most Valuable Brand" in the 8th China Securities Golden Bauhinia Awards.

Chairman's Statement



In the year, the Group secured 93 new contracts with attributable contract value of approximately

120.15

HK$ billion

Mr. Yan Jianguo
Chairman and Non-executive Director

Chairman's Statement

Prudent Progress Focused on Quality

Operation Results

The Group's audited profit from core business* attributable to shareholders and revenue for the year ended 31 December 2018 amounted to HK$5,324 million and HK$55,626 million, respectively, representing a year-on-year growth of 5.0% and 10.9%, respectively, while cash return from investment projects amounted to HK$13,710 million, representing a year-on-year growth of 5.7%.

Dividend Payment

The Board has recommended the payment of a final dividend of HK12 cents per share for the year ended 31 December 2018, which represents a year-on-year decrease of 33.3%. Total dividend payment for the year will decrease by 22.9%, year-on-year, to HK27 cents.

Review of Operation

In 2018, the international political and economic situation was complex and changeable, the global economic expansion was weakened with the rise in trade protectionism and significant increase in risks. The US economy maintained its growth momentum under the stimulus of tax cuts and full employment has boosted the inflation level with the Fed being raised interest rates four times during the year. The European economy recovered slowly and policy space constrained. The Chinese economy is in a period of slowing growth and structural adjustment. In the short run, there has been change in stability with risk in its economic operation, but there is no change of direction for its positive trend in the long run.

* Excluding loss on fair value changes of investment properties and impairment loss on concession operating rights

This year, the Group has called for "progress with prudence, the precedence of efficiency, heritage and innovation, and the priority of quality" as its operating principles. We made pragmatic and prudent efforts and sought solid results in business development amidst complex and changing economic and market conditions. In adherence to the development strategy of "project construction and infrastructure investment as dual-core business drivers" and in close tandem with the pace of national developments in the new era, we were constantly innovating our business and management models while effectively addressing risks and challenges with the advantage afforded by the connectivity of our internal and external resources, in a move to drive qualitative business development.

Market Conditions

In Hong Kong and Macau, the construction markets presented opportunities as well as challenges, as both cities maintained steady economic development. In Mainland China, the economy was progressing in stability, although there was a slowdown in the growth of infrastructure investment and hit a new low over so many years following the de-leverage and strict supervision. The glass curtain wall market was generally stable.

1. **Hong Kong and Macau**

   The Hong Kong economy continued to perform strongly with a robust private residential property market, but there were fewer large-scale government infrastructure works than before, while market competition was escalating. The Macau economy enjoyed growth amidst stable development driven by the gaming sector with an increasing number of government projects in the pipeline, while the number of gaming concession projects were seen decreasing. In view of the changes in market landscape, the Group has leveraged the comprehensive advantages of the entire industrial chain and actively explored private development projects. The market share has further expanded. For the whole year, new contracts with a total amount of HK$33.42 billion were signed up in Hong Kong and Macau, hitting a record high. Meanwhile, the projects under construction are progressing smoothly, and the brand influence and market reputation are further improved. The Group optimized resource allocation, enriched the investment model, and continued to lay out investment to drive the contracting business, achieving a remarkable improvement.

Chairman's Statement (continued)

2. Mainland China

The infrastructure investment market in Mainland China was under pressure as the financing environment is tightening. Under the influence of de-leverage, debt reduction and standardization, rectification and reform of "Public-Private-Partnership" (hereinafter referred to as "PPP") projects, the PPP project loans are difficult to be implemented, financing is expensive with the growth rate of fixed asset investment continues to slow down, and the total investment of newly started projects plans fell sharply, influencing the commissioning and progress of the project. In face of intricate market form, the Group did not only strengthen the rectification and implementation of the project, but also improved the screening criteria for new projects as well as actively seeking projects with higher turnover rates and less capital occupation. In addition to ongoing efforts to develop premium PPP projects, we were also actively driving innovation and upgrade of business models. New contracts for the year amounted to HK$81.94 billion. Smooth implementation in general was reported for projects under construction, underpinned by stable and controlled performance in terms of quality, safety and schedule management.

3. Curtain Wall

The curtain wall markets of Hong Kong and Macau were marked by slackened growth with less large-scale projects, and intense competition while increasing disparity was seen in Mainland China's curtain wall market, although sentiments were picking up in their counterpart in North America. Far East Global Group Limited ("FEG") adheres to high-quality competition and actively follows up high-quality projects with stable cash flow, ideal gross profit and controllable risks, and has achieved remarkable results. The small and medium-sized housing construction business under the brand name "Haiyue" is developing well and complements the curtain wall business; the rapid growth of the operation management business will become another strong growth engine for FEG. FEG's new contracts for the year amounted to 4.79 billion. The projects in hand are progressing smoothly and under control.

Completed Projects during the Period

The Group completed 19 projects in 2018.

New Projects Awarded

The Group secured 93 new projects in 2018 with an aggregate attributable contract value of HK$120.15 billion, of which the Hong Kong market, Macau market, Mainland China market and FEG accounted for 21.9%, 5.9%, 68.2% and 4.0%, respectively.

Projects in Progress

As at 31 December 2018, the Group had a total of 217 projects in progress with an aggregate attributable contract value of HK$365.30 billion. The attributable contract value of outstanding works was HK$236.55 billion.

Chairman's Statement (continued)

Corporate Governance

The Group conducts itself in strict compliance with laws and regulations. Through effective monitoring by the Board and enhanced communication with investors and timely announcement of relevant information, we have increased the transparency of our operations and brought our corporate governance standards to a higher level. The Board is committed to maintaining a high standard of business ethics, a corporate culture of integrity and sound corporate governance practices. The Group's comprehensive corporate system, rigorous corporate governance and standardised operations have enabled timely adjustments to strategies in response to market changes, effective functioning of specialised decision-making groups and stronger ability in regional and specialised management for all business units, resulting in better management efficiency.

Risk Management

The Group has established a sound risk management system based on its general operational objectives. Through the formulation of risk management strategies, basic risk management procedures are being implemented at each aspect of operation and management to facilitate coordination among the information system, organisational function system and internal control system, such that a positive risk management culture will be fostered for the effective implementation of comprehensive risk management.

In active response to market and policy risks, the Group has accelerated the rectification of in-hand projects in strict accordance with the new regulations of the new PPP policy, preventing and mitigating the policy risks from the project in hand as well as strictly abide by investment discipline. The Group also closely followed the policy orientation, conform to market trends, invest accurately, and strengthen investment projects for repurchasing and collecting money, in order to effectively control investment risks; rationally and balanced allocate funds, innovating financing models for the coordination of domestic and overseas financial resources, and raise funds through multiple channels. The Group is engaged in ongoing efforts to improve the natural hedging mechanism for exchange risks, while reasonably responding to exchange rate risks and financing risks; In close tandem with national taxation policies, communication with the tax authorities has been strengthened to facilitate effective prevention of taxation risks.

The Group attaches great importance to safe production, and is responsible for the employees, responsible to the society, and shareholders, and thereby prioritizing safety production by strengthening safety risk prevention, improving safety production rules and regulations, and conducting hidden danger investigation and special rectification. Thus, the safety production risks from the source can be control, adhering to the safety bottom line of high quality development.

Financial Management

In consistent adherence to the principle of prudent financial management, the Group strengthens the incentive orientation of "cash is king", continuously improves asset turnover efficiency, effectively controls the growth rate of interest-bearing liabilities, accelerates the pace of innovation financing, and promotes implementation such as industrial chain finance and perpetual bond. As at 31 December 2018, the Group had bank deposits amounting to HK$17,926 million. Total borrowings amounted to HK$41,041 million and the net gearing ratio was 53.7%. Drawdown of bank loans amounted to HK$34,830 million, while committed but unutilised credit facilities amounted to HK$27,917 million.

In December 2018, in the context of financial market volatility and strong interest rate hike expectations, the Group successfully issued US$500 million senior perpetual bond, which were awarded a "Baa2" rating by Moody's. Investors actively subscribed to demonstrate the market's confidence and recognition of the development of the Group. The issuance further optimized the Group's capital structure and reduced the debt ratio, providing financial support for the Group's business transformation and development.

Chairman's Statement (continued)

During the year, the Group hosted a number of successful roadshow presentations，including the first Southbound investor meeting, the Macau reverse road show, the organization of mainland media to visit Hong Kong and Macao business, etc., showing the Group's construction and investment business in Hong Kong and Macao, and the mainland's prefabricated buildings, as well as highlights of business developments such as infrastructure investment and glass curtain wall, and continue to strengthen communication with domestic and foreign investors, in order to build a solid foundation for broadening its shareholders' base.

Human Resources

The Group adheres to the "people-oriented" philosophy, continuing to be committed to building a high-calibre and efficient professional management team with ongoing efforts to enhance its human resource management system. Through the work guidance of each business platform, the overall human resources management strategy will be promoted, and strong talents, systems and service security will be provided for the realization of the Group's strategic objectives and business operations. The Group's human resources work closely focus on business needs, actively cooperating with organizational changes and optimization, and stimulating organizational vitality. We continue to strengthen talent introduction and allocation, giving full play to internal synergies and external resource advantages, and enhance the intensity, efficiency and demand satisfaction of talent recruitment through internal selection and deployment, as well as employee recommendation, market selection and other methods. The "Son of the Sea" campus recruitment programme will also be further innovated to enhance the quality of talent recruitment, to improve the performance appraisal and incentive system, and provide effective protection for strengthening the "dedication culture", promoting business and management capabilities.

Technological Innovation

The Group has achieved fruitful achievement in the areas of technological innovation such as prefabricated construction, electrical and mechanical installation and tunnel engineering. During the year, the Group received approvals from the PRC government for 4 national invention patents, 53 utility model patents, 1 design patent and 2 Hong Kong invention patents; construction approved by China Construction Group (provincial department) 6 graded work methods and Anhui Provincial Engineering Method 3.

The scientific research project of the "Research and Application of Key Technologies for Immersed Tube Tunnel Design and Construction" undertaken by the Group is progressing smoothly, and the high-quality completion of the mid-term acceptance has achieved remarkable research results and further consolidated the technical advantages. The Harbour Area Treatment Scheme of Hong Kong, jointly submitted by six entities including the Group and the Drainage Services Department of the Hong Kong SAR Government, was awarded the 15th Tien-Yow Jeme Civil Engineering Prize, while the Group's report on "Characteristics of Engineering and Construction Technologies Applied in the Construction of Large Tunnels in Hong Kong with Case Study" won wide acclaim at the 20th Annual Meeting of the China Association for Science and Technology.

The Group actively implemented the concept of green development, and the application of the "Key Technology Achievements of China State's Precast Concrete Buildings" was approved successfully, becoming the first major scientific and technological achievements of China's construction and another recognition of the Group's strong technical level in the field of fabricated buildings. During the year, the Group also implemented the assembly-type building and research and development base project of Chongqing Liangjiang New District.

The Group continued to promote the management upgrade with information technology. Based on the original "5+3" project management model, the Group completed the construction and promotion of the new project dynamic management system. The system is centered on project management, with logistics and capital flow, information flow throughout the optimization of organizational structure and workflow, so that there is comprehensive control of schedule, quality, cost, safety, environmental protection and other elements. Such upgrade focused on the completion of the life cycle of the material management module, so as to achieve a single project management to project group management. The change of management provides convenience for centralized procurement of materials, material transfer in the project group, inventory management, etc., and thereby achieving all-round overall management and scale effect, as well as effectively saving costs, and getting into the ideal trend of zero inventory.

Chairman's Statement (continued)

Social Responsibility

The Group issues a corporate social responsibility report on an annual basis to foster a culture of "open and transparent" communication that would allow stakeholders to have a deeper understanding of matters pertaining to its sustainable development. The Group's commitment to corporate citizenship has won wide acclaim, as evidenced by back-to-back "Caring Company" logos awarded by the Hong Kong Council of Social Service since 2008.

On the back of its outstanding achievements in environmental performance, social responsibility, corporate governance and global environmental information disclosure, the Group was selected, for two consecutive years, as a constituent of FTSE4Good Index. The Group's 2017 Sustainability Report was awarded the highest ranking of Level 3 "CarbonCare ESG Label" by Carbon Care Asia for three consecutive years.

In active response to the nation's call for "winning the critical battle in poverty aid", we made diligent efforts to implement the "China State Construction Model" for defined poverty aid on the back of our advantages as a construction group. We joined forces with the Macau SAR Government to finance the building of a teaching block complex for Mei'e Hope Primary School in Congjiang County, Guizhou Province, as part of the effort to improve education and teaching facilities in Congjiang County. By encouraging students to grow in aspirations as well as intellect, we helped to nurture in local talents the motivation to lift themselves from poverty, thereby attaining the goal of steady elimination of poverty.

During the year, the "Super Typhoon Mangkhut" attacked Hong Kong and Macau. The Group actively organized a team of volunteers. With the advantages of the industry, we got into post-disaster cleanup and community recovery at once, fulfilling the social responsibility of the corporate citizens. Such act received positive comment from government departments, district boards, and various sectors of the Hong Kong and Macao SAR and we were awarded the Commendation and Commendation Medal from the Secretary for Home Affairs.

During the year, over 100 employees of the Group and their family members participated in the "2017/18 Hong Kong and Kowloon Walk for Millions by the Community Chest", the largest charity walk in Hong Kong, to raise funds for "Family and Child Welfare Services" in a manifestation of the Group's proactive undertaking of social responsibilities. To help promoting ecological protection in active response to the "World Environment Day", the Group organised a "World Geopark Saigon Inner Sea Geology and Cultural Heritage Guided Tour", aiming to cultivate employees' interest in environmental protection work, understanding cultural heritage conservation knowledge, and contributing to the promotion of ecological culture protection.

Major Awards

At the "Occupational Health Award 2017–18" jointly hosted by government authorities including the Occupational Safety and Health Council, Labour Department and Department of Health in March 2018, the Group walked away with 27 awards, including the "Healthy Workplace Best Practices Award — Excellence Award", "Hearing Conservation Best Practices Award — Excellence Award" and "Prevention of Pneumoconiosis Best Practices Award — Merit Award". On the back of its ongoing sound performance in safety matters, the Group further garnered 12 awards, including the bronze award in the Building Sites (Private Sector) category, bronze award in the Civil Engineering Sites category and the "Outstanding Performance in Work-at-height Safety Prize" at the Construction Industry Safety Award Scheme 2017/2018" organised by the Labour Department and the Occupational Safety and Health Council of Hong Kong in the same month.

At the "Innovative Safety Initiative Award 2018" hosted by the Development Bureau of Hong Kong, the Construction Industry Council and the Hong Kong Construction Association in May 2018, the Group received a number of awards, including the gold award for Safety Operational Device category, gold award under the Health And Welfare category, silver award under the Safety Management System, Training And Promotion category, the Most Popular Safety Video Award and silver and bronze awards in the Safety Video Contest. At the "24th Considerate Contractors Site Award Scheme Prize-awarding Ceremony" jointly hosted by the Development Bureau of Hong Kong and the Construction Industry Council in the same month, the Group won the gold award under the "Public Works — New Works" category.

Chairman's Statement (continued)

In June 2018, the Group was named the Safest Contractor in the "2017 Safety Contractor Award Scheme" organised by the property project department of MTR, while the "Fire and Ambulance Services Academy" and "The Avenue", both constructed by the Group, were honored with the "Quality Building Award", which represented the highest honor in Hong Kong's construction industry. In the same month, the Group once again earned the title of "Most Honored Company" in the annual poll of "The Best Listed Companies in Asia" organised by "Institutional Investor", reflecting continuous recognition in the international capital market for the Group's business operations and efforts in investor relations.

In September 2018, the Group won the Platinum Award in the "Vision Award" (Construction Industry), the Annual Report Competition of the League of American Communications Professionals LLC, a world-renowned institution. In the same month, the "2018 AIB National Professional Excellence in Building Awards" was hosted by the Australian Institute of Building, the Group was award "Building Professional of the Year", "Professional Excellence Award" and "People's Choice Award" for the excellent site management, excellent architectural quality and superb design of its project "Hong Kong Children's Hospital".

In October 2018, the footbridge (Block B) built in Area 52 Phase 2 of the Shui Chuen O public housing development in Shatin, which was completed by the Group, has won the "Grand Award in the Infrastructures and Footbridges category" of the Structural Excellence Award 2018 organised by the Structural Division of the Hong Kong Institution of Engineers. It is the only award-winning project for local construction projects in Hong Kong.

In December 2018, the Group was awarded the "Best Investment Value Award for Listed Companies" in 2018 China Securities Golden Bauhinia Awards, which was co-organized by Ta Kung Wen Wei Media Group with various organizations. In the same month, the Group won 55 awards, including 8 gold, 9 silver, 5 bronze and 33 outstanding awards in the "2018 6th Macao Construction Safety Award Scheme", organised by the Labour Bureau in Macao. The Group has also received the "Good Housekeeping Gold Award (Construction Category)" from the Good Housekeeping Competition 2018, held by Hong Kong Occupational Safety & Health Council, Hong Kong Labour Department and Hong Kong Construction Industry Council for its main contract package A & B for Lohas Park Package Seven.

Business Prospects

The global economic growth has slowed down with the expansion momentum has weakened. Trade tensions and financial deterioration have been the main risks facing the economic outlook. The stimulation effect from US tax cuts have gradually weakened, and the negative impact of rising interest rates on the economy has gradually emerged. The number of US interest rate hikes may decrease, but the Fed's contraction process will continue. China's short-term economic growth is under pressure, but the market is stable with strong foundation, large space, sufficient post-energy and thereby the future prospects are bright. The Chinese economy has been in a period with strategic opportunities for a long time. The Group will pay close attention to macroeconomic and industry market trends so that it could formulate forward-looking business strategies in proactive response to changes in external business conditions.

Market Outlook

Economic recovery in Hong Kong and Macau will continue in a positive trend. However, the investment sentiment in private housing in Hong Kong has turned skeptical, and the boom in the building construction market has slowed slightly. The ambitious development plans such as "Lantau Tomorrow Vision", "New Territories Brownfield" and "Revitalization of Industrial Buildings" proposed in the Hong Kong Chief Executive's Policy Address will bring vigorous development opportunities. Macau is expected to launch a series of government projects including a new reclamation area and "post-19,000 units" public housing construction, injecting new vitality into the construction market. The prospects for gambling and private projects are promising.

China's mainland economy is facing downward pressure. The state has proposed macroeconomic policies to strengthen countercyclical adjustments, further increasing fiscal stimulus, significantly expanding the scale of local special bonds as well as increasing new infrastructure investment and filling shortcomings in order to form an important support for stable growth and stable investment. The infrastructure investment market in mainland will recover from the bottom. The monetary policy environment with reasonable liquidity will also ease the financing pressure in Mainland China, and the industry's capital situation will be improved gradually.

Chairman's Statement (continued)

Operational Strategies

In consistent implementation of the operational strategy of "**Cost-effective Competition and High-quality Management**" and on the basis of the development strategy of "project contracting and infrastructure investment as double business drivers", adhere to the overall peace for steady progress work, practicing high-quality development requirements, focusing on hard work without the fear for struggle. We will continue to seize market strategic opportunities to promote business transformation and model upgrades, comprehensively improving asset turnover efficiency, and prevent risk from bottoming out and achieving continuous healthy growth of the Group's performance.

Our Hong Kong and Macau operations will strengthen regional links and synergies through vigorous engagement in the macro-development schemes of the nation, such as Guangdong-Hong Kong-Macao Greater Bay Area Development. Construction business expands business scale, seizes market opportunities, and actively bids government construction projects such as those from the Housing Department and the Government Department of the Architectural Services Department, and key projects such as the Airport Authority, the Hospital Authority and the West Kowloon Cultural District. Meanwhile, we will continue to explore private development projects in Hong Kong and large-scale gambling projects in Macau. We will optimize the site contract responsibility system, strengthen the quality management of projects in hand, and build a good brand image. Our investment business has timely summed up the useful experience in the previous period, strengthening the model innovation, and vigorously expanded investment to drive the contracting business. We will continue to develop innovative business, striving for breakthroughs in Building Information Modeling (BIM), modular integrated construction (MIC), smart work sites and e-commerce platforms for construction materials.

Our investment business in Mainland China will step up with transformation and upgrade in line with national policies. We will seize the market opportunities from infrastructure investment recovery, focusing on the key areas of infrastructure supplements, and actively strive for better projects with strong local financial strength, large project scale, short cooperation cycle, large proportion of user fees, and legal compliance, seeking quality growth in scale and establishing a quality investor image at the same time. Close attention to the scale and speed of the issuance of government special bonds will also be paid, and cooperation with the government will also be sought through investment-driven general contracting or general contracting mode, and vigorous participation in government-issued projects supported by government special debts. Furthermore, we will seize the opportunity of the monetary policy window to speed up the implementation of financing of mainland investment projects, and leverage the opportunity of local government special debts to be released in advance and the replacement of high-yield debts to create conditions to accelerate the withdrawal of funds for investment projects.

Chairman's Statement (continued)

Underpinned by the business strategy of "big market, big clients and big project" and the business philosophy of "unwavering focus on the high-end market and provision of high quality services", FEG will conduct effective brand promotion and market development, While consolidating the advantages of the Hong Kong and Macau market, the North American market integrates its business structure, concentrating its advantageous resources and striving for greater achievements. The United Kingdom and Australian markets are doing well in project performance and product supply management, summing up experience and expanding the market share of supply contracts. The operation management business continued to maintain a good momentum of development and achieve greater value creation.

While further developing the existing market, the Group will explore businesses in countries and regions such as the United Kingdom, Australia, North America and Portugal with a steady and measured approach in active response to the "Belt and Road" Initiative. We will step up with our study and research of local policies and legal regulations, while putting a strong emphasis on the training of talents and localisation as we seek to develop business types according to a profit model characterised by "high turnover, asset-light operations, controllable risks and reasonable earnings" and strengthen coordination and connection with other sister companies in China State Construction Engineering Corporation group, in an effort to make early contributions to Group results on the back of patient and sustained work.

Management Model

The Group will continue to optimise its organisational management and control regime with the primary purpose of procuring business development. While enhancing the functions of the headquarters in direction, service and supervision, we would also encourage more proactive business management by regional teams. The Group comprehensively improved the performance management system, strengthened the performance-oriented incentive mechanism, stimulated organizational vitality, cultivated the culture of the strugglers, and provided organizational security for the Group's "second venture".

Company Mission

In line with its longstanding business philosophy of "Sustainable Growth for Mutual Success with Harmony", the Group makes vigorous efforts to realise its core value of "Good Quality and Value Creation" through a prudent approach to business progress prominently underpinned by a drive to enhance quality and efficiency. We are also committed to serving as a new role model for "win-win" solutions with shareholders, business partners, employees and the society in general in the new era, as we continue to strive to achieve the goal of becoming an "international group specialised in the construction of integrated developments and infrastructure investment with a strong competitive edge".

Appreciation

I would like to take this opportunity to express my profound gratitude to the Board for its brilliant leadership, to the shareholders for their strong support, to other members of the community for their generous assistance, and to our staff for their hard work and dedication.

By Order of the Board
China State Construction International Holdings Limited
Yan Jianguo
Chairman and Non-executive Director

Hong Kong, 22 March 2019

Management Discussion and Analysis

Profit from core business* attributable to owners of the Company was **HK$5,324** million,

represents a year-on-year increase of **5.0%**. Raised an approximately **HK$3,861** million, net of expenses, by way of issue guaranteed perpetual capital securities.

Management Discussion and Analysis (continued)

Overall performance

Driven by the growth of Mainland China segment and improved margin in Hong Kong and Macau segment, the Group recorded revenue and gross profit of HK$55,626 million and HK$8,696 million, representing 10.9% and 14.2% growth respectively. Net Operating cash outflows have been improved by 60% while maintaining business growth. Affected by the HK$817 million impairment made for the concession operating rights relate to Shanxi Yangquan Yangwu Expressway and Shanxi Yangquan Niangziguan Class 1 Highway, profit attributable to the owners of the Company decreased 18.0% to HK$4,500 million. Basic earnings per share was HK89.13 cents, representing a decrease of 25.0% as compared with last year, given the HK$817 million impairment made and the full year effect of rights shares issued on 12 October 2017 in current year. With a proposed final dividend per share of HK12.00 cents, an interim dividend per share of HK15.00 cents per share paid in the year, the total dividends for the year amount to HK27.00 cents per share, representing a decrease of 22.9% as compared to last year.

During 2018, Hong Kong, Macau and Mainland China remained the core markets and the major contributors of the Group. In Hong Kong and Macau, the Group focused on the construction business in both private and public sectors, and has maintained its leading position in the field. In Mainland China, the Group focused on infrastructure investment projects and construction related businesses. Far East Global Group Limited and its subsidiaries (together, the "FEG Group") mainly focused on curtain wall business and other new business in North America, Hong Kong and Macau. This listed subsidiary is currently managed by a separate management team and thus is considered as a distinct business unit of the Group.

* Excluding loss on fair value changes of investment properties, impairment loss on concession operating rights and loss on disposal of a subsidiary

Management Discussion and Analysis (continued)

An analysis of major income statement items for the year is set out in the following paragraphs:

Hong Kong and Macau

Construction and Related business

With a constantly changing market environment in Hong Kong and Macau, the Group has strengthened internal resource integration and continued to provide stable cash flow to the Group. Hong Kong market is increasingly competitive with the launch of fewer large-scale infrastructure projects by the Government, on the contrary, the private residential market is booming. Revenue derived from Hong Kong segment remain stable, recorded HK$14,875 million as compared to HK$15,013 million in 2017. With the better result than expected of project settlement, segment result amounted to HK$1,171 million, represents a growth of 37.9% compared with HK$849 million for last year. Amid a declining of gambling business related projects, government work has gradually been increasing in Macau. This segment reported a slightly drop of revenue and segment result to HK$7,025 million (2017: HK$8,058 million) and HK$736 million (2017: HK$891 million) respectively.

Mainland China

Infrastructure Investment Projects and Construction Related Business

Central government in Mainland China has tightened regulations over infrastructure investment market, especially in Public-Private-Partnership ("PPP") model. Ministry of Finance has started a nationwide audit of PPP project database since November 2017. Meanwhile, financial institutions have tightened its lending policy. The lasting effect of above policies brings uncertainty to infrastructure market in Mainland China.

The Group strengthened the rectification and implementation of on hand project, optimise its project selection basis, aimed for the high-quality PPP projects and innovative project with high capital turnover rate. Supported by the ample order book, this segment recorded notable increase in both of revenue and result to HK$30,621 million and HK$5,999 million, representing a growth of 23.2% and 24.3% year-on-year.

(1) *Infrastructure Investment Projects*

Our investments in infrastructure projects span over different kinds of business, including investment and construction of toll road, toll bridge and a variety of housing project, such as affordable housing, hospital and school. We participated in these infrastructure projects by way of PPP models. During the year, the Group received buy-back payment of HK$11,072 million from infrastructure investment project, including the attributable share of such payment received by our joint venture investments.

Many large-scale infrastructure projects are in full swing, the result of Infrastructure investment sector have been boosted, reported total revenue and result of HK$29,311 million and HK$5,877 million, compared with HK$23,434 million and HK$4,747 million respectively for the corresponding period in 2017.

(2) *Operating Infrastructure Projects*

The contribution from operating infrastructure projects, including thermoelectric plant and toll road remained relatively stable, excluding contribution from joint venture, this sector recorded revenue of HK$849 million, which was slightly increased 7.2% as compared to last year.

(3) *Construction related business*

The Group continued focus on infrastructure investment projects, less resources was allocated to other construction related business and recorded HK$460 million revenue for the year.

Management Discussion and Analysis (continued)

Far East Global Group Limited ("FEG")

FEG focused on the facade contracting business, general contracting business and project operation and management service business. FEG continues to enhance its service awareness and insists on quality competition, steadily increase its market share and reflected in the notable increase of turnover during the year.

Investment Income, Other Income and Other Gains, net

Mainland China has tightened the environmental regulations, which lead the coal industry continues to be sluggish, the traffic volume of Shanxi Yangquan Yangwu Expressway and Shanxi Yangquan Niangziguan Class 1 Highway continued lower than expected, HK$817 million impairment have been made during the year. Together with there was a fair value gain of HK$401 million on the revaluation of the Group's investment properties in last year, the investment income, other income and other gains have been turned from HK$748 million net gains to HK$360 million net loss during the year.

Share of Profits of Joint Ventures

The Group mainly operates toll bridge and infrastructure investment projects in form of joint ventures. The share of profits of joint ventures are stable, amounting HK$705 million as compared to HK$731 million for last year.

Finance Costs

During the year, the finance costs charged to profit for the year increased by 66.6% to HK$1,782 million (2017: HK$1,070 million). The increase was mainly due to the increase of borrowings for investment purpose (mainly for Mainland China development) during the year.

Earnings Per Share

Affected by the impairment made for the concession operating rights related to Shanxi Yangquan Yangwu Expressway and Shanxi Yangquan Niangziguan Class 1 Highway basic earnings per share decreased by 25.0% to HK89.13 cents for the year ended 31 December 2018. The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK$4,500 million and on the weighted average number of 5,049,157,000 ordinary shares in issue during year.

CORPORATE FINANCE

Financial Position of the Group

(a) Shareholder's Equity

During the year, the Group issued US$500 million senior guaranteed perpetual capital securities, raised an approximately HK$3,861 million, net of expenses.

The Group dedicated to maintain a sound financial position with a strong capital base to support its stable expansion. Shareholders' equity reached HK$43,078 million as at 31 December 2018 (2017: HK$38,463 million). The increase was mainly attributable to the profit for the year of HK$4,500 million, the US$500 million senior guaranteed perpetual capital securities issued during the year, partly offset by the HK$2,384 million increase in translation reserve (loss) due to the depreciation of RMB.

(b) Bank Balances and Cash

At 31 December 2018, the Group had bank balances and cash of HK$17,926 million (2017: HK$17,593 million), representing 13.2% of the total assets of the Group. The portfolio of the currencies of bank deposits is listed as follow:

	2018 %	2017 %
Hong Kong Dollars	29	21
Renminbi	50	40
Macao Patacas	12	10
United State Dollars	8	28
Others	1	1

The bank deposits outside Hong Kong are mainly for subsidiaries in various regions. During the year, the Group has no financial instrument for currency hedging purpose.

Management Discussion and Analysis (continued)

(c) Borrowings

The Group's financing and treasury activities are centrally managed and controlled at the corporate level. We are committed to seek for stable and low-cost financing, and increase the flexible use of funds between Mainland China and Hong Kong in order to enhance the effectiveness of capital usage.

During the year, the Group has net drawn down various new term loans, revolving loans, project loans or syndicated loans of an aggregate amount of approximately HK$12,815 million.

At 31 December 2018, the total borrowings of the Group (including the guaranteed notes denominated in US dollars issued by the Group in November 2017) were HK$41,041 million of which, approximately 25%, 16% and 58% were denominated in Hong Kong dollars, US dollars and Renminbi respectively. Bank borrowings were mainly bearing interest at floating rates with reference to either Hong Kong Inter-bank Offered Rate ("HIBOR") or People's Bank of China ("PBOC") reference rate (overall the condition is favorable) while the Notes bear fixed interest rate.

The following table sets out the maturities of the Group's total borrowings as at 31 December 2018 and 2017:

	2018 HK$' million	2017 HK$' million
Bank and other borrowings		
On demand or within one year	2,796	2,581
More than one year but not exceeding two years	12,073	1,529
More than two years but not more than five years	13,336	13,555
More than five years	6,625	5,508
Total bank and other borrowings	34,830	23,173
Unsecured guaranteed notes payable	6,211	10,104
Total borrowings	41,041	33,277

At 31 December 2018, the Group had net borrowings of HK$23,115 million (2017: HK$15,684 million) and the Group's net gearing ratio was 53.7% (2017: 40.8%). The increase was mainly attributable to the significant investment in PPP projects in PRC during the period, given the longer project period and larger working capital need, but in return with higher margin. Also, the mitigation of shareholder's equity due to the Renminbi depreciation against Hong Kong dollars contributed to the further increase of net gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. At 31 December 2018, committed but unutilised credit facilities and other banking facilities like construction performance bond facilities amounted to HK$27,917 million.

(d) Use of proceeds from the rights issue

Up to 31 December 2018, we utilised the net proceeds raised from rights issue in accordance with the designated uses set out in the prospectus dated 18 September 2017 as follows:

	Amount designated in the prospectus dated 18 September 2017 HK$' million	**Utilised (up to 31 December 2018) HK$' million**
Proceeds from the rights issue		
— for the further development and expansion of the Group's existing infrastructure investments business in Mainland China	5,676.6	5,676.6
— for general working capital of the Group	630.7	630.7
	6,307.3	6,307.3

Management Discussion and Analysis (continued)

(e) Cash Flows Analysis

As more infrastructure project are operated in PPP model, the buy-back period of PPP project is comparatively longer than that of traditional Build-transfer model, the net cash used in operating activities for the year was HK$1,925 million (2017: HK$4,846 million), included the net expenditure for infrastructure project amounting HK$4,475 million (2017: HK$5,423 million). The net cash outflow in investing activities was HK$6,954 million (2017: HK$4,800 million), and the net cash inflow from financing activities was HK$9,581 million (2017: HK$15,253 million).

Major Business Development

The Group actively searches for valuable construction and investment projects in order to strengthen its presence in each major segment and enhance the value of the Company. During the year, the Group has achieved the following significant milestones in business expansion:

(i) The Group was awarded numerous investment and construction project of municipal infrastructure, comprehensive urban development by way of Public-Private-Partnership ("PPP") model in different regions, such as Jiangxi, Fujian, Shandong, Hubei, Jiangsu and Auhui Province. The aggregate attributable contract value of the Group amounts to HK$19.8 billion.

(ii) The Group was awarded several shanty town redevelopment projects in Beijing, Shandong and Anhui Province with aggregate attributable contract value of the Group amounts to HK$16.78 billion.

(iii) In March 2018, the Group entered into an agreement to acquire a land including the properties on it in Macau for redevelopment to commercial property. The investment sum amounts to HK$1.1 billion.

(iv) The Group was awarded several relocation housing projects in Anhui, Jiangsu, Fujian and Hubei Province with aggregate attributable contract value of the Group amounts to HK$6.69 billion.

Management Policies for Financial Risk

1. Interest Rate Risk

The Group's fair value and cash flow interest rate risk mainly related to variable rate borrowings. In order to exercise prudent management against interest rate risk, the Group has established policies and procedures to the assessment, booking and monitoring all such financial risk. The Group will continue to review the market trend as well as its business operation's needs, so as to arrange the most effective interest risk management tools.

2. Credit Risk

The Group's principal financial assets are bank balances and cash, trade and other receivables. The Group's trade and other receivables presented in the consolidated statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made according to the Group's accounting policy or where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows. Credit extended to business associates is based on the reputation and financial position of the customers. In connection with projects in progress (whether in Hong Kong, Macau, Mainland China or overseas), the major customers are the local governments, government-related entities and certain institutional organisations and certain reputable property developers. Therefore, the Group is not exposed to any significant credit risk.

With respect to the credit risk of the Group's treasury operations, the Group's bank balances and cash must be placed and entered into with financial institutions of good reputation so as to minimise the Group's credit risk exposure.

3. Foreign Exchange Risk

The Group undertakes certain transactions denominated in foreign currencies, primarily with respect to the Renminbi and United Stated dollar, hence exposures to exchange rate fluctuation risk. The management manages this risk by closely reviewing the movement of the foreign currency rate and adjust the financing structure if needed.

Business
Review

At the end of 2018, the Group has **217 projects in progress** with an aggregated attributable contract value of

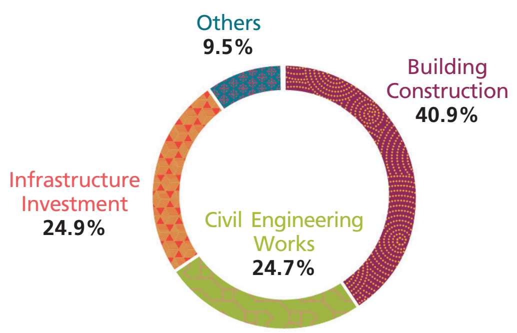
365.3 HK$ billion.

Business Review (continued)

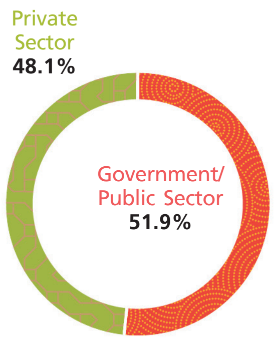
Major Completed Projects in 2018

No.	Project Name	Government/ Public Sector	Private Sector
	Building Construction		
1	MGM Cotai Project, Macau		•
2	Residential Project, TMTL 427, So Kwun Wat Road, Tuen Mun, Hong Kong		•
	Civil Engineering Works		
1	Hong Kong-Zhuhai-Macau Bridge Hong Kong Link Road – Section between Scenic Hill and Hong Kong Boundary Crossing Facilities	•	
2	Central-Wanchai Bypass – Tunnel (West Section in Wanchai) Hong Kong	•	
	Foundation Engineering Works		
1	Widening of Fanling Highway – Tai Hang to Wo Hop Shek Interchange	•	
2	North Commercial Distract Enabling Works Sub-contract for Temporary Pre-boring Works		•
3	Site Formation, ELS and Foundation Works for the Proposed Residential Development at Lot No.1181 in D.D.215, Hong Kin Road, Tui Min Hoi, Sai Kung, N.T.		•
4	Lung Kwu Tan – Construction of New Warehouse		•
5	Soldier Pile at Lam Tin Interchange of Tseung Kwan O – Lam Tin Tunnel Main Tunnel and Associated Works	•	
	Mechanical and Electrical Engineering Works		
1	Proposed MGM Cotai Project, MGM Grand Paradise Combined MEP Works Nominated Sub-Contract		•
2	Hong Kong-Zhuhai-Macau Bridge Hong Kong Link Road – Section between Scenic Hill and Hong Kong Boundary Crossing Facilities	•	
3	Proposed MGM Cotai Project, MGM Grand Paradise Supply and Installation of Building Management System, Macau		•
	Infrastructure Investment		
1	Relocation Housing PPP Projects, Zhengzhou, Henan Province	•	
2	Infrastructure Build-Transfer Project in Longhai of Zhangzhou, Fujian Province	•	
3	Dayang Affordable Housing Project in Luyang District, Hefei, Anhui Province	•	
4	Medical City Investment + EPC Project, Chengdu, Sichuan Province	•	
5	Ping'an Avenue Project, Zhengzhou, Henan Province	•	

By Categories



By Customers



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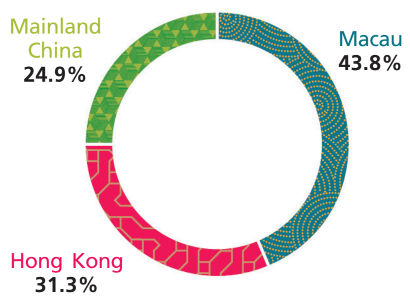


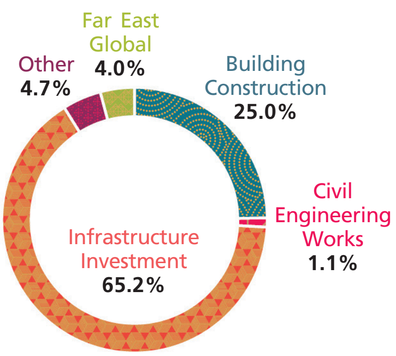
Business Review (continued)

New Projects Awarded in 2018

Summary for the year

- 93 new projects awarded
- Attributable contract value for new projects awarded was HK$120.15 billion

By Categories



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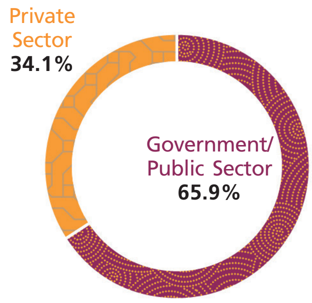

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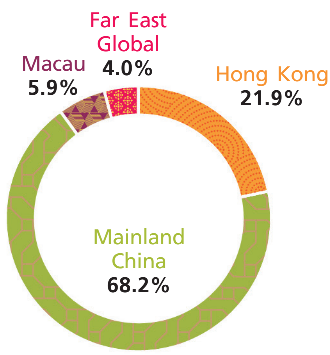
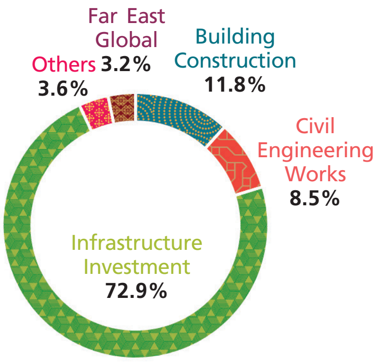


Projects in Progress in 2018

		31 December 2018	
	No.	Attributable contract value HK$'Million	Value of incomplete contract HK$'Million
Mainland China	147	272,596	189,541
Hong Kong	59	61,803	34,507
Macau	11	19,241	5,779
Far East Global Group Limited	–	11,665	6,726
Total	**217**	**365,305**	**236,553**

By Categories



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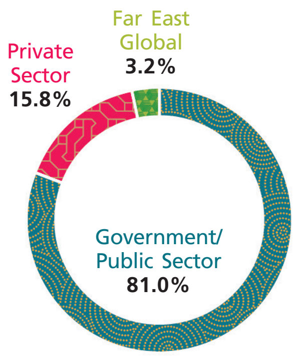

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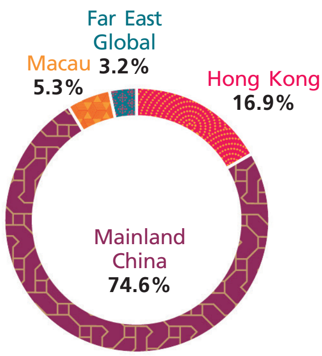


Major Projects in Progress — Hong Kong & Macau

Business Review (continued)

Major Projects in Progress — Hong Kong

No.	Project Name	Attributable Contract Value HK$'million
	Building Construction	
1	Proposed Residential Redevelopment at No. 1–11 Au Pui Wan Street, Fo Tan	4,100
2	The Chinese University of Hong Kong Medical Centre	4,045
3	Lohas Park Package 10 Residential Development Project, Tseung Kwan O	3,132
4	Main Contract Works for the Proposed and Kindergarten Development at Tuen Mun Town LOT No. 541 at So Kwun Wat Road, Tuen Mun	3,058
5	Proposed Residential Redevelopment at T.M.T.L. No. 500, Kwun Chui Road, Tuen Mun	2,925
6	Residential Development at Tai Po Town, Shan Tong Road, Lai Chi Shan	2,897
7	Proposed Property Development at West Rail Long Ping Station (South), Yuen Long Town Lot No. 512	1,490
8	Proposed Residential Redevelopment at STTL601, Whitehead, Ma On Shan	1,458

Main Contract Works for the Proposed and Kindergarten Development at Tuen Mun Town LOT No. 541 at So Kwun Wat Road, Tuen Mun

The Chinese University of Hong Kong Medical Centre

Business Review (continued)

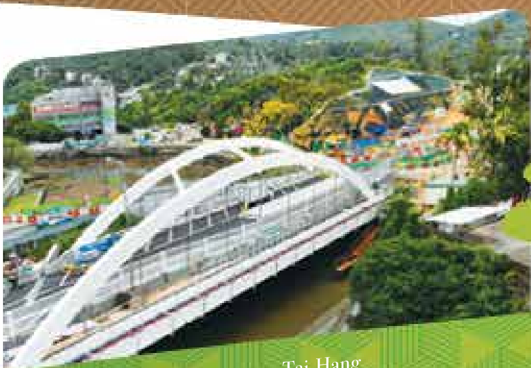
Major Projects in Progress — Hong Kong *(continued)*

No.	Project Name	Attributable Contract Value HK$'million
	Civil Engineering Works	
9	Central — Wan Chai Bypass Tunnel (Slip Road 8 Section)	4,792
10	Tseung Kwan O — Lam Tin Tunnel and Related Projects	4,278
11	Exhibition Station and Western Approach Tunnel Project of Shatin to Central Link	2,876
12	Widening of Fanling Highway — Tai Hang to Wo Hop Shek Interchange	2,510
13	APM and BHS Tunnels on Existing Airport Island	2,371
14	Phase Two of Infrastructure Project in the south of Hong Kong's Port of Hong Kong-Zhuhai-Macau Bridge	2,260
15	Construction Project of Cross Harbor Tunnel Railway (North South Corridor) of Shatin to Central Link	2,132
16	Advance Works of Northern Commercial District in Hong Kong Airport	2,096
17	Expansion of Tai Po Water Treatment Works and Water Transfer Facilities	1,659
18	Hong Kong International Airport — Sky Bridge Connecting Terminal 1 with North Satellite Concourse	881

Construction Project of Cross Harbor Tunnel Railway (North South Corridor) of Shatin to Central Link

Proposed Residential Redevelopment at STTL601, Whitehead, Ma On Shan

Proposed Property Development at West Rail Long Ping Station(South), Yuen Long Town Lot No. 512



Widening of Fanling Highway – Tai Hang to Wo Hop Shek Interchange

Business Review (continued)

Major Projects in Progress — Macau

No.	Project Name	Attributable Contract Value HK$'million
1	The Construction of the Residential and Commercial Development Project of Nova City Phase 5	6,295
2	Theme Park Resort Hotel Complex Development Project	3,359
3	The Residential Development Project at C Section, John Street, Fai Chi Kei	2,226
4	Section 1 & 2 of Public Housing in Ilha Verde	1,892
5	Plot A03 Development Project, Service Zone of Hengqin Port, Zhuhai, Guangdong Province	1,491
6	Upper Cover Project of C385R Light Rail Station	1,039
7	Construction of Transportation Junction Project, Barra	601

Business Review (continued)

Major Projects in Progress — Mainland China

Business Review (continued)

Major Projects in Progress — Mainland China

No.	Project Name
	Major Infrastructure Investment Project in Progress
1	Zhejiang West International Centre PPP Project Phase I, Hangzhou, Zhejiang Province
2	Jiande Meicheng Urbanization PPP Project Phase I, Hangzhou, Zhejiang Province
3	Government Public Works PPP Project, Hangzhou, Zhejiang Province
4	Unit Sports Centre, Niutian, Hangzhou, Zhejiang Province
5	BT Contract of Affordable Housing Construction in Lucheng District, Wenzhou, Zhejiang Province (Phase I, II, III)
6	Relocation Housing BT Project in Pingyang County, Wenzhou, Zhejiang Province
7	Shanty Town Redevelopment Project, Ouhai District, Wenzhou, Zhejiang Province
8	Affordable Housing and Infrastructure Projects, Jiaxing, Zhejiang Province
9	Relocation Housing BT Project in Pinghu of Jiaxing, Zhejiang Province (Phase I, II)
10	Wuxing District People's Hospital and Infrastructure PPP Project, Huzhou, Zhejiang Province
11	Infrastructure of High-Speed Railway New Town PPP Project, Huzhou, Zhejiang Province
12	Public Building, Industrial Plant and Infrastructure PPP Project, Huzhou, Zhejiang Province
13	Affordable Housing BT Project in Huangyan District of Taizhou, Zhejiang Province
14	Relocation Housing PPP Project, Taizhou, Zhejiang Province
15	Municipal Road PPP Project of South Extension of Laodong Road South, Taizhou, Zhejiang Province
16	Infrastructure and Industrial PPP Projects, Haining, Zhejiang Province
17	Road Network PPP Project, Handan, Hebei Province
18	Infrastructure PPP Project, Quanzhou, Fujian Province
19	Shanty Town Redevelopment and Infrastructure PPP Project, Quanzhou, Fujian Province
20	Shanty Town Redevelopment Government Procurement Services Project, Baisha, Quanzhou, Fujian Province
21	BT Project for Rerouting Lianjiang-Jin'an section of National Highway G104 in Fuzhou, Fujian Province
22	Relocation Commodity Housing Project, Fuzhou, Fujian Province
23	Infrastructure PPP Project, Zhangzhou, Fujian Province
24	Investment and Construction Project of Relocation Housing, Longquanyi District, Chengdu, Sichuan Province
25	Community Facilities and Talent Apartment Project, Chengdu, Sichuan Province
26	North First Line and Underground Integrated Corridor EPC General Contracting Project, Chengdu, Sichuan Province
27	Airport South Line (Phase I) and Underground Integrated Corridor EPC General Contracting Project, Chengdu, Sichuan Province
28	Municipal Road (Phase III) EPC General Contracting Project, Qibu District, Chengdu, Sichuan Province
29	Medicine, Medical and Pharmaceutical Innovation Centre of Medical City (Phase 4) Infrastructure Investment + EPC Project, Chengdu, Sichuan Province
30	Cultural Tourism Infrastructure Investment + EPC Project, Chengdu, Sichuan Province

Business Review (continued)

Major Projects in Progress — Mainland China *(continued)*

No.	Project Name
	Major Infrastructure Investment Project in Progress
31	Five Infrastructure Projects including Binjiang Avenue in Wuhan, Hubei Province
32	Relocation Housing Project, Wuhan, Hubei Province
33	Wuchang & Hanyang Section of 2nd Circle Line of Wuhan City
34	Redevelopment Project of Changjiang Avenue (Three Ring Road – Youth Road), Wuhan, Hubei Province
35	The Construction of Underground Integrated Space, Central City of Optical Valley, Wuhan, Hubei Province
36	Redevelopment Project of Wu Xian Highway (Three Ring Line — Hongxia Village), Wuhan, Hubei Province
37	Express Rail Station PPP Project, Shiyan, Hubei Province
38	The Airport Highway PPP Project, Shiyan, Hubei Province
39	Industrial Park for Poverty Alleviation PPP Project, Shiyan, Hubei Province
40	Industrial Park and Infrastructure PPP Project, Shiyan, Hubei Province
41	The First Phase of Science and Technology Park PPP Project, High-tech District, Xiangyang, Hubei Province
42	Municipal Infrastructure Project, Huanggang, Hubei Province
43	Shanty Town Redevelopment Project, Liangyuan District, Shangqiu, Henan Province
44	Da'an to Pailu Main Line Redevelopment PPP Project, Luoyang, Henan Province
45	Shanty Town Redevelopment Project, Pingdingshan, Henan Province

Medicine, Medical and Pharmaceutical Innovation Centre of Medical City (Phase 4) Infrastructure Investment + EPC Project, Chengdu, Sichuan ProvinceProvince

BT Project for Rerouting Lianjiang-Jin'an section of National Highway G104 in Fuzhou, Fujian Province

Business Review (continued)

Major Projects in Progress — Mainland China *(continued)*

No.	Project Name
	Major Infrastructure Investment Project in Progress
46	Investment and Construction Project of Relocation Housing, Xuzhou, Jiangsu Province
47	Integrated Underground Tunnels PPP Project, Xuzhou, Jiangsu Province
48	Binhe Garden PPP Project Phase 2, Xuzhou, Jiangsu Province
49	Science and Technology Innovation Park PPP Project, Xuzhou, Jiangsu Province
50	Core Area of Biomedical Science and Technology Service Platform Project, Xuzhou, Jiangsu Province
51	Public Facilities and Relocation Housing PPP Projects, Huaian, Jiangsu Province
52	Investment and Construction Project of Relocation housing, New District Garden, Huaian, Jiangsu Province
53	Public Health Service Centre Project, Huai'an Jiangsu Province
54	Relocation Housing and Hospital PPP Projects, Zhenjiang, Jiangsu Province
55	Relocation Housing and Talent Apartment Project, Zhenjiang, Jiangsu Province
56	Head Office Building and Labour Apartment of High Technology Industrial Park EPC Project, Nanjing, Jiangsu Province
57	Infrastructure Project Phase II in Qujiang New District, Xi'an, Shaanxi Province
58	Municipal Infrastructure PPP Project, Ankang, Shaanxi Province
59	China State Construction Industrial Park Project (Zone B), Hefei, Anhui Province
60	Building Industrialization Project of Digital Technology Industrial Park, Hefei, Anhui Province
61	Investment and Construction Project of Maternity and Child Healthcare Hospital, Hefei, Anhui Province
62	Construction Industrialization Project, Reservoir Water Conservation District, Hefei, Anhui Province
63	Investment and Construction Project of Shanty Town Redevelopment, Hefei, Anhui Province

Municipal Infrastructure PPP Project, Ankang, Shanxi Province

Science and Technology Innovation Park PPP Project, Xuzhou, Jiansu Province

Business Review (continued)

Major Projects in Progress — Mainland China *(continued)*

No.	Project Name
	Major Infrastructure Investment Project in Progress
64	CSCI Engineering Headquarter Project, Hefei, Anhui Province
65	Relocation Housing Project, Hefei, Anhui Province
66	Shanty Town Relocation Housing Project, Hefei, Anhui Province
67	Talent Apartment EPC Project, Hefei, Anhui Province
68	Green Home Industrial New Town Project, Lu'an, Anhui Province
69	Hotel Project of Green Home Industrial New Town Project (Phase II), Lu'an, Anhui Province
70	Kick-off Project of Green Home Industrial New Town Project (Phase 2A), Lu'an, Anhui Province
71	The Highway PPP Project, Anhui Province
72	Highway Project, Bengbu, Anhui Province
73	Shanty Town Redevelopment Project, Suzhou, Anhui Province
74	Innovation City Phase 1 PPP Project, Chuzhou, Anhui Province
75	Development Project of Yuanjing Yuxiang Town, Xuancheng, Anhui Province
76	Underground Integrated Corridor and Other Infrastructure Investment Projects, Zibo, Shandong Province
77	Investment and Construction Project of Municipal Infrastructure, Zibo, Shandong Province
78	Investment and Construction Project of Shantytown Redevelopment, Jining, Shandong Province
79	Education Group PPP Project, Jinan, Shandong Province

Investment and Construction Project of Relocation housing, New District Garden, Huaian, Jiangsu Province

Business Review (continued)

Major Projects in Progress — Mainland China *(continued)*

No.	Project Name
	Major Infrastructure Investment Project in Progress
80	Integrated Medical Service Centre PPP Project, Jinan, Shandong Province
81	Shanty Town Redevelopment Government Procurement Services Project, Yantai, Shandong Province
82	Shanty Town Redevelopment EPC Project, Yantai, Shandong Province
83	Public Construction and Infrastructure PPP Project, Qingdao, Shandong Province
84	Affordable Housing Project in Chengyang District, Qingdao, Shandong Province
85	Infrastructure and Related Facilities Projects, Binzhou, Shandong Province
86	Urban Comprehensive Development PPP Project, Foshan, Guangdong Province
87	International Convention and Exhibition Centre (Tanzhou) Phase 2 Project, Foshan, Guangdong Province
88	Infrastructure PPP Project, Wangcheng New District, Nanchang, Jiangxi Province
89	Cultural Tourism Character Town Construction PPP Project, Nanchang, Jiangxi Province
90	High Speed Connection Line PPP Project, Jingdezhen, Jiangxi Province
91	Infrastructure PPP Project, Bonded Area, Changsha, Hunan Province
92	University and Science & Technology City PPP Project, Yuelu Mountain, Changsha, Hunan Province
93	Meixi Lake Yida Health Science and Technology City Cooperation Development Project, Changsha, Hunan Province
94	Investment and Construction Project of Furong Road Renewal, Xiangtan, Hunan Province
95	Infrastructure PPP Project of Xiangxi Tujia and Miao Autonomous Prefecture
96	Zheng'an-Xishui Expressway PPP Project, Zunyi, Guizhou Province
97	Highway PPP Project from Yinjiang, Guizhou Province to Xiushan, Chongqing
98	Dapingzi to Dongdi Class 1 Highway Project, Liupanshui, Guizhou Province
	Operation and Management Project
99	Nanjing No.2 Yangtze River Bridge
100	Nan Chang Bridge and Nan Chang Zhong Hai Xin Ba Yi Bridge
101	Shenyang Huanggu Thermal Power Plant
102	Laizhou Port
	Prefabricated Construction Industrialization Base
103	Shenzhen Hailong Construction Products Plant
104	Anhui Hailong Construction Products Plant
105	Shandong Hailong Construction Products Plant
106	Zhuhai Hailong Construction Products Plants

Major Awards and Accolades 2018

Comprehensive strength, corporate governance, branding category

Award	Unit	Organisation
FTSE4Good Constituent	China State Construction International Holdings Limited	FTSE Russell
Carboncare ESG Label	China State Construction International Holdings Limited	CarbonCare Innolab
Platinum Award, Top 100 Reports, Worldwide, Top 80 Reports, Asia Pacific Region, Top 60 Chinese Report	China State Construction International Holdings Limited	League of American Communications Professionals
Most Brand Value of List Company Award (最具品牌價值上市公司大獎)	China State Construction International Holdings Limited	Wen Wei Po

CSR category

Award	Unit	Organisation
"Caring Company 10+" Label	China State Construction International Holdings Limited	The Hong Kong Council of Social Service
In appreciation of participation in the recovery work after Super Typhoon Mangkhut in September 2018	China State — Build King Joint Venture	Civil Engineering and Development Department (CEDD) of the HKSAR Government
"Caring Company 5+" Label	Far East Global Group Limited	The Hong Kong Council of Social Service
"Happy Company" Logo	Far East Global Group Limited	Hong Kong Productivity Council
HK Corporate Citizenship Program	Far East Global Group Limited	Hong Kong Productivity Council
"Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme Inclusive Organisation" Logo	Far East Global Group Limited	Labour and Welfare Bureau
"Green Office" and "Eco-Healthy Workplace" Awards Labelling Scheme	Far East Global Group Limited	World Green Organisation
Family-Friendly Employers Award Scheme — "Family-Friendly Employers Award Scheme" logo	Far East Global Group Ltd, Far East Aluminium Works Co Ltd, Treasure Construction Engineering Ltd	Home Affairs Bureau and Family Council

Environmental protection category

Award	Unit	Organisation
Innovative Safety Initiative Award 2018 — Safety Operational Device Category — Gold Award	Lohas Park Package 7A&B Composite Development	Development Bureau, Construction Industry Council and Hong Kong Construction Association
Innovative Safety Initiative Award 2018 — Health and Welfare Category — Gold Award	Proposed Residential Redevelopment at Nos 1–11 Au Pui Wan Street	Development Bureau, Construction Industry Council and Hong Kong Construction Association
24th Considerate Contractors Site Award Scheme (Public Works — New Works —Gold Award, Outstanding Environmental Management & Performance Award — Silver Award)	Widening of Fanling Highway-Tai Hang to Wo Hop Shek Interchange	Development Bureau, Construction Industry Council
Construction Industry Safety Award Scheme 2017/2018 —Safety Teams Category — Silver Award	Design & Construction of CUHK Medical Centre	The Labour Department

Award	Unit	Organisation
Occupational Health Award 2017–18 (Healthy Workplace Best Practices Award — Excellence Award, Hearing Conservation Best Practices Award — Excellence Award)	Hiram's Highway Improvement Stage 1	Occupational Safety and Health Council
Good Housekeeping Plan — Gold Award in Construction Industries	Main Contract Package A & B, Lohas Park	Occupational Safety and Health Council, Construction Industry Council
The 6th Construction Industry Safety Construction Award Scheme (Best Occupational Safety and Health) Site — Hotel Casino Resort Gold Award, Best Security Management System Gold Award)	Theme Park Resort Hotel Project, Macau	The Labour Affairs Bureau, Macao Special Administrative Region
The 6th Construction Industry Safety Construction Award Scheme (Best Occupational Safety and Health Site — Gold Award for General Building Construction Project)	Project at Fai Chi Kei, Macau	The Labour Affairs Bureau, Macao Special Administrative Region
The 6th Construction Industry Safety Construction Award Scheme (Special Project — (Contractor/ Sub-contractor) Gold Award, Safety Improvement Project Gold Award)	Project of Light Rail Station, Macau	The Labour Affairs Bureau, Macao Special Administrative Region
HKCA Proactive Safety Contractor Award	China State Construction Engineering (Hong Kong) Limited	The Hong Kong Construction Association, Limited (HKCA)
Contractor of the Year	APM & BHS Tunnels on Existing Airport Island	Airport Authority Hong Kong
Hong Kong Awards For Environmental Excellence (10th Anniversary Special Awards)	China State Construction Engineering (Hong Kong) Limited	The Environmental Campaign Committee (ECC)
Hong Kong Awards For Environmental Excellence (Construction Industry Gold Award, Outstanding Green Leadership Award)	Shatin to Central Link Contract 1123- Exhibition Station and Western Approach Tunnel	The Environmental Campaign Committee (ECC)
MTR Safety Contractor Award	Proposed Property Development at West Rail Long Ping Station(South)	MTR
2018 Workplace Hygiene Competition — Champion	Lohas Park Package 7A&B Composite Development	MTR

Quality and technology category

Award	Unit	Organisation
16th Tien-yow Jeme Civil Engineering Prize	Central — Wan Chai Bypass — Tunnel (Causeway Bay Typhoon Shelter Section)	China Civil Engineering Society
Professional Excellence in Building Awards	Hong Kong Children's Hospital	The Australian Institute of Building (AIB)
Grand Award of Structural Excellence Award 2018	Footbridge B of Shatin Area 52 Phase 2	The Hong Kong Institution of Engineers
Hightech Enterprises	Anhui Hailong Construction Products Plant	安徽省科學技術廳、安徽省財政廳
科技成果評鑑國內領先-新型裝配式混凝土工程結構裝飾一體化成套技術研究與應用	Anhui Hailong Construction Products Plant	中科合創 (北京) 科技成果評價中心
2018第八屆中建技術交流會優秀論文一等獎	China State Construction Engineering (Hong Kong) Limited	China State Construction Engineering Corporation

Corporate
Citizenship

For a successful construction project,

other than cost control, safety, quality and progress, environmental protection also plays an important role.

As a socially responsible contractor,

the Group must champion green management in construction planning in order to create a pleasant environment for our society.

Corporate Citizenship (continued)

Staff Development and Personal Growth

The Group values the well-being of our employees as a first priority and has persisted in its core thought of "human resources and culture are the most precious wealth" and combines the establishment of a talent team with the creation of a corporate culture. Besides, by inheriting the "people first" principle, it has placed the emphasis of the human resources work on "selecting, cultivating and using people" so as to provide its staff with simple and harmonious human relationship, challenging jobs, vast development opportunities and benefits satisfactory to staff.

During the year, the Group sustains its leadership position by diversifying the workforce which we consider to be one of the greatest strengths in leveraging both local knowledge and international experience. We provide our people with job transfer opportunities among our global locations. A total of 133 employees had been rotated worldwide over the last 3 years. As of end of 2018, the Group had a total of 13,256 employees, of which, 5,611 persons were in Hong Kong and Macau, 7,147 of them were in Mainland China, and 498 were working overseas.

Staff Recruitment Programme

Besides getting seasoned professionals from the open market, the Group also organised campus recruitment programmes to grasp young engineers from 4 universities in Hong Kong. Not least, hiring graduates with top caliber from well-known universities in Mainland China through the "Son of the Sea Programme", a recruitment programme for management trainee, enabled the Group to recruit outstanding young talents from other establishments in an effective manner.

Staff Training and Development

The Group provides the full support for its staff for lifelong learning and self-enhancement. The Group has put aside capital to set up the "Staff Education Fund" and the "Education Subsidy and Examination Leave" to facilitate staff training. In line with the business development on an international scale and the organization expansion, the Group hammers out training programmes for different professions and different levels of staff according to the needs and interests of the staff, which cover the corporate system, management skills and occupational skills, quality assurance, team-building and communication skills. More than 11,422 participants took part in the courses during the period.

By implementing its all-rounded "Talent Development Scheme", "Graduate Engineer Training Programme" and its "Apprenticeship Scheme" and optimising nurturing and management system for middle to senior management, the Group forms multiple paths for comprehensive development and provides opportunities for its staff for widening their exposure, which help to enhance the overall integrated capabilities of its staff and to provide a reserve of capable people for its teams. Meanwhile, the Group makes contribution to build up the technical taskforce in the industry by actively involving in the "Construction Cooperative Skilled Workers Training Scheme". The Group has also made use of its advantage in overseas business to hammer out the efficient system of exchange of people and rotation, selection and dispatching of talented staff to learn in overseas regions so as to broaden their international perspective, thereby achieving the international mobility of employees.

Incentive Mechanism

The Group fully recognises that the effectiveness of a system depends on its implementation. Rewards systems are designed and strictly executed to ensure that company compensation and benefits are competitive and allocated on the basis of merit. With the implementation of the "Site Contracting Responsibility System" and the "System of Departmental Operation and Management Objectives and Responsibilities", all the departments of the Group have to determine their business indicators and plans according to the annual financial indicator and assessment target presented by the Company as the key basis for their respective performance assessment. Various incentive mechanisms including "Integrated Site Management Award" and "Technology Achievement Award" are implemented to extend our recognition towards remarkable staff contribution. To maintain a competitive remuneration position within the marketplace and set reasonable pay level to its staff, the Group carries out salary survey and benefit policy review from time to time so as to strike a balance between corporate development and staff satisfaction.

Corporate Citizenship (continued)

Relationship with Employees

The Group endeavors to build a harmonious relationship with employees and tries to collect and adopt opinions and recommendation from staff through various communication channels such as annual satisfaction survey, performance communication, staff seminars, workshops, clubs and team building activities. It continues to improve the operation standards and optimize internal management in order to create a good working atmosphere.

Environmental Policy

It is the Group's policy to protect the environment likely to be affected by its operations.

The Group is committed to:

- complying with statutory, contractual and other requirements in all respects
- preventing environmental pollution
- reducing construction wastes
- minimizing the consumption of natural resources; and
- improving its overall performance

The Group has set up its environmental management system and formulated environmental objectives and targets. The Group endeavors to review and continually improve its environmental performance. It is mandatory that all employees shall fully conform to the policy.

Environmental Risks and Control Measures

The Group's environmental related risks mainly come from the operations of construction sites. If the site's operation deviates from statutory requirements that may lead to prosecutions and in turn affecting the Group's reputation and chances of awarding new projects.

In order to prevent project sites violating the environmental laws, all projects have to identify project related significant environmental aspects through conducting compliance obligation and risk assessment at project commencement then follow strictly the operating procedures stipulated in the Group's Standard Operating Procedures Manual to operate the project.

The Group's Safety and Environmental Protection Department (S&EP Department) responsible for providing technical supports as well as monitoring the sites ensuring all sites are complying with statutory requirements. For management of noise issue which is our top priority concern, in addition to our Restricted Hours Permit-to-Work System implementing on site, we require all project management to provide weekly restricted hours' work schedules to our S&EP department in advance to facilitate our planning of surprise checks. For tackling air pollution issues associated with construction activities, Task Force Site Inspection will be conducted regularly for sites with extensive dusty processes. Should any deficiencies found during the Task Force Site Inspection, the site will be required to provide photos on carrying out dust suppression on the deficiencies spotted to S&EP Department on a daily basis until situation improved. Regarding sites with deficiencies in wastewater treatment system, technical assistances with be jointly provided by S&EP Department and Plants Department. The sites concerned will be required to provide photos on proper operation of wastewater treatment plant as well as the conditions of the discharge point on a daily basis to S&EP Department until situation improved to ensure that no substandard discharge from sites. In addition to the control measures mentioned, S&EP Department issues "Environmental Alert" regularly to alert all construction sites be vigilant on potential environmental issues and take proactive action to avoid deviating from statutory requirements. In order to further enhance the compliance obligation and risk management, the companies' Environmental Management System has been updated and certified to comply with ISO14001:2015 requirements in 2016.

Corporate Citizenship (continued)

Environmental Protection and Promotion

As a socially responsible contractor, the Group always champions green management in construction planning in order to create a pleasant environment to our society. The Group has adopted technologically innovative measures and green practices to reduce carbon footprint and help avert global warming, take up our corporate responsibility to improve the environment. In 2014 China State Construction Engineering (Hong Kong) Limited and China Overseas Building Construction Limited granted the ISO50001:2011 Energy Management Systems certification. There is no non-compliance or Area for Improvement (AFI) raised during the system external audit in 2018.

In line with the rising concern of the community on building environmental performance and expectation of clients on green building construction, China State Construction Engineering (Hong Kong) Limited joint the Hong Kong Green Building Council as an Institutional Member since 2015 to actively promote green construction in Hong Kong. The Group encouraged and sponsored its staff to participate in BEAM Pro Training and gain the BEAM Pro status to provide endless professional inputs to project management. Currently, more than twenty of our staff members have obtained the qualification of BEAM Pro.

With the concerted efforts of the Group, the results were remarkable. Our Widening of Fanling Highway — Tai Hang to Wo Hop Shek Interchange Project won the CIC Sustainable Construction Awards 2018 — New Works Merit Award and Outstanding Environmental Management and Performance Award (Silver Award) in the 24th Considerate Contractors Site Award Scheme. Our JV project — Shatin to Central Link Contract 1123 — Exhibition Station and Western Approach Tunnel Project won the Construction Industry Gold Award and Outstanding Green Leadership Award in the Hong Kong Awards For Environmental Excellence (HKAEE) organized by Environmental Protection Department and Environmental Campaign Committee. Besides, China State Construction Engineering (Hong Kong) Ltd won the 10th Anniversary Special Award in HKAEE organized by Environmental Protection Department and Environmental Campaign Committee and the 2018 Hong Kong Construction Environmental Awards — Environmental Merit Award organized by the Hong Kong Construction Association. Those awards fully recognize our efforts in promoting green construction in Hong Kong.

Same as previous years, the Group is actively committed to environmental promotional activities. In the yearly "China State Environmental Protection Day", the Group participated the "Hong Kong UNESCO Global Geopark Sai Kung Area Geological Heritage Guided Tour" organized by a Social Enterprise. Through the guided tour, staff acquired the knowledge and appreciated the works on geological heritage conservation. All the Group's construction sites participated the Expired Helmets Recycling Activity in June. The activity raised the awareness of workers on the expiry of safety helmets and reduced disposal of recyclable material.

The Group also required all subcontractors to comply with our environmental policies. Regular site meetings were held with subcontractors to discuss environmental protection related issues. Moreover, the Group also organised training on environmental management systems for its staff and subcontractors to arouse their awareness on environmental protection. Our staff were also encouraged to explore and adopt low carbon and innovative construction methods to save energy and resources throughout the execution of the construction project, thereby achieving sustainable development.

The Group and Community

"Serving the Community" represents a longstanding corporate value of the Group. The Group is committed to providing a role model for corporate citizenship by undertaking various kinds of projects. The fulfillment of the duties of a corporate citizen is integral to the Group's core values. The Group is also actively involved in various types of community campaigns and encourages its staff to do the same for the benefit of the needy and the community.

Underpinned by enthusiastic staff participation, the Group extends strong support to all types of community campaigns, such as "Hong Kong and Kowloon Walk for Millions" organised by the Community Chest of Hong Kong and Construction Industry Sports Day cum Charity Day, with a view to aiding the underprivileged as well as encouraging its staff to care for the society.

Corporate Citizenship (continued)

Actively taking corporate social responsibilities, China State Construction Engineering (Hong Kong) Limited, a subsidiary of the Group, volunteered to help with the relief work after Typhoon "Mangkhut" had hit Hong Kong, a good deed to help restore the normal state of the community. By fully leveraging the advantages of young employee volunteers and the professional construction company during the relief work, China State Construction Engineering (Hong Kong) completed such work with exceptional quality and quantity due to its strong abilities in organisation and execution. It fulfilled the social responsibilities of a corporate citizen in restoring the social and economic order of Hong Kong, receiving acclaim from different parts of society and wide coverage from Hong Kong media. China State Construction Engineering (Hong Kong) will continue to assume the responsibilities of a corporate social citizen while progressively carrying out its operations, so as to put its corporate value, "building our country, prospering Hong Kong, serving the society and benefitting the employees", into action.

"Hong Kong and Kowloon Walk for Millions" by the Community Chest of Hong Kong

On 14 January, the staff of the Group and their families took part in "Hong Kong and Kowloon Walk for Millions 2017/18", the first large-scale fund-raising activity organised by the Community Chest of Hong Kong in the year. The opening ceremony of the walk was officiated by Mrs. Carrie Lam, Chief Executive of the HKSAR, in person.

Led by the members of the Group's top management, our colleagues, all dressed in the bright blue China Overseas corporate jacket, started off from the Hong Kong Stadium in high spirits on a breezy and sunny day, passing through Wong Nai Chung Gap Road, Black's Link and Aberdeen Reservoir Road before finishing at Aberdeen Country Park Visitor Centre. It was a fine example of China Overseas Group's diligent fulfilment of corporate social responsibilities.

"Walk for Millions" organised by the Community Chest is one of the largest charity fund-raising walk events in Hong Kong. The Group has been supporting and organising staff and their families to join the activity over the years. Fund raised from this event this year will all be donated to "Family and Child Welfare Services" to help those families in need, encouraging family members to build close relationships with love and respect, so as to maintain and reinforce family values.

China State Environmental Protection Day 2018

In positive response to the "World Environment Day" on 5 June, CSCI organised "China State Environmental Protection Day 2018" on 29 June to enhance its staff's awareness on environmental protection and fulfil corporate social responsibilities. It organised 30 colleagues from the Company's office and construction sites to participate in "Geology and Heritage Tour of the Global Geopark in the Inshore Waters of Sai Kung" to visit geological sites and preserved cultural buildings. This enhanced their interest in environmental protection works and increased their environmental awareness, as well as promoting the importance of "green and low-carbon living" to them.

Upholding the sustainable development philosophy of "green living, emission reduction, energy saving and environmental protection", CSCI has organised "China State Environmental Protection Day" for 12 consecutive years to enhance its staff's awareness on environmental protection and promote relevant concepts.

Led by the professional tour guide of a social enterprise, the colleagues who took part in this activity learned about the geological characteristics of the inshore waters of Sai Kung and environmental knowledge. They also visited Tin Hua Temple in Sai Kung to gain knowledge of heritage conservation. All participants felt they had learned a lot from the activity, and said they would share such knowledge with their fellow colleagues and friends.

Corporate Citizenship (continued)

Relief Work after Typhoon Mangkhut Hit Hong Kong and Macau

Super Typhoon "Mangkhut" hit Hong Kong and Macau on 16 September. China State Construction International Holdings Limited (hereinafter referred to as "CSCI" or the "Company") actively planned for the relief work, and once the typhoon left, allocated considerable human resources and supplies to the relief work in Hong Kong and Macau by actively following the instructions of the superior units and the SAR governments. Such relief work included removing toppled trees, clearing roads and public spaces as well as trucking garbage. The Company fulfilled the social responsibilities of a corporate citizen in restoring the social and economic order of Hong Kong and Macau.

In the morning of 17 September, the Company quickly gathered nearly 500 volunteers, over 100 large trucks and machines as well as more than 3,000 small electrical and manual tools for the external relief work, well-prepared for following the relief work instructions of the superior units and the relevant departments of the SAR governments at any time.

It was proven that the Company had made timely preparations. On that day, different governmental departments and groups, including the Highways Department of Hong Kong, Tseung Kwan O Police Station, villagers from Lai Chi Shan, Tai Po and the Municipal Affairs Bureau of Macau, successively sought assistance from China State Construction. While protecting themselves, the branches in Hong Kong and Macau spared no effort to assist with the external relief work, and carried out such work with great focus in strict compliance with the Company's requirements of "putting people first, taking responsibilities and serving Hong Kong and Macau".

On 17 September, the Company assigned 498 peoples and 89 large machineries and equipment, as well as sufficient materials including water pumps, hoses, raincoats and canvases to clear tress which blocked roads of Lai Chi Shan, Tai Po, road-blocking trees from Sha Tau Kwok to Man Kam To Road, fallen trees on public roads surrounding Tai Po Water Treatment Works, fallen trees on public roads surrounding Hong Kong-Zhuhai-Macau Bridge, fallen trees around Hopewell Centre, Hong Kong Island including St. Francis' Canossian School, Wah Yan College, Ruttonjee Hospital and a shopping mall in Siu Sai Wan.

Corporate Citizenship (continued)

During the prevention and rescue works, a total of 1,627 volunteers, 464 machineries and equipment were assigned by CSCI. Clearing works on some roads exceeded 16 hours per day, areas cleared covering four regions in Hong Kong and accounted for a total of 87 roads and facilities, as well as a total of 8 regions in Macau Peninsula, Taipa Island and Coloane Island. Volunteers of CSCI were organized to clear 817 fallen trees, 88,365 metres of road, approximately 260,283 square metres of public space, 700 cubic metres of sea sand and shipped away 421 trucks of garbage in Hong Kong and Macau. During the rescue and relief works, the Company fully leveraged on the strengths of every parties, with efficient organizing power and superb executive power, we completed the rescue works with high quality and quantity. We fulfilled the social responsibilities of a corporate citizen in restoring social and economic order of the local society and was highly commended by the public. The Central People's Government Liaison Office in Hong Kong and Macau highly commended the relevant works of CSCI. CSCI received silk banners and appreciation letters from over 30 government departments, district councils and social organisations, including Ms. Tse Siu Wa, Director of Home Affairs Department, Civil Engineering and Development Department, Highways Department, Sai Kung District Council, Tai Po District Council, Cha Kwo Ling Villager Association (茶果嶺鄉民聯誼會), Commissioner of Police of Serviços de Polícia Unitários (澳門員警總局局長), Commander of Joint Civil Protection (民防中心聯合行動指揮官), Mr. Ma Io Kun. Ta Kun Pao, Macao Daily and MASTV reported on this matter and recognized the achievements of rescue and relief works.

China State Construction actively participated in Construction Industry Sports Day and Charity Fun Day

On 21 October, CSCI Association organized over 20 athletes to participate in the Construction Industry Sports Day and Charity Fun Day held at Shing Mun Valley Sports Ground in Tsuen Wan by Construction Industry Council. Over 1,200 athletes from a total of 52 units of relevant government departments, corporates and academics of construction industry participated in this competition. Our athletes actively participated in various sports competitions and activities of the Fun Day. We achieved excellent results and won 1 overall champion, 4 gold medals and 2 silver medals. China State Construction also actively participated in the "Construction Charity Run", finale of day, to help raising funds for Construction Charity Fund.

This year was the third year of Construction Industry Sports Day and Charity Fun Day. The activity has been fully supported by all parties from the construction industry and received positive responses. Construction Industry Council approved to hold such activity to promote the spirit of "encouraging a healthy life-style and instilling a caring culture (樂健行義)". In addition to the traditional track events, there was a newly added "Professional Worker Cup" this year to encourage the active participation of registered workers and registered subcontractors. There were also various featured booths and games, enjoyable performances and "Construction Charity Run" to demonstrate the united, energetic and caring side of the industry.

Corporate Citizenship (continued)

Investor Relations

The Group is committed to maintaining effective communication with shareholders and investors. The professional team for investor relations constantly study, promote and improve relevant work. Management of the Group also participated and directly faced shareholders' and investors' questions and requests, listened to their concerns and expectations as important considerations to be taken into account in the formulation of its development strategies of the Group.

2017 Annual Results Announcement

2018 Interim Results Announcement

The Group maintain a high degree of transparency. We proactively maintain mutual communication with shareholders and investors through results presentations, post-results roadshows, reverse roadshows, investors' meetings and corporate days, in-house interviews and telephone conferences, in addition to text channels such as announcements via the Stock Exchange and the Company's website. Communication sessions with a total turnout of more than 1,500 were held during the year, during which we shared the Group's interpretation on market, industry and policy, introduced our own strategies, business development, financial situation and management experience, as well as providing sufficient information for the shareholders and investors of the Group. In 2018, we basically covered all major investment banks and analysts of securities dealers of the capital market in Hong Kong. The coverage of analysts in Mainland was also increasing.

Attendance of investors of the Group by activities

22.2%
Results presentations

10.6%
Post-results roadshows

5.5%
Reverse roadshows

29.9%
Investors' meetings and corporate days

31.8%
In-house interviews and telephone conferences

Corporate Citizenship (continued)

To address the Group's worldwide shareholders' base, during the year, the Group innovated its communication models and increased the interactions with investors of Stock Connect (Southbound) through meetings for specific topics in Shenzhen and held the reverse roadshow in Macau for the first time to introduce the business of the Group in Macau and development strategy meeting. All of which generally received positive response from the attended investors.

During the year, the Group once again earned the distinction of "Most Honored Company" in the annual poll of "Institutional Investor". The operation and investor relations of the Group continuously recognized by the international capital market.

Meeting with investors of Stock Connect (Southbound) in Shenzhen

Distribution of meetings with shareholders and investors of the Group by region

54.4% Hong Kong

25.6% Mainland

5.1% Singapore

4.7% United States

3.8% United Kingdom

3.3% Other Asia Pacific region

3.0% Other European region

Corporate Citizenship (continued)

Major Investor Relations Activities in 2018

JANUARY

- The 17th UBS Greater China Seminar
- Citi A Share Stock Connect (Southbound) Corporate Day
- JP Morgan China Living Quality Investment Conference
- The 1st UBS Industrial and Infrastructure Corporate Day

FEBRUARY

- Special Topic Meeting for Stock Connect (Southbound) Investors

MARCH

- Changjiang Securities Annual Investment Strategy Summit 2018
- 2017 Annual Results Announcement
  — Press Conference
  — Investors and Analysts Briefing
- Post-annual results roadshows in Hong Kong and Singapore
- The 21st Credit Suisse Annual Asia Investment Conference
- Post-annual results roadshows in Mainland China

APRIL

- Post-annual results roadshows in Europe
- Investor Telephone Conference for Q1 Results
- Industrial Securities Overseas Investment Strategy Meeting in 2018 Spring
- Industrial Securities Summit cum Listed Company Meeting in 2018 Spring

MAY

- Everbright Securities & Zhixin Caijing "Take the lead in Hong Kong Stock Connect (攬勝港股通)" Conference
- JP Morgan Global China Investment Summit 2018
- GF Securities listed company high-end closed-door meeting
- Shenwan Hongyuan listed company meeting 2018 (Hangzhou)
- HSBC Broking Securities 5th China Investment Annual Meeting
- Citibank China Interim Strategy Meeting 2018
- The 23th CLSA China Investment Conference
- Reverse roadshow in Macau

JUNE

- Huatai Securities Interim Strategy Meeting 2018
- Daiwa Industrial and Industry Leader Investment Meeting
- Everbright Securities Interim Strategy Meeting 2018

JULY

- Goldman Sachs investor relations conference
- Citibank industrial and mid-cap investment meeting
- Tianfeng Securities Interim Strategy Meeting 2018

Corporate Citizenship (continued)

AUGUST

- 2018 Interim Results Announcement
  - — Press Conference
  - — Investors and Analysts Briefing
- Post-interim results roadshows in Hong Kong and Singapore

SEPTEMBER

- CLSA investors' meeting
- Post-interim results roadshows in United States

OCTOBER

- Investor Telephone Conference for Q3 Results

NOVEMBER

- Credit Suisse China Investment Meeting
- Goldman Sachs China Investment Annual Conference
- The 8th Jefferies Group Greater China Summit
- Bank of America Merrill Lynch China Annual Conference
- Daiwa Investment Meeting
- CITIC Securities Capital Markets Annual Conference 2019
- The 13th Citibank China Investors' Conference
- USD perpetual bond roadshows in Hong Kong and Singapore

DECEMBER

- Gelonghui Hong Kong Stock Conference

Reverse roadshows in Macau

Directors and Organisation

1. Mr. Yan Jianguo
2. Mr. Zhang Haipeng
3. Mr. Tian Shuchen
4. Mr. Zhou Hancheng
5. Mr. Hung Cheung Shew

Directors and Organisation (continued)

Board of Directors

Mr. YAN Jianguo

Chairman and Non-executive Director

Aged 52, was appointed as a Chairman and Non-executive Director of the Company on 22 March 2019. Mr. Yan graduated from Chongqing Institute of Architectural and Engineering (now known as Chongqing University) majoring in Industrial and Civil Construction in 1989 and obtained an MBA degree from Guanghua School of Management in Peking University in 2000. Mr. Yan joined 中國建築集團有限公司 (China State Construction Engineering Corporation*) ("CSCEC") in 1989 and had been seconded to China Overseas Land & Investment Ltd. ("COLI") twice. During the year 1990 to 1992, he had been working for the Shenzhen Branch of China Overseas Property Group and had held a number of positions, including site engineer and department head. He was assigned to COLI again from 2001 to 2011 and had been Assistant General Manager of Guangzhou Branch, Deputy General Manager of Shanghai Branch, General Manager of Suzhou Branch, General Manager of Shanghai Branch, Vice Managing Director of China Overseas Property Group and President of Northern China Region. Mr. Yan had worked in CSCEC from 2011 to June 2014 and had been Director of the General Office, Chief Information Officer and Assistant General Manager. Mr. Yan joined Longfor Properties Co. Ltd. in June 2014 and resigned on 5 December 2016. During the period, he had held a number of positions including Executive Director and the Senior Vice President. Mr. Yan rejoined COLI and was appointed Executive Director and Chief Executive Officer of COLI from 1 January 2017, and has become Chairman of COLI and continues to serve as Chief Executive Officer of COLI from 13 June 2017. Besides acting as the Executive Director, Chairman and Chief Executive Officer of COLI, Mr. Yan is currently Vice Chairman and President of China Overseas Holdings Limited ("COHL") and a director of certain of its subsidiaries, the Chairman and Non-executive Director of China Overseas Property Holdings Limited and China Overseas Grand Oceans Group Limited, and also a director of the subsidiaries of COLI. He has about 29 years' experience in construction business, real estate investment and management.

* The English name is a translation from its Chinese name and is for identification purposes only.

Mr. ZHANG Haipeng

Executive Director and Chief Executive Officer

Aged 43, was appointed as an Executive Director of the Company on 13 July 2017 and was appointed as the Chief Executive Officer of the Company on 21 August 2018. Mr. Zhang graduated from the Harbin Institute of Technology, and obtained a degree of Master of Business Administration from Hong Kong Baptist University and a degree of Executive Master of Business Administration from Nankai University. Mr. Zhang joined CSCEC in 2000 and was seconded to the Group in 2002. He has been a director of certain subsidiaries of the Group since 2008. Currently, Mr. Zhang is chairman and non-executive director of Far East Global Group Limited ("FEG", a subsidiary of the Company and listed in Hong Kong). Mr. Zhang has over 19 years' experience in construction engineering management.

Mr. TIAN Shuchen

Executive Director, Vice President

Aged 53, was appointed as an Executive Director of the Company on 12 August 2010. Mr. Tian graduated from Dalian University of Technology. He is a member of the Chartered Institute of Building (UK). Mr. Tian joined CSCEC in 1988 and was seconded to the Group in 1991. He has been a director of certain subsidiaries of the Group since 2003. Mr. Tian has over 31 years' experience in construction engineering and project management.

Mr. ZHOU Hancheng

Executive Director and Financial Controller

Aged 49, was appointed as a Director of the Company on 21 April 2004 and subsequently was designated as an Executive Director of the Company on 1 June 2005. Mr. Zhou graduated from Shanghai University of Finance and Economics and holds a degree of Master of Business Administration from The University of Sheffield (UK). He is Fellow of the Association of Chartered Certified Accountants. Mr. Zhou joined the Group in 1992. He has been a director and the financial controller of certain subsidiaries of the Group since 2003. Mr. Zhou has over 27 years' experience in corporate finance, financial accounting and investment management.

Directors and Organisation (continued)

Mr. HUNG Cheung Shew

Executive Director, Vice President

Aged 60, was appointed as an Executive Director of the Company on 8 June 2011. Mr. Hung graduated from the Plymouth Polytechnic (UK). He is a member of the Hong Kong Institution of Engineers and the Institution of Structural Engineers (UK). Mr. Hung joined the Group in 1996. He has been a director of certain subsidiaries of the Group since 2000. Currently, Mr. Hung is a standing director of Hong Kong Island Federation, a director of The Hong Kong Island Social Services Charitable Foundation, and a vice president of The Hong Kong Construction Association. Mr. Hung has over 37 years' experience in construction management and planning.

Dr. Raymond HO Chung Tai SBS, MBE, S.B. St. J., JP

Independent Non-executive Director
Chairman of the Audit Committee
Remuneration Committee Member
Nomination Committee Member

Aged 80, was appointed Independent Non-executive Director of the Company on 1 June 2005. Dr. Ho holds a doctorate degree in civil engineering from the City University of London, United Kingdom; Honorary Doctor of Business Administration from the City University of Hong Kong; Honorary Doctor of Laws from University of Manchester, United Kingdom; a postgraduate diploma in geotechnical engineering from Manchester University, United Kingdom; and a bachelor degree in civil engineering from the University of Hong Kong; and was awarded Honorary University Fellow of The University of Hong Kong and Honorary University Fellow of The University of Central Lancashire, United Kingdom.

Dr. Ho has 56 years' experience in the fields of civil, structural, energy, environmental and geotechnical engineering and direct project management of many mega size engineering projects including 46 years in Hong Kong and 10 years in the United Kingdom. He has direct management responsibility in the HK$3.0 billion (cost at the time) project of Electrification and Modernisation of Kowloon-Canton Railway from the mid-70's till early 80's; and all the government-funded infrastructure works for Shatin New Town and Tseung Kwan O New Town from early 80's till the end of 1993, experience including construction of tunnels, bridges, flyovers, roads, dockyards, jetties, hospitals, hotels, incinerators, high-rise commercial/residential buildings, slope, reclamation, environmental studies and environmental protection projects.

Dr. Ho was formerly a partner and senior director of Maunsell Consultants Asia Limited from January 1976 to August 1993. He was formerly Hong Kong Deputy to the 10th & 11th National People's Congress of the PRC; member of the Provisional Legislative Council of the Hong Kong Special Administrative Region (1996–1998); member of the 1st to 4th terms of Legislative Council (Engineering Functional Constituency) (1998–2012); member of the Basic Law Consultative Committee; President of the Hong Kong Institution of Engineers (1987–1988); Founding Council Chairman of the City University of Hong Kong; Council Chairman of the City Polytechnic of Hong Kong; Chairman of Hong Kong Technology Committee and member of the Industry & Technology Development Council; Chairman of the Transport Advisory Committee; Hong Kong Affairs Adviser; member of Consultative Committee on the New Airport and Related Projects; member of the Gas Safety Advisory Committee; board member of the Hong Kong Airport Authority (2008–2014); member of the Court of the City University of Hong Kong; member of the Chinese Medicine Consultative Committee of the School of Chinese Medicine of Hong Kong Baptist University; and Chairman of Infrastructure Development Advisory Committee of Hong Kong Trade Development Council, etc.

Currently, Dr. Ho is Chairman of Guangdong Daya Bay Nuclear Power Station and Ling Ao Nuclear Power Station Nuclear Safety Consultative Committee and a professional advisor to The Ombudsman of Hong Kong (Architecture, Engineering and Surveying). Dr. Ho is also a director of various private companies in Hong Kong; a Chairman and Non-executive of SCUD Group Limited; and Independent Non-executive Director of GCL-Poly Energy Holdings Ltd., Deson Development International Holdings Limited, Chinlink International Holdings Limited and AP Rentals Holdings Limited, which are companies listed in Hong Kong.

Directors and Organisation (continued)

Mr. Adrian David LI Man Kiu JP

Independent Non-executive Director
Chairman of the Remuneration Committee
Audit Committee Member
Nomination Committee Member

Aged 45, was appointed as an Independent Non-executive Director of the Company on 1 June 2005. Mr. Li holds a Master of Management degree from Kellogg School of Management, Northwestern University in the US, and a Master of Arts degree and Bachelor of Arts degree in Law from the University of Cambridge in Britain. He is a member of The Law Society of England and Wales, and The Law Society of Hong Kong. Mr. Li is Executive Director and Deputy Chief Executive of The Bank of East Asia, Limited. He is a member of the Anhui Provincial Committee of the Chinese People's Political Consultative Conference and a Counsellor of the Hong Kong United Youth Association. Mr. Li is also a board member of The Community Chest of Hong Kong, a member of the Advisory Board of the Salvation Army, Hong Kong and Macau Command, a member of the MPF Industry Schemes Committee of the MPFA, a Trustee of The University of Hong Kong's occupational retirement schemes and a Vice President of The Hong Kong Institute of Bankers' Council. Furthermore, Mr. Li serves as a member of the Election Committees responsible for electing the Chief Executive of the HKSAR and deputies of the HKSAR to the 13th National People's Congress. He also sits on the Judging Panel of the BAI Global Innovation Awards. Mr. Li was previously a member of the Guangdong Provincial Committee of the Chinese People's Political Consultative Conference, a member of the All-China Youth Federation and Deputy Chairman of the Beijing Youth Federation. Mr. Li is an Independent Non-executive Director of two listed companies under the Sino Group (Sino Land Company Limited and Tsim Sha Tsui Properties Limited) and COSCO SHIPPING Ports Limited, and is a Non-executive Director of The Berkeley Group Holdings plc (listed in London). He is also a member of the International Advisory Board of Abertis Infraestructuras, S.A. (listed in Spain). Mr. Li was previously an Independent Non-executive Director of Sino Hotels (Holdings) Limited. The aforesaid companies are all listed in Hong Kong, unless stated otherwise.

Dr. Raymond LEUNG Hai Ming

Independent Non-executive Director
Audit Committee Member
Remuneration Committee Member
Nomination Committee Member

Aged 64, was appointed as an Independent Non-executive Director of the Company on 1 June 2005. Dr. Leung holds doctorate degree in Information Engineering from the Chinese University of Hong Kong, a Bachelor Applied Science degree in Civil Engineering and a Master degree in Applied Science in Construction Management. Dr. Leung is Fellow of The Hong Kong Institution of Engineers, Hong Kong Institute of Arbitrators, Hong Kong Institute of Construction Managers, American Society for Civil Engineers, Institution of Civil Engineers (UK) and Senior Member of Institute of Electrical and Electronics Engineers. He has more than 42 years of experience in engineering, investment, construction and project management. Dr. Leung was previously an independent non-executive director of Elec & Eltek International Company Limited (listed in Hong Kong and Singapore). He is director of various private companies in Hong Kong. Dr. Leung is also the Chairman and Chief Executive Officer of C & L Holdings Ltd. engaging in investment and dispute resolution.

Directors and Organisation (continued)

Mr. LEE Shing See GBS, OBE, JP

Independent Non-executive Director
Chairman of the Nomination Committee
Audit Committee Member
Remuneration Committee Member

Aged 76, was appointed as an Independent Non-executive Director of the Company on 1 September 2005. Mr. Lee graduated from the University of Hong Kong in 1964. He is Fellow of both The Hong Kong Institution of Engineers and The Institution of Civil Engineers (UK). Mr. Lee joined The Hong Kong Government since he graduated from the University. He was the Director of Territory Development from the period of August 1994 to August 1999 and the Secretary for Works from the period of August 1999 to August 2002 (including 2 months as a Permanent Secretary). He is a Board Member of the Airport Authority Hong Kong; a Director of Aviation Security Company Limited; a co-opted member of Youth Education, Employment and Training Task Force of Commission on Poverty; and a Vice Chairman of the CreateSmart Initiative Vetting Committee. Mr. Lee has over 53 years' experience in engineering and construction.

Senior Management

Mr. ZHAO Xiaoqi

Vice President

Aged 45, he graduated from Tsing Hua University and obtained a degree of Master of Business Administration from Renmin University of China. Mr. Zhao joined CSCEC in 1997 and was seconded to the Group in 2001. He has been a director of certain subsidiaries of the Group since 2010. Mr. Zhao has over 22 years' experience in human resources management and personnel administration.

Mr. YANG Weidong

Vice President

Aged 49, he graduated from Anhui Jianzhu University, and obtained a degree of Master of Business Administration from University of South Australia and was awarded the title of Senior Engineer. Mr. Yang joined the Group in 1999. He has been a director of certain subsidiaries of the Group since 2007. Mr. Yang has over 29 years' experience in construction engineering and management.

Mr. ZHOU Wenbin

Vice President

Aged 52, he graduated from Zhongnan University of Economics and Law, and obtained a Master Degree from Huazhong University of Science and Technology and was awarded the titles of Senior Accountant and Senior Economist. Mr. Zhou joined COHL Group in 1999 and was seconded to the Group in 2005. He has been a director of certain subsidiaries of the Group since 2005. Mr. Zhou has over 30 years' experience in corporate finance, accounting and investment management.

Mr. JIANG Shaojie

Vice President

Aged 55, he graduated from Shenyang Jianzhu University (formerly known as Shenyang Architectural and Civil Engineering University) and Sheffield Hallam University (UK). Mr. Jiang is a member of China Civil Engineering Society and a member of Chartered Quality Institute. Mr. Jiang joined CSCEC in 1988 and was seconded to the Group in 1991. He has been a director of certain subsidiaries of the Group since 2003. Mr. Jiang has over 36 years' experience in construction engineering and project management.

Mr. LUO Haichuan

Assistant President

Aged 39, he graduated from Harbin Institute of Technology, and obtained a degree of Master of Business Administration from Hong Kong Baptist University and was awarded the title of Senior Engineer. Mr. Luo joined the Group in 2003. He has been a director of certain subsidiaries of the Group since 2011. Mr. Luo acted as an executive director of FEG from September 2015 to August 2018. He has over 16 years' experience in investment and financing; and human resources management.

Mr. HUANG Jiang

Assistant President

Aged 44, he graduated from Chongqing Jianzhu University, and obtained a degree of Master in Project Management from Hong Kong Polytechnic University and a degree of Executive Master of Business Administration from Nankai University. Mr. Huang joined CSCEC in 1997 and was seconded to the Group in 2000. He has been a director of certain subsidiaries of the Group since 2007. Currently, Mr. Huang is a non-executive director of FEG. He has over 22 years' experience in contract and project management.

Directors and Organisation (continued)

Mr. WANG Xiaoguang

Assistant President

Aged 36, he graduated from Tongji University, and obtained a degree of Master of Construction and Real Estate from The Hong Kong Polytechnic University and was awarded the title of Engineer. Mr. Wang joined the Group in 2005. He has been a director of certain subsidiaries of the Group since 2015. Mr. Wang has over 14 years' experience in construction engineering and management.

Mr. WANG Yi

Assistant President

Aged 36, he graduated from Xi'an University of Architecture and Technology, and obtained a degree of Master of Construction and Real Estate from The Hong Kong Polytechnic University and was awarded the title of Engineer. Mr. Wang joined the Group in 2004. He has been a director of certain subsidiaries of the Group since 2016. Mr. Wang has over 15 years' experience in construction engineering and management.

Mr. ZHANG Ming

Assistant President

Aged 36, he graduated from Harbin Institute of Technology, and obtained a degree of Master of Construction and Real Estate from The Hong Kong Polytechnic University and was awarded the title of Engineer. Mr. Zhang joined CSCEC in 2006 and was seconded to the Group in 2010. He has been a director of certain subsidiaries of the Group since 2016. Mr. Zhang has over 13 years' experience in construction engineering, administration and human resources management.

Mr. ZHOU Yuguang

Assistant President

Aged 54, he graduated from the Central South University, and obtained a Master degree from Zhongnan University, a degree of Master of Business Administration from the University of South Australia and a Doctorate degree from Hong Kong Polytechnic University and was awarded the title of professor level Senior Engineer. Mr. Zhou is a member of China Civil Engineering Society. Mr. Zhou joined COHL Group in 1995 and was seconded to the Group in 2014. He has been a director of certain subsidiaries of the Group since 2010. Mr. Zhou has over 31 years' experience in information technology management and project management.

Mr. WONG Wing Yuk

Assistant President

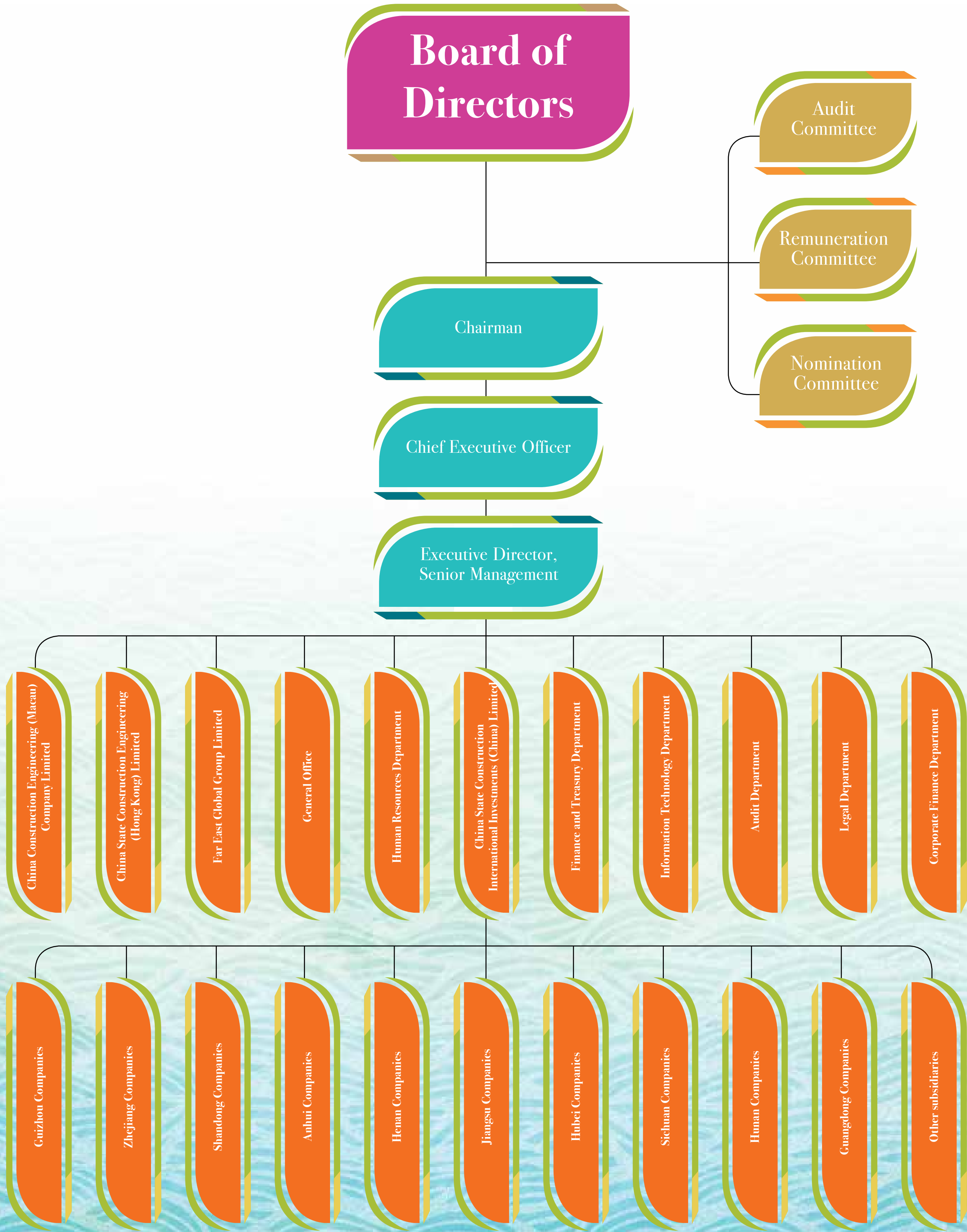
Aged 61, he graduated from the Plymouth Polytechnic (UK) and obtained a degree of Master of Business Administration from Southern Illinois University (US). Mr. Wong is a fellow member of the Hong Kong Institution of Engineers, a Chartered Engineer of The Engineering Council (UK) and a fellow member of the Institution of Civil Engineers. Mr. Wong joined the Group in 1990. He has been a director of certain subsidiaries of the Group since 2000. Mr. Wong has over 32 years' experience in construction engineering and contract management.

Mr. LAU Wing Shing

Assistant President

Aged 59, he graduated from the University of Warwick (UK), and City University of Hong Kong and obtained a Master degree of Science and a Master degree of Laws. Mr. Lau is a fellow of the Chartered Institute of Building (UK), a fellow of the Chartered Management Institute (UK), a fellow of the Institute of Clerks of Works of Great Britain Incorporated (UK) and an associate of Chartered Institute of Arbitrators (UK). He is also a member of the Hong Kong Institute of Engineers, a member of the Hong Kong Institute of Surveyors, a member of the Royal Institution of Chartered Surveyors, the Association of Cost Engineers (UK), the Registered Professional Engineer (Building) of the Hong Kong Engineers Registration Board and the Registered Professional Surveyor (Quantity Surveying) of the Hong Kong Surveyors Registration Board. Mr. Lau is currently appointed a vice chairman (strategy) of Building Committee by the Hong Kong Construction Association. Mr. Lau joined the Group in 1989. He has been a director of certain subsidiaries of the Group since 1996. Mr. Lau has over 37 years' experience in contract and project management. He assists in managing the Group's building construction and joint venture projects in Hong Kong, and pre-contract works for mega size infrastructure projects. Mr. Lau is also appointed as the Chief Engineer and Quality Director of China State Construction Engineering (Hong Kong) Limited, and the General Manager of Quality and Technology Department, he manages the quality assurance system and technology for the Group.

Directors and Organisation (continued)



Corporate Governance Report

Corporate Governance Practices

The Board of Directors (the "Board") recognises that good corporate governance is essential to the success of the Company and enhances the shareholders' value. The Board is committed to maintain a high standard of business ethics, a healthy corporate culture and a good corporate governance practice.

Throughout the year ended 31 December 2018, the Company has applied and complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), except for certain deviations as specified and explained below with considered reasons for such deviations:

- Under code provision A.2.1 (the roles of chairman and chief executive officer should be separate and should not be performed by the same individual). Mr. Zhou Yong ("Mr. Zhou") acted as both Chairman and Chief Executive Officer of the Company since August 2013. The Company considered that non-separation of these two roles would not impair the balance of power and authority of the Board, given that the Group has a clear organisation structure and the management of the business is not concentrated in any one individual. On 21 August 2018, Mr. Zhou ceased to serve concurrently as Chief Executive Officer of the Company so as to enhance the Company's corporate governance standard, and Mr. Zhang Haipeng was appointed as Chief Executive Officer of the Company. Since then, the roles of the chairman and chief executive officer have been separated, and therefore, the Company has re-complied with the code provision A.2.1.

- Under code provision E.1.2 (chairman of the board should attend the annual general meeting). Mr. Zhou Yong, the then Chairman, due to other business engagement was unable to attend the annual general meeting of the Company which held on 1 June 2018 ("AGM"). Mr. Tian Shuchen, Executive Director, chaired the AGM to ensure effective communication with shareholders of the Company at such meeting. All the independent non-executive directors attended the AGM and were available to answer questions and developed a balanced understanding of the views of the shareholders.

Board of Directors

The Company and its subsidiaries (the "Group") is governed by the Board. The Board is responsible for overall management of the Group's business. The Board focuses on the overall strategies, policies and business plans of the Group, monitors the financial performance, internal controls and risk management of the Group. Executive Director and Senior Management are responsible for the day-to-day operations of the Group.

Corporate Governance Report (continued)

The composition of the Board and the individual attendance (Board Meetings and 2018 AGM) of each director are set out below:

Name		Attended/Eligible to Attend Board Meetings	2018 AGM
Executive Directors			
Zhou Yong	*(Chairman)* *(ceased to serve concurrently as Chief Executive Officer on 21 August 2018)* *(resigned as Chairman & Executive Director on 22 March 2019)*	4/4	0/1
Zhang Haipeng	*(appointed as Chief Executive Officer on 21 August 2018)*	4/4	1/1
Tian Shuchen		4/4	1/1
Zhou Hancheng		4/4	1/1
Pan Shujie	*(resigned on 21 August 2018)*	2/3	0/1
Hung Cheung Shew		4/4	1/1
Wu Mingqing	*(resigned on 21 August 2018)*	3/3	1/1
Independent Non-executive Directors			
Raymond Ho Chung Tai		4/4	1/1
Adrian David Li Man Kiu		4/4	1/1
Raymond Leung Hai Ming		4/4	1/1
Lee Shing See		4/4	1/1

* Mr. Yan Jianguo was appointed as Chairman & Non-executive Director on 22 March 2019.

Biographical information of the Directors are set out in "Directors and Organisation" section of this Annual Report. An updated list of Directors containing biographical information and identifying the independent non-executive directors is maintained on the website of the Company. The Company has also maintained an updated list of Directors and their role and function on the websites of Hong Kong Exchanges and Clearing Limited (the "HKEx") and the Company.

During the year, four Board meetings were held. Board meetings were held to approve the Company's annual, interim and quarterly results; to consider the payment of final dividends and to approve the payment of interim dividends; to discuss and to approve the reports submitted; to discuss the significant transactions; to discuss the operational performance of the Company; to discuss the principal business risk faced by the Company; and to discuss the business strategies of the Company. Throughout the year, directors also participate in the consideration and approval of non-routine issues of the Company by way of circulated resolutions with supporting explanatory write-up. Mr. Zhou Yong, the then chairman; Mr. Zhang Haipeng, the chief executive officer; Mr. Zhou Hancheng, the executive director and financial controller; and the company secretary at all time answer the non-routine issues enquiries made by the directors.

All directors are given draft notice and agenda for all regular Board meetings and Board committees meetings for comments, consideration and inclusion of any matters for deliberation at the meetings.

The Board convenes Board meetings regularly. The date for holding each meeting will be determined in advance with a notice of not less than 14 days so that directors entitled to attend the meeting can spare time to attend in person and have sufficient time to include items that in the agenda for discussion. To ensure that all directors have sufficient information for discussion, the meeting documents will be submitted to all directors three days before the meeting is convened.

Corporate Governance Report (continued)

All directors keep contact with the company secretary and can obtain the services provided by the company secretary so as to ensure the procedure of the Board meetings, all applicable rules and regulations are complied with. In case of any changes in the governance and compliance regulations, the company secretary will release the latest information to the Board.

The company secretary is responsible for compiling and drafting the minutes of the Board and the Board committee meetings, and will send the first draft of the minutes within reasonable time after each meeting to the participated directors for advice. The minutes of the meetings are prepared with details of the decisions reached, any concerns raised and dissenting views expressed. All directors are entitled to inspect the minutes of the Board and the Board committee meetings. Directors can seek independent professional advice for performing their duties through the chairman at the expense of the Company. If the subject under discussion at a Board meeting involves the interests of substantial shareholders or directors and the Board considers that those interests are of significant interest conflicts, the matter would be dealt with by a physical meeting rather than a written resolution. The Board will ensure there are sufficient independent directors participating in discussing about and voting on those resolutions. Those directors related to the interests shall abstain from voting on the resolution.

The Company has arranged directors' and officers' liability insurance in respect of any legal action against Directors.

Directors at all times have full access to information of the Company. The Board is provided monthly operating information which contain the up-to-date performance and information of the Company which posted on the websites of the Company and HKEx. Directors can access information from senior management independently.

Other than non-executive directors, all executive directors are appointed on a full-time basis and have sufficient time to deal with the affairs of the Company. All Directors are required to comply their responsibilities as directors of the Company and their common law duty as directors. More than one-third of the Board is independent non-executive directors. The Company will review the Board composition regularly to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Company will give an appropriate introduction about the Group's businesses and operations to each newly appointed director.

Directors have disclosed their number and nature of offices held in public companies or organisations and other significant commitment in their biographical information. They are also reminded to notify the Company in a timely manner and bi-annually confirm to the Company any change of such information. The Board reported the changes in its annual report and interim report.

As part of the continuous professional development programme, all the Directors of the Company namely Mr. Zhou Yong, Mr. Zhang Haipeng, Mr. Tian Shuchen, Mr. Zhou Hancheng, Mr. Hung Cheung Shew, Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See read legal and regulatory updates arranged by the Company. In addition, individual directors also participated in other seminars and/or reading relevant materials relating to the roles, functions and duties of a listed company director and further enhancement of their professional development. Directors had provided the Company Secretary with their training records for the year under review.

There is no family or other material relationships among members of the Board.

The Company is aware that effective communication can increase productivity and improve teamwork. The Company regularly convened meetings for the executive directors, senior management, middle management, worksites management and management of overseas subsidiaries (by video-conference). During the meetings, the executive directors reported the Company's overall work progress, delivered the Company's strategy, reviewed the strength and weakness on the Company's work-in-progress and provided sufficient time for the participants to raise questions and express their opinions. Ensured the adequate communication between different levels of management.

Corporate Governance Report (continued)

Chairman and Chief Executive Officer

Chairman and chief executive officer are two key aspects of the management of a company. Chairman performs the management of the Board and chief executive officer performs the day-to-day management of the business. Clear division of these responsibilities is in place to ensure balance distribution of power and authority so as to avoid concentration of power on the same individual.

Mr. Zhou Yong ("Mr. Zhou") is the then Chairman and Executive Director of the Company (ceased to serve concurrently as Chief Executive Officer of the Company with effect from 21 August 2018 and resigned as Chairman and Executive Director on 22 March 2019). He is responsible for leading the Board and ensures all directors are provided with appropriate and sufficient information before Board meetings so that the Board can operate effectively and perform its duties. He promotes culture of openness and encourages directors to voice their views. He also meets independent non-executive directors without the executive directors present and ensures the good corporate governance practices and procedures of the Company. Beside that Mr. Zhou also leads the Board and senior management in deciding the Group's risk level and risk appetite; developing a risk management strategies and implementing appropriate action plan for managing and monitoring risk.

Mr. Zhang Haipeng is Executive Director and Chief Executive Officer of the Company (with effect from 21 August 2018). He is responsible for the operations of the Group. The chief executive officer together with other executive directors jointly implement the policies adopted by the Board and are responsible to the Board for the overall operation and administration of the Group.

There is clear division on the roles of chairman and chief executive officer. This ensures balanced distribution of power and authority so as to avoid concentration of power on the same individual.

Non-executive Directors

Non-executive directors are appointed on a term of three years. Pursuant to the articles of association of the Company, all directors (including non-executive directors) appointed by the Board shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall be eligible for re-election at that meeting. All directors shall be subject to retirement by rotation at least once every three years and the retiring director shall be eligible for re-election.

During the year, the Company has complied with Rules 3.10 and 3.10(A) of the Listing Rules. Non-executive directors possess appropriate professional qualifications and experience or appropriate accounting or relevant financial management expertise. All independent non-executive directors comply with the Independence Guideline of Rule 3.13 of the Listing Rules and have submitted annual confirmations of their independence to the Board pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independent. Independent non-executive directors are able to provide their independent judgment in respect of matters such as the Group's strategy, policy and performance at Board and Board committee meetings, and making significant contribution to the affairs of the Group.

Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See had served the Board for more than nine years. The Board considered that long service will not affect their exercise of independent judgement. They have the required integrity to exercise independent judgement and to provide objective challenges to the management. There is also no evidence that length of tenure is having an adverse impact on their independence. The Board therefore considers that Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See remain independent, notwithstanding the length of their tenure.

The Board as well as the Nomination Committee have reviewed the independence of all Independent Non-executive Directors and have concluded that all of them are independent within the definition of the Listing Rules.

Corporate Governance Report (continued)

If an independent non-executive director serves more than nine years, his further appointment should be subject to a separate resolution to be approved by shareholders.

Remuneration Committee

The Company has established a Remuneration Committee on 9 June 2005. The major responsibilities of the Remuneration Committee include approving the overall remuneration policy of the Group, reviewing and approving the remuneration of individual executive directors and senior management of the Company, and ensuring that no director participates in the discussion on his own remuneration. The Board has adopted written terms of reference for the Remuneration Committee, which defined the role, authority and function of the Remuneration Committee. The terms of reference are posted on the websites of the Company and the HKEx.

During the year, two Remuneration Committee meetings were held to review and discuss the remuneration policy and annual bonus policy of the Company; and to consider the salary increase of the executive directors and senior management of the Company. The individual attendance of each director is set out below:

Name		Attended/ Eligible to Attend
Adrian David Li Man Kiu	*(Chairman)*	2/2
Raymond Ho Chung Tai		2/2
Raymond Leung Hai Ming		2/2
Lee Shing See		2/2

The human resources department reviews the remuneration data of the market and formulates the remuneration policy of the Group and then proposing to the Remuneration Committee for consideration and seeking approval. The remuneration of directors and senior management of the Company is determined with reference to the remuneration policy of the Group and based on individual skills, knowledge, performance and contribution, the overall performance of the Group, the prevailing economic environment and the market trend.

The remuneration payable to directors and members of senior management by band were set out in the notes to the consolidated financial statements of 2018 annual report.

Corporate Governance Report (continued)

Nomination Committee

The Company has established a Nomination Committee on 20 March 2006. The major responsibilities of the Nomination Committee include reviewing the structure and the composition of the Board, and making recommendation to the Board on matters relating to directors' nomination, appointment or re-appointment and succession on regular basis. The Board has adopted written terms of reference for the Nomination Committee, which defined the role, authority and function of the Nomination Committee. The terms of reference are posted on the websites of the Company and the HKEx.

During the year, two Nomination Committee meetings were held and the individual attendance of each director is set out below:

Name		Attended/ Eligible to Attend
Lee Shing See	*(Chairman)*	2/2
Raymond Ho Chung Tai		2/2
Adrian David Li Man Kiu		2/2
Raymond Leung Hai Ming		2/2

During the year, the Nomination Committee evaluated the size, composition and structure of the Board, reviewed the independence of the independent non-executive directors, consider the cessation of Mr. Zhou Yong to serve concurrently as Chief Executive Officer of the Company, the appointment of Mr. Zhang Haipeng as Chief Executive Officer of the Company and the resignations of Mr. Pan Shujie and Mr. Wu Mingqing.

The Board has adopted a Board Diversity Policy in August 2013 which sets out the approach to achieve diversity on the Board. The Board Diversity Policy is posted on the website of the Company. The Company recognises that increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Board contains individuals who have diverse educational background, professional experience, knowledge and culture. The Board members possess China/Hong Kong/Macau construction and related industry experience, global market experience, other listed board roles experience, company executive experience, public administration experience, professional engineering experience, professional accounting experience, professional banking and finance experience. All these experiences can enhance the Board decision making capacity, improves effectiveness in dealing with changes and reduces likelihood of group thinking. All Board appointments are based on meritocracy.

As at 31 December 2018, the Board comprises 9 directors. All of the directors are male. Four directors are under the age group of 40 to 50; two are under the age group of 51 to 60; and three are over 60. One director has served the Board below 5 years; two have served the Board between 5 to 10 years; and six have served the Board between 11 to 15 years.

The Nomination Committee hopes to increase the level of board diversity when refreshing and renewing board membership. However, the appointments are made on merit, the applications' skill and experience and the development of the Group. The Nomination Committee will continue to consider the board diversity.

Corporate Governance Report (continued)

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties of the Company. The Board has adopted written terms of reference for its corporate governance functions which included:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and

(e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

During the year, the Board reviewed the existing model code for securities transactions by directors and relevant employees, inside information disclosure policy and board diversity policy.

Audit Committee

The Company has established an Audit Committee on 1 June 2005. The major responsibilities of the Audit Committee include reviewing and overseeing the financial information of the Company, regulating the financial reporting system, evaluating the internal control procedure and the risk management system of the Company, and reviewing the relationship between the Company and auditor. The Board has adopted written terms of reference for the Audit Committee, which defined the role, authority and function of the Audit Committee. The terms of reference are posted on the websites of the Company and the HKEx.

During the year, four Audit Committee meetings were held and the individual attendance of each director is set out below:

Name		Attended/ Eligible to Attend
Raymond Ho Chung Tai	*(Chairman)*	4/4
Adrian David Li Man Kiu		4/4
Raymond Leung Hai Ming		4/4
Lee Shing See		4/4

During the meetings, the Audit Committee reviewed and considered the Group accounts for the year ended 31 December 2017; the Audit Committee Report for the year ended 31 December 2017; the connected transactions report; the internal control report; the Group's 2018 unaudited first quarter results; the Group's unaudited accounts for the six months ended 30 June 2018; and the Group's 2018 unaudited third quarter results. The external auditor was invited to attend 2017 final results meeting and 2018 unaudited third quarter results meeting. During the meetings, the external auditor discussed various accounting issues and finding with the Audit Committee and the audit strategy and plan for 2018 Group results.

During the year, the Company conducted a review and considered that the Company maintained adequate qualified accountants to oversee its accounting and financial reporting function and other accounting related issue in accordance with the relevant laws, rules and regulations.

Corporate Governance Report (continued)

Auditor's Remuneration

The Company's external auditor is PricewaterhouseCoopers, Hong Kong ("PwC"). For the financial year ended 31 December 2018, the fees paid or payable to PwC and other firms of the worldwide network of PwC in respect of services provided to the Group amounted to approximately HK$9,844,000, including audit services fee of the Group of approximately HK$9,129,000 and non-audit services fee of approximately HK$715,000. The non-audit fees included tax services and other services for ad hoc projects.

Directors' Securities Transactions

The Company has adopted a model code for securities transactions by directors and relevant employees (the "Securities Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Directors and senior management of the Company are required to comply with the Securities Code. Reminders are sent to directors and senior management that they should not deal in the shares of the Company during the "black-out-period" specified in the Model Code and before publishing any inside information announcement. Directors and senior management are required to notify the Company and obtained a dated written acknowledgement before dealing in the Company's securities. After making enquiries by the Company, all directors confirmed that they have complied with the Securities Code during the year.

As at 31 December 2018, the interests of the Directors and chief executive of the Company in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows.

As at 31 December 2018, Mr. Zhou Yong, Mr. Tian Shuchen, Mr. Zhou Hancheng, Mr. Hung Cheung Shew, Dr. Raymond Ho Chung Tai, Mr. Adrian David Li Man Kiu, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See held 3,233,027; 4,000,000; 2,930,780; 591,584; 913,569; 1,027,765; 813,569; and 1,027,765 shares of the Company, representing 0.064%; 0.079%; 0.058%; 0.012%; 0.018%; 0.020%; 0.016%; and 0.020% of shares in issue of the Company. All the shares held by the directors are being personal interest, in long positions and in the capacity of beneficial owners.

As at 31 December 2018, Mr. Hung Cheung Shew held 7,095 shares (representing 0.000% shares in issue) in China Overseas Land & Investment Limited (an associated corporation of the Company); 30,000 shares (representing 0.001% shares in issue) in Far East Global Group Limited ("FEG", a non-wholly owned subsidiary of the Company); and 2,365 shares (representing 0.000% in issue) in China Overseas Property Holdings Limited (an associated corporation of the Company). All the shares held by the director are in being personal interest, in long positions and in the capacity of beneficial owner.

As at 31 December 2018, Mr. Zhang Haipeng held 3,078,000 shares (representing 0.143% shares in issue) in FEG. All the shares held by the director are being personal interest, in long positions and in the capacity of beneficial owner.

As at 31 December 2018, Mr. Zhou Yong, Mr. Zhang Haipeng, Mr. Tian Shuchen and Mr. Zhou Hancheng, respectively held 837,000; 774,000; 294,000; and 684,000 shares in China State Construction Engineering Corporation Limited ("CSCECL", an intermediate holding company of the Company), representing 0.002%; 0.002%; 0.001%; and 0.002% of shares in issue in CSCECL. All the shares held by the directors are being personal interests, in long positions and in the capacity of beneficial owners. The Company was informed that their CSCECL's shares were granted by CSCECL under its A-shares Restricted Stock Incentive Plan (details were set out in the notes to the consolidated financial statement of 2018 annual report).

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or as otherwise notified to the Company and the Stock Exchange pursuant to Model Code.

Corporate Governance Report (continued)

Save as disclosed above, at no time during the year ended 31 December 2018 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. Save as disclosed above, at no time during the year ended 31 December 2018, none of the Directors and chief executive of the Company (including their spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of the Company or its associated corporation (within the meaning of Part XV of the SFO), or had exercised any such rights.

Accountability and Audit

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

The Management provided sufficient explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge that they are responsible for preparing accounts for each financial period which give a true and fair view of the state of affairs of the Group. In preparing the accounts for the year ended 31 December 2018, the directors have selected appropriate accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and prepared accounts on a going concern basis.

The reporting responsibilities of PwC, the external auditor of the Company, are stated in the Independent Auditor's Report of the Company's 2018 Annual Report.

The Board would present a balanced, clear and understandable assessment to annual and interim reports, other inside information announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements. The Board confirmed that the Company has an effective process for financial reporting and Listing Rule compliance.

Company Secretary

The company secretary supports the chairman, Board and Board committees by ensuring good information flow and Board policy and procedures are followed. The company secretary is an employee of the Company and is appointed by the Board. The company secretary reports to the chairman, all directors may call upon her for advice and assistance at any time in respect of her duties. The company secretary obtained a practitioner's endorsement of The Hong Kong Institute of Chartered Secretaries and complied with Rule 3.29 of the Listing Rules.

Internal Control and Risk Management

The Board is responsible for the Company's risk management and internal control system. The Company reviewed the effectiveness of its risk management and internal control system and considered the system is effective and adequate. The Company ensure that the system can withstand the change in its operation and the external environment in respect of strategic risk, financial risk, operational risk and compliance risk, to mitigate the Company's risk exposure so as to safeguard the shareholders' investment and the Company's assets. Risk management and internal control system are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Corporate Governance Report (continued)

The Company recognises that risk management is the responsibility of all of our people. The Company has established an organisation structure with defined levels of responsibility. It facilitates the Company to assign roles and responsibilities at strategic level and operational level risk management clearly. It makes the Company's process used to identify, assess and manage risks effectively. The Board is responsible for determining the business strategies and objectives of the Company, and evaluating and determining the nature and extent of risk it is willing to take in achieving the Company's strategy and objective. The Board oversees management in the design, implementation and monitoring the risk management and internal control system. Executive director review the change in the nature and extent of the Company's significant risk from time to time, and the Company's ability to respond to change in its business and external environment. Senior management is responsible for evaluating, managing and reviewing the potential risk. Ensuring the Company's risk be managed properly, it communicates, consulates and provides guidance to business segment. Senior management is also responsible to track progress of mitigation plan of material risk. Business segment is responsible to identify, analyses and evaluate potential operational risk. It monitors and implements mitigating activity to lower the operational risk.

The Company's Risk Management Control Committee (with written terms of reference) focuses on strategic risk, financial risk, market risk and operational risk of the Company. The Committee is chaired by the chairman and includes executive director and senior management from finance departments. The Committee aim to continually identify and strengthen the risk management of the Company, and build up a risk aware and control conscious culture throughout the Company. Departmental specify report and periodical report were submitted to the Risk Management Control Committee for review.

The Company's Audit Department reviews the adequacy and effectiveness of the Company's risk management and internal control system. The Audit Department (with written terms of reference) is independent of all business segment and is directly responsible for chief executive officer so as to ensure the neutrality of control. It adopts a risk-based approach and control-based approach, operates on an on-going basis and covers all major operation of the Company on a rotational basis. It sets audit planning yearly, and focus on auditing business segments' financial management, operation management and internal control. It assists business segment to implement risk management and better its system. The Audit Department reports and makes recommendation to chief executive officer if there is material system deficiency or control weakness identified. It records the results and reports to the Board.

Business segment and senior management convene meeting periodically to evaluate and review the potential risk. In respect of identified risk, make agreed remedial action plan, prompt follow up to ensure risk is properly managed and mitigate the defect. Executive Director and senior management convene meeting periodically. Executive Director provides updated information on change of business environment and external environment to senior management; and enhance the risk control quality. Risk Management Control Committee and Audit Department perform independent risk evaluation continuously to enhance the risk management quality. Through the division of work and periodically meeting, the Company be informed of material risk which may affect the performance regularly.

The Audit Department present at least one consolidated summary report to the Board annually. The consolidated summary report covers the business risk of the Company, any significant control failing or weakness identified during the period (including impact). The Audit Department member attends audit committee meeting at least once a year; and reports its work during the period to audit committee members.

The Company establishes a holistic risk management and internal control system. It requires each business segment to modify its own risk management and internal control system based on its local business environment. The Company requires each business segment to review and evaluate the effectiveness of the system on a continuous basis to ensure its effectiveness. The Audit Department on-going monitoring each main business segment, to evaluate the procedure and action of its risk management and internal control system to enhance the quality and effectiveness.

Corporate Governance Report (continued)

During the year, the Audit Department deeply inspected, investigated and assessed two subsidiaries and construction sites of the Group. It reviewed and assessed their system on cost control and integrated management; operation flow; internal control; financial; contracting; quality control; work monitoring and control; safety control; environment control; and analyzed their profitable and unprofitable factors. It issues independent and objective internal control report with recommendation to chief executive officer and relevant business segments to improve the deficiencies. Corrective actions were taken on findings and no significant control failure which might affect shareholders' interests was identified. In order to further improving and monitoring the quality of the Company's internal control system, one subsidiary was conducted internal control testings during the year. The tests plan included 118 test items and focused in the areas of contracting management, income management, funding management, cost management and cost audit, etc. The Audit Department reviewed the Group's continuing connected transactions for the year ended 31 December 2018 and confirmed that the transactions conducted in accordance with the pricing policies and framework agreements; and on normal and commercial terms. A continuing connected transactions report was prepared by the Audit Department and reported to the Audit Committee.

The Company has an inside information disclosure policy to ensure potential inside information being captured and maintained confidentiality until disclosure, dissemination properly and disclosure consistently.

The Company considered that the risk management and internal control system has adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting function. The Company will continue to conduct a review of the effectiveness of and updating its risk management and internal control system at least once a year. The review covers all material control, including financial, operational and compliance control.

Shareholders' Rights

Convening of Extraordinary General Meeting on Requisition by Shareholders

The Board may whenever it thinks fit call extraordinary general meetings. Any one or more shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Directing Shareholders' Enquiries to the Board

The annual report and the Company's website provide the contact details of the Company. Shareholders may at any time send their enquiries and concerns to the Board in writing. Shareholders may also make enquiries with the Board at the general meetings of the Company.

Procedures for Putting Forward Proposals at General Meetings by Shareholders

There are no provisions allowing shareholders to move new resolutions at general meetings under the Cayman Islands Company Laws or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

The procedures for appointment, election and removal of directors are set out in the Company's website.

Corporate Governance Report (continued)

Communication with Shareholders

The Company has established various/a wide range of communication channels with shareholders. These include general meeting, annual report and interim report, notice, announcement and circular. In addition, the Company updates its website from time to time to keep the shareholders updated information of the Company's recent development. Investors presentations also uploaded to the Company's website for all stakeholders perusal.

General meeting is a main channel of communication between directors and shareholders. The Company held an annual general meeting during 2018. At the general meeting, the chairman of the meeting gave sufficient time to shareholders to raise questions and express their opinions.

An Annual General Meeting was held on 1 June 2018. The notice of meeting, the Company's annual report and the circular containing information on the proposed resolutions were sent to shareholders more than 20 clear business days prior to the meeting. The chairman and members of the audit, remuneration and nomination committees were available to answer questions from the shareholders at the meeting. At the meeting, separate resolution was proposed by the chairman in respect of each substantially separate issue, and voting on each resolution was conducted by poll. The results of the poll were posted on the websites of the Company and the HKEx on the same day of the meeting.

Investor Relations

The Company has been striving to maintain high transparency and communicate with shareholders and investors through diversified communication channels. The Company holds press conferences and analyst briefing sessions from time to time to provide the latest business information of the Company to investors. The website of the Company contains the latest data and information of the Group so that shareholders, investors and the public can inspect the information about the Company in a timely manner. The Company's website: www.csci.com.hk.

There are no change to the Company's Memorandum and Articles of Associations during the financial year 2018. A copy of the latest version of the Company's Memorandum and Articles of Associations is posted on the websites of the Company and the HKEx.

Directors' Report

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2018.

Principal Activities and Geographical Analysis of Operations

The principal activity of the Company is investment holding and providing corporate management services. The activities of its principal subsidiaries are set out in the audited consolidated financial statements.

An analysis of the Group's performance for the year by segments is set out in the audited consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2018 are set out in the audited consolidated financial statements.

An interim dividend of HK15 cents per share amounting to HK$757,373,500 was paid to the shareholders during the year. The Board recommended the payment of a final dividend of HK12 cents per share to the shareholders whose names appear on the register of members on 11 June 2019, amounting to approximately HK$605,898,800.

Dividend Policy

The Company's dividend policy is to allow shareholders of the Company to participate in the Company's profits whilst retaining adequate reserves for the Group's future growth. Subject to compliance with applicable laws, rules, regulations and the Articles of Association, in deciding whether to propose any dividend payout, the Board will take into account, among other things, the financial results, the earnings and distributable reserves, the operations and liquidity requirements, and the current and future development plans of the Company.

Business Review and Performance

The business review of the Group for the year ended 31 December 2018 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis".

The environmental and social matters of the Group for the year ended 31 December 2018 are set out in the Company's Sustainability Report 2018, which will be published in July 2019. The Company complied with all the provisions set out in the Environmental, Social and Governance Reporting Guide.

Directors' Report (continued)

Major Risk Management

Under the Group's internal control and risk management framework, the Risk Management Control Committee identifies major risks in each operation segment, assesses its likely impact and evaluates the risk in order to develop effective control activities to mitigate the risks. Other than the financial risk management policies of the Group set out in the section headed"Management Discussion and Analysis" of this Annual Report, the Group is also exposed to major risk factors including construction risk, infrastructure investment risk, overseas business risk and compliance risk.

(1) Construction risk

The Group is exposed to construction risk in relation to technology, costs, duration of works, environmental protection and safety involved in the construction business. The Group monitored and evaluated the price of key materials regularly, conducted timely analyses and made bold decisions. With effective cooperation between tender, procurement, construction and other departments, the Group kept updating the procurement plans and efficiently controlled the scale and procedures of procurement in line with construction progress. The Group achieved its profit target of tender projects through centralised procurement and mitigated price risk by setting fixed unit price for auxiliary materials. As for special construction process and materials, the construction defects risk and price risk have been shifted to the sub-contractors who are responsible for assigned works with material supply. Materials involving significant safety and social influence are managed by the Group directly so as to strictly control the quality risks. Under the unique management model of "5+3" (i.e. coordinated management by the five elements of safety, environmental protection, quality, progress and cost, and the three systems of flow guarantee system, procedure guarantee system and liability guarantee system), the Group was able to control the construction risks efficiently.

(2) Infrastructure investment risk

In respect of the infrastructure investment business, the Group carried out comprehensive risk control regarding the whole cycle towards project development, implementation, buy-back and operation. For new development projects, the Group adhered to the selection criteria, conducted thorough researches, investigation and strict decision-making processes to control the investment risks from scratch. For projects in progress, the Group monitored project progress and quality, along with the implementation of the buy-back guarantee conditions. In respect of the forthcoming buy-back projects, the Group conducted preparation works in advance to ensure the recovery of investments as planned. For operating projects, the Group focused on safety management and proactively communicated with the government authorities for favorable policy terms.

(3) Overseas business risk

The Group undertakes certain projects overseas, hence is exposed to overseas political and control risks. The Group has taken the initiative to restructure the overseas operations and focused its resources on the exploration of core cities, to avoid political and regulatory risks.

(4) Compliance risk

The Group paid high attention to the enactment and amendment of laws and regulations of each operation regions which may cause legal risks to the Group's business. The Group also closely monitors the taxation risks resulting from taxation reform, including "Conversion of Business Tax to Value-added Tax" (the "VAT Program") in Mainland China.

Directors' Report (continued)

Charitable Donations

Charitable Donations made by the Group during the year amounted to HK$50,604 (2017: HK$77,473).

Investment Properties

Details of investment properties of the Group are set out in the audited consolidated financial statements.

Share Issued in the Year

The Company's total issued share capital as at 31 December 2018 was 5,049,156,668 ordinary shares of HK$0.025 each.

Details of the Company's shares capital are set out in the audited consolidated financial statements.

Share Premium and Reserves

Details of movements during the year in the share premium and reserves of the Group are set out in the audited consolidated financial statements.

Distributable Reserves

Distributable reserves of the Company at 31 December 2018 amounted to HK$20,808,521,000 (2017: HK$21,562,716,000).

Equity-linked Agreement

No equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association and the laws of Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Tax Relief and Exemption

The Directors are not aware of any tax relief and exemption available to the shareholders of the Company by reason of their holding of the Company's securities.

Financial Summary

A summary of the results, assets and liabilities of the Group for the past five financial years is set out in the section headed "Five Year Financial Summary".

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Directors' Report (continued)

Directors

The Directors during the year and up to the date of this report were:

Chairman & Non-executive Director

Mr. Yan Jianguo	*(appointed on 22 March 2019)*

Executive Directors

Mr. Zhou Yong	*(ceased to serve concurrently as Chief Executive Officer on 21 August 2018)* *(resigned and ceased to be Chairman on 22 March 2019)*
Mr. Zhang Haipeng	*(appointed as Chief Executive Officer on 21 August 2018)*
Mr. Tian Shuchen	
Mr. Zhou Hancheng	
Mr. Pan Shujie	*(resigned on 21 August 2018)*
Mr. Hung Cheung Shew	
Mr. Wu Mingqing	*(resigned on 21 August 2018)*

Independent Non-executive Directors

Dr. Raymond Ho Chung Tai
Mr. Adrian David Li Man Kiu
Dr. Raymond Leung Hai Ming
Mr. Lee Shing See

Note:

In accordance with Articles 87(1) and 87(2) of the Company's Articles of Association, Mr. Tian Shuchen, Mr. Zhou Hancheng and Dr. Raymond Ho Chung Tai, will retire by rotation at the forthcoming annual general meeting. Dr. Raymond Ho Chung Tai has decided not to stand for re-election at the forthcoming annual general meeting. All the other retiring Directors, being eligible, offer themselves for re-election.

Pursuant to Article 86(3) of the Company's Articles of Association, Mr. Yan Jianguo appointed by the Board shall hold office until the next following annual general meeting of the Company, and shall be eligible for re-election at that meeting.

The Directors' biographical information is set out in the section headed "Directors and Organisation" of this report.

Information regarding directors' emoluments is set out in the audited consolidated financial statements.

With effect from 1 February 2019, the monthly salary of Mr. Hung Cheung Shew was changed from HK$240,000 to HK$249,800. The directors' fees of other directors remain unchanged.

Confirmation of Independence

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the"Stock Exchange") (the "Listing Rules") and still considers such directors are independent.

Directors' Service Contracts

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation). All the Non-executive Directors of the Company are appointed for a fixed period but subject to retirement from office and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Directors' Material Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries, fellow subsidiaries or its parent company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial Shareholders

As at 31 December 2018, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the Securities and Futures Ordinance (the"SFO"), or as otherwise notified to the Company and the Stock Exchange, were as follows:

Long/Short positions of substantial shareholders in the shares of the Company

Name of shareholder	Long/Short position	Capacity	Number of ordinary shares held	% of shares in issue[1]
China Overseas Holdings Limited[2] ("COHL")	Long position	Beneficial owner	3,264,976,136	64.66
China State Construction Engineering Corporation Limited[3] ("CSCECL")	Long position	Interest of a controlled corporation/beneficial owner	3,264,976,136	64.66
中國建築集團有限公司 (China State Construction Engineering Corporation*)[4] ("CSCEC")	Long position	Interest of a controlled corporation/beneficial owner	3,264,976,136	64.66
Citigroup Inc.	Long position	Note 5	256,541,605	5.08
	Short position	Note 5	15,982,087	0.31
	Lending pool	Note 5	237,738,886	4.70

* The English name is a translation from its Chinese name and is for identification purposes only.

Notes:

1. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2018 (i.e. 5,049,156,668 ordinary shares).

2. Amongst the total number of 3,264,976,136 Shares held by COHL, 3,146,188,492 Shares was held as beneficial owner while the balance of 118,787,644 Shares were interests of its controlled corporation.

Directors' Report (continued)

3. COHL is a direct wholly-owned subsidiary of CSCECL, thus CSCECL is deemed by the SFO to be interested in 3,264,976,136 Shares directly and indirectly owned by COHL.

4. CSCECL is a subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 3,264,976,136 Shares indirectly owned by CSCECL.

5. Citigroup Inc. held the interests in the following capacities:

   (i) Interest of corporation controlled in long position is 18,802,719 Shares.

   (ii) Interest of corporation controlled in short position is 15,982,087 Shares.

   (iii) Approved lending agent in long position is 237,738,886 Shares.

Save as disclosed above, as at 31 December 2018, there was no other person (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

The percentages of cost and revenue for the year attributable to the Group's major suppliers and customers are as follows:

Cost

—	the largest supplier	10.95% (2017: 10.43%)
—	five largest suppliers in aggregate (all of them are the Group's fellow subsidiaries)	19.3% (2017: 26.4%)

Revenue

—	the largest customer	7.5% (2017: 13.2%)
—	five largest customers in aggregate	23.4% (2017: 30.4%)

Other than disclosed above, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) have an interest in any of the Group's five largest customers or suppliers.

Connected and Related Party Transactions

Details of connected transactions are set out in the section headed "Connected Transactions" of this report. The related party transactions are disclosed in the audited consolidated financial statements.

Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of the Company's issued shares as required under the Listing Rules.

Directors' Report (continued)

Directors' Interest in Competing Business

Pursuant to existing Rule 8.10 of the Listing Rules, the Company discloses that during the year and up to the date of this report, Mr. Yan Jianguo held directorship in the Company's holding company, and/or its subsidiaries which are engaged in construction, property development and related business.

The board of directors of the Group operates independently of the boards of these companies. The Group is capable of carrying on its business independently of, and at arm's length to the businesses of these companies.

Disclosure Pursuant to Rule 13.22 of the Listing Rules

As at 31 December 2018, the Group's financial assistance to certain affiliated companies exceeded the assets ratio of 8 per cent. A combined balance sheet of the affiliated companies as at 31 December 2018 is set out below:

	HK$'000
Non-current assets	2,036,743
Current assets	21,249,602
Non-current liabilities	(3,264,204)
Current liabilities	(13,044,607)
Net Assets	6,977,534
Reserves	(6,683,418)
Total Equity	(6,977,534)

As at 31 December 2018, the Group shared the retained profit of these affiliated companies amounted to HK$444,500,000.

Permitted Indemnity Provisions

Pursuant to the Company's Articles of Association, subject to the statutes, every director of the Company shall be entitled to be indemnified out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he may sustain or incur in the execution of his duty, or supposed duty, or in relation thereto, provided that such indemnity does not extend to any matter in respect of any fraud or dishonesty by such director. The Company has maintained Directors and Officers liability insurance during the year.

Emolument Policy

The emolument policy of the employees of the Group was approved by the Remuneration Committee. Employees' remuneration was determined in accordance with individual's responsibility, competence and skills, experience, performance and market pay level.

The emoluments of the executive directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market trend. The emoluments of the independent non-executive directors are fees paid in line with market practice. No individual should determine his own remuneration.

Retirement Benefit Scheme

With effect from 1 December 2000, the Group has joined a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Schemes Authority under the Mandatory Provident Fund Schemes Ordinance. The Assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the MPF Scheme, the employer and its employees are each

Directors' Report (continued)

required to make contributions to the MPF Scheme at rates specified in the rules. The employees of the Company's subsidiaries established in the PRC are required to participate in a state-managed retirement scheme operated by the PRC government. These subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme. The only obligation to the Group with respect to these schemes are to make the required contributions under these schemes. During the year, the Group made contribution to the retirement benefit schemes amounting to approximately HK$170 million. No forfeited contributions under these schemes is available to reduce the contribution payable in future years.

Auditor

Messrs. PricewaterhouseCoopers ("PwC") has acted as auditor of the Company for the past three years. PwC retire and, being eligible, offer themselves for re-appointment as auditor of the Company.

A resolution to re-appoint PwC as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

On behalf of the Board
China State Construction International Holdings Limited
Yan Jianguo
Chairman and Non-executive Director

Hong Kong, 22 March 2019

Connected Transactions

A. Connected Transactions under the Listing Rules

A.1 Formation of Joint Venture with 中國建築第二工程局有限公司 (China Construction Second Engineering Bureau Ltd.) in relation to Underground Pipeline Project

On 19 January 2018, a cooperation agreement ("JV Agreement") was entered into between 中建國際工程有限公司 (China State Construction International Engineering Limited) ("CSCIE", a wholly owned subsidiary of the Company) and 中國建築第二工程局有限公司 (China Construction Second Engineering Bureau Ltd.) ("CCSEB", a subsidiary of China State Construction Engineering Corporation Limited ("CSCECL", an intermediate holding company of the Company)). Pursuant to which CSCIE and CCSEB agreed to form a joint venture ("Yunnan JV") with 中建投資基金管理(北京)有限公司 (China Construction Investment Fund Management (Beijing) Co., Ltd.) ("CCIFM", a wholly owned subsidiary of CSCECL) and 玉溪市家園建設投資有限公司(Yuxi City Jiayuan Construction Investment Co., Ltd.) ("Yuxi Construction") for the purpose of investing into the Underground Pipeline Project (the Public-Private-Partnership (PPP) project in relation to construction, operation and management of six urban underground pipelines and the regional underground pipeline control centre in Yuxi City, Yunnan Province, the PRC). CSCIE, CCSEB, CCIFM and Yuxi Construction shall hold 15%, 15%, 69% and 1% equity interest in Yunnan JV respectively.

Yunnan JV shall have a total investment amount (inclusive of the registered capital) of RMB810,000,000. The registered capital of Yunnan JV shall be RMB100,000,000. CSCIE shall contribute RMB121,500,000 (being 15% of the investment amount) in Yunnan JV. The total investment amount and registered capital of Yunnan JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Underground Pipeline Project and the parties' interest in Yunnan JV. Any additional funding requirements of Yunnan JV shall be arranged by Yunnan JV with banks or financial institutions.

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the JV Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 19 January 2018.

A.2 Increase of capital contribution into Baotou JV for Inner Mongolia Project

On 27 March 2018, 中海宏洋(深圳)投資有限公司 (China Overseas Grand Oceans (Shenzhen) Investment Limited*) ("CGOSIL", a wholly owned subsidiary of China Overseas Grand Oceans Group Limited ("COGO", an associate of the Company)), 中建國際投資(中國)有限公司 (China State Construction International Investments (China) Limited*) ("CSCIICL", a wholly owned subsidiary of the Company) and 包頭新都市建設投資運營管理有限公司 (Baotou Xindou City Construction Investment and Operation Management Company Limited*) ("BXCCIOM") entered into the cooperation agreement ("Cooperation Agreement"). Pursuant to which CGOSIL, CSCIICL and BXCCIOM agreed to increase their respective capital contributions into Baotou JV in proportion to their respective equity interest in Baotou JV for the purpose of investing into the Inner Mongolia Project (the property development project on a parcel of land located in the Xindoushi District, Baotou City, Inner Mongolia, the PRC). Baotou JV is a joint venture company established in PRC on 6 December 2017 by CGOSIL, CSCIICL and BXCCIOM on a 60:20:20 basis.

Baotou JV shall have a project capital (including the paid-up registered capital) of RMB660,000,000. The registered capital of Baotou JV was RMB10,000,000. CSCIICL shall contribute RMB132,000,000 (being 20% of the project capital) in Baotou JV. The respective contribution to the project capital of Baotou JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Inner Mongolia Project and the parties' interest in Baotou JV. Any additional funding requirements of Baotou JV shall be arranged by Baotou JV through bank loans. If the financing is insufficient, any additional funding shall be provided by the parties in proportion to their respective equity interest in Baotou JV.

Connected Transactions (continued)

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the Cooperation Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 27 March 2018.

A.3 Formation of Joint Venture with 中建方程投資發展有限公司 (China Construction Fangcheng Investment & Development Co., Ltd.) and 中國建築第七工程局有限公司 (China Construction Seventh Engineering Division Corp. Ltd.) in relation to Baisha Project

On 27 March 2018, a cooperation agreement ("JV Agreement") was entered into between CSCIICL, 中建方程投資發展有限公司 (China Construction Fangcheng Investment & Development Co., Ltd.) ("China Fangcheng", a subsidiary of CSCECL) and 中國建築第七工程局有限公司 (China Construction Seventh Engineering Division Corp. Ltd.) ("CCSED", a subsidiary of CSCECL). Pursuant to which CSCIICL, China Fangcheng and CCSED agreed to form a joint venture ("Quanzhou JV") for the purpose of investing into the Baisha Project (the shanty-town property redevelopment project involving investment, construction and operation in the Baisha District, the Taiwanese Investment Zone, Quanzhou, Fujian Province, the PRC). CSCIICL, China Fangcheng and CCSED shall hold 35%, 55% and 10% equity interest in Quanzhou JV respectively.

Quanzhou JV shall have a project capital (inclusive of the registered capital) of RMB3,773,400,000. The registered capital of Quanzhou JV shall be RMB700,000,000. CSCIICL shall contribute RMB1,320,690,000 (being 35% of the project capital) in Quanzhou JV. The amount of the project capital and registered capital of Quanzhou JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Baisha Project and the parties' interest in Quanzhou JV. Any additional funding requirements of Quanzhou JV shall be arranged by Quanzhou JV with banks or financial institutions.

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the JV Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 27 March 2018.

A.4 Formation of Joint Venture with 中國建築第八工程局有限公司 (China Construction Eighth Engineering Division Corp. Ltd.*) in relation to Niutian Project

On 25 April 2018, a cooperation agreement ("JV Agreement") was entered into between CSCIICL and 中國建築第八工程局有限公司 (China Construction Eighth Engineering Division Corp. Ltd.*) ("CCEED", a subsidiary of CSCECL). Pursuant to which CSCIICL and CCEED agreed to form a joint venture ("Hangzhou JV") with 南寧市國達體育文化有限公司 (Nanning Guoda Sports and Culture Co., Ltd.*) ("Nanning Guoda") and 杭州江干區城市建設綜合開發有限公司 (Hangzhou Jianggan District Urban Construction and Integrated Development Co., Ltd.*) ("Jianggan Development") for the purpose of investing into the Niutian Project (PPP project in relation to construction, operation and management of recreation and sports facilities on a parcel of land in Niutian, Jianggan District, Hangzhou, Zhejiang Province, the PRC). CSCIICL, CCEED, Nanning Guoda and Jianggan Development shall hold 93%, 1%, 1% and 5% equity interest in Hangzhou JV respectively.

Hangzhou JV shall have a registered capital of RMB116,000,000. CSCIICL shall contribute RMB107,880,000 (being 93% of the registered capital) in Hangzhou JV. The amount of the registered capital of Hangzhou JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Niutian Project and the parties' interest in Hangzhou JV. Any additional funding requirements of Hangzhou JV shall be arranged by Hangzhou JV with banks or financial institutions.

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the JV Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 25 April 2018.

A.5 Formation of Joint Venture with 中國建築西南設計研究院有限公司 (China Southwest Architectural Design and Research Institute Corp., Ltd.*) in relation to Licheng Project

On 25 April 2018, a cooperation agreement ("JV Agreement") was entered into between CSCIICL, CSCIE and 中國建築西南設計研究院有限公司 (China Southwest Architectural Design and Research Institute Corp., Ltd.*) ("CSADRI", a subsidiary of CSCECL). Pursuant to which CSCIICL, CSCIE and CSADRI agreed to form a joint venture ("Licheng JV") with 泉州市鯉城房地產公司 (Quanzhou Licheng Property Development Co., Ltd.*) ("Licheng Property") for the purpose of investing into the Licheng Project (PPP project relating to property redevelopment and infrastructure construction of a shanty-town in Licheng District, Quanzhou, Fujian Province, the PRC). CSCIICL, CSCIE, CSADRI and Licheng Property shall hold 79%, 0.99%, 0.01% and 20% equity interest in Licheng JV respectively.

Licheng JV shall have a project capital (exclusive of the registered capital) of RMB453,640,000. The registered capital of Licheng JV shall be RMB100,000,000. CSCIICL and CSCIE shall contribute RMB362,866,636 and RMB79,990,000 (being 79.99% of the project capital and registered capital respectively) in Licheng JV. CSCIICL, CSCIE and CSADRI are required to provide a performance bond of RMB50,000,000 to the relevant government authority. CSCIICL and CSCIE shall contribute RMB49,993,750. The amount of the project capital and registered capital of Licheng JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Licheng Project and the parties' interest in Licheng JV. Any additional funding requirements of Licheng JV shall be arranged by Licheng JV with banks or financial institutions.

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the JV Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 25 April 2018.

A.6 Formation of Joint Venture with 中國建築第二工程局有限公司 (China Construction Second Engineering Bureau Ltd.) in relation to Chuzhou Project

On 27 July 2018, a cooperation agreement ("JV Agreement") was entered into between CSCIICL, CSCIE and CCSEB. Pursuant to which CSCIICL, CSCIE and CCSEB agreed to form a joint venture ("Chuzhou JV") with 滁州市同創建設投資有限責任公司 (Chuzhou Tongchuang Construction Investment Co., Ltd.*) ("Chuzhou Tongchuang") for the purpose of investing into the Chuzhou Project (PPP project relating to construction, operation and transfer of the phase 1 of the Innovative Science and Technology City in the Chuzhou Economic and Technological Development Zone, Anhui Province, the PRC). CSCIICL, CSCIE, CCSEB and Chuzhou Tongchuang shall hold 64%, 5%, 1% and 30% equity interest in Chuzhou JV respectively.

Chuzhou JV shall have a project capital (exclusive of the registered capital) of RMB524,542,400. The registered capital of Chuzhou JV shall be RMB100,000,000. CSCIICL and CSCIE shall contribute RMB361,934,300 and RMB69,000,000 (being 69% of the project capital and registered capital respectively) in Chuzhou JV. CSCIICL is required to provide a performance bond of RMB20,000,000 to the relevant government authority. The amount of the project capital and registered capital of Chuzhou JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Chuzhou Project and the parties' interest in Chuzhou JV. Any additional funding requirements of Chuzhou JV shall be arranged by Chuzhou JV with banks or financial institutions.

Connected Transactions (continued)

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the JV Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 27 July 2018.

A.7 Formation of Joint Venture with 中建工程設計有限公司 (China State Construction Engineering & Design Company Limited) in relation to Xinyi Project

On 2 November 2018, a cooperation agreement ("JV Agreement") was entered into between CSCIICL, 深圳中海建築有限公司 (Shenzhen China Overseas Construction Company Limited*) ("SCOC", a wholly owned subsidiary of the Company) and 中建工程設計有限公司 (China State Construction Engineering & Design Company Limited*) ("CSCED", a subsidiary of CSCECL). Pursuant to which CSCIICL, SCOC and CSCED agreed to form a joint venture ("Xinyi JV") with 徐州市新沂經濟技術開發總公司 (Xuzhou Xinyi Economic and Technological Development Corporation*) ("Xuzhou Xinyi") for the purpose of investing into the Xinyi Project (PPP project relating to construction, operation and transfer of the Science and Technology Innovation Park in the Xinyi Economic Development Zone, Jiangsu, the PRC). CSCIICL, SCOC, CSCED and Xuzhou Xinyi shall hold 88.5%, 1%, 0.5% and 10% equity interest in Xinyi JV respectively.

Xinyi JV shall have a registered capital of RMB287,500,000. CSCIICL and SCOC shall contribute RMB254,437,500 and RMB2,875,000 respectively (being 88.5% and 1% of the registered capital) in Xinyi JV. CSCIICL shall contribute a performance bond for the construction period in the sum of RMB20,000,000, a performance bond for the operation period in the sum of RMB1,000,000 and a performance bond for the transfer of the project in the sum of RMB1,000,000 in favour of the relevant government authority. The amount of the registered capital of Xinyi JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Xinyi Project and the parties' interest in Xinyi JV. Any additional funding requirements of Xinyi JV shall be arranged by Xinyi JV with banks or financial institutions and guaranteed by CSCIICL, SCOC and CSCED in proportion to their respective equity interests in Xinyi JV.

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the JV Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 2 November 2018.

A.8 Formation of Joint Venture with Shenzhen Haize Engineering Management Limited

On 6 December 2018, a cooperation agreement ("JV Agreement") was entered into between 深圳市海澤工程管理有限公司 (Shenzhen Haize Engineering Management Limited*) ("Haize", a wholly owned subsidiary of China Overseas Land & Investment Ltd. ("COLI", an associate of the Company)) and SCOC. Pursuant to which Haize and SCOC agreed to form a joint venture (the "JV Company") on a 50:50 basis to develop residential and commercial properties on a piece of land situated in Pu Xia Renovation Project, Jin An District, Fuzhou, Fujian Province of the PRC.

The JV Company shall have a total investment amount (including the registered capital) of RMB1,690,310,000. The registered capital of the JV Company shall be RMB500,000,000. SCOC shall contribute RMB845,155,000 (being 50% of the total investment amount) in JV Company. The total investment amount of the JV Company was determined after arm's length negotiation between the parties with reference to the Land Consideration.

Connected Transactions (continued)

Since the applicable percentage ratios pursuant to the Listing Rules calculated with reference to the transaction under the JV Agreement exceed 0.1% but all are less than 5%. The transaction is subject to the reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

Details of the transaction were disclosed in an announcement dated 6 December 2018.

* The English names are translations from their Chinese names and are for identification purposes only.

B. Continuing Connected Transactions under the Listing Rules

B.1 CSCECL Sub-construction Engagement Agreement (dated 6 October 2017)

(1 January 2018 to 31 December 2020)

On 6 October 2017, the Company and CSCECL entered into the CSCECL Sub-construction Engagement Agreement, whereby: (i) the Group may engage the CSCECL Group as Contractors for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. Upon successful tender, the maximum total contract sum that may be awarded by the Group to the CSCECL Group for each of the three financial years ending 31 December 2020 shall not exceed RMB55,000 million (i.e. the CSCECL Sub-construction Engagement Cap); and (ii) the CSCECL Group may engage the Group as Contractors for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. Upon successful tender, the maximum total contract sum that may be awarded by the CSCECL Group to the Group for each of the three financial years ending 31 December 2020 shall not exceed RMB25,000 million (i.e. the CSC Sub-construction Engagement Cap).

In determining the pricing terms, the Group will review the technical requirement, quantity and quality of works, costs information, pricing information of previous tenders and the possible risk factors associated with the project.

The maximum total contract sum that may be awarded to the CSCECL Group (i.e. the CSCECL Sub-construction Engagement Cap) and the Group (i.e. the CSC Sub-construction Engagement Cap) for each year under the CSCECL Sub-construction Engagement Agreement exceed 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the CSCECL Sub-construction Engagement Agreement is subject to the annual review, reporting, announcement and independent shareholders' approval requirements.

A circular dated 6 November 2017 containing details of the CSCECL Sub-construction Engagement Agreement was despatched to the shareholders of the Company. The CSCECL Sub-construction Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 27 November 2017.

For the year ended 31 December 2018, the total contract sum awarded by the Group to the CSCECL Group under the CSCECL Sub-construction Engagement Agreement (i.e. CSCECL Sub-construction Engagement Cap) was RMB15,824,903,110.58. The total contract sum awarded by the CSCECL Group to the Group under the CSCECL Sub-construction Engagement Agreement (i.e. CSC Sub-construction Engagement Cap) was RMB2,814,385,593.

B.2 Master CSC Group Engagement Agreement (dated 6 October 2017)

(1 January 2018 to 31 December 2020)

On 6 October 2017, COLI and the Company entered into the Master CSC Group Engagement Agreement, whereby the COLI Group may engage the Group as contractors for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. Upon successful tender, the maximum total contract sum that may be awarded by the COLI Group to the Group for each of the three financial years ending 31 December 2020 shall not exceed HK$7,000 million (i.e. the COLI Works Annual Cap).

Connected Transactions (continued)

In determining the pricing terms, the Group will review the technical requirement, quantity and quality of works, costs information, pricing information of previous tenders and the possible risk factors associated with the project.

The maximum total contract sum that may be awarded to the Group for each year under the Master CSC Group Engagement Agreement (i.e. the COLI Works Annual Cap) exceed 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Master CSC Group Engagement Agreement is subject to the annual review, reporting, announcement and independent shareholders' approval requirements.

A circular dated 6 November 2017 containing details of the Master CSC Group Engagement Agreement was despatched to the shareholders of the Company. The Master CSC Group Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 27 November 2017.

For the year ended 31 December 2018, the total contract sum awarded to the Group under the Master CSC Group Engagement Agreement was HK$2,602,778,325.

B.3 Master Connection Services Agreement (dated 26 June 2015)

(1 January 2016 to 31 December 2018)

On 26 June 2015, COLI and the Company entered into the Master Connection Services Agreement for a term of three years commencing from 1 January 2016 and ending on 31 December 2018, whereby the COLI Group may invite the Company (through Shenyang Huanggu Thermoelectricity Company Limited 瀋陽皇姑熱電有限公司 ("SHTCL", a wholly owned subsidiary of the Company)) to participate in the provision of connection services for heating pipes for the real estate project(s) located in Shenyang and developed by COLI from time to time. Upon successful tender, the maximum total contract sum that may be awarded by the COLI Group to the Group for each of the three years ending 31 December 2018 shall not exceed HK$100 million (i.e. the Connection Services Cap).

In determining the pricing terms, the Group will take into account the coverage services provided, any other comparable services providers, the location, size, development status and cost of the connection.

The maximum total contract sums awarded by the COLI Group to the Group for each year under the Master Connection Services Agreement (i.e. the Connection Services Cap) is less than 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Master Connection Services Agreement is subject to the annual review, reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

An announcement containing the particulars of the Master Connection Services Agreement was made on 26 June 2015.

The Master Connection Services Agreement expired on 31 December 2018, the Company and COLI renewed the Master Connection Services Agreement for a further term of three years (from 1 January 2019 to 31 December 2021). Details were disclosed in the announcement dated 19 December 2018.

For the year ended 31 December 2018, the total contract sum awarded to the Group under the Master Connection Services Agreement was HK$24,549,261.51.

Connected Transactions (continued)

B.4 Construction Supervision Service Framework Agreement (dated 24 March 2016)
(1 April 2016 to 31 March 2019)

On 24 March 2016, COGO and the Company entered into the Framework Agreement, whereby the COGO Group agreed to engage the Group as construction supervisor and the Group agreed to provide the Construction Supervision Service for the property development projects of the COGO Group in the PRC for a term of three years commencing from 1 April 2016 and ending on 31 March 2019. Upon successful tender, the maximum management fee payable by the COGO Group to the Group for the period from 1 April 2016 to 31 December 2016 shall not exceed RMB110 million, for the financial year ending 31 December 2017 shall not exceed RMB136 million, for the financial year ending 31 December 2018 shall not exceed RMB191 million and for the period from 1 January 2019 to 31 March 2019 shall not exceed RMB65 million (i.e. the Annual Caps).

The management fee with respect to the Construction Supervision Service will be charged on a "cost plus" basis, which will be determined based on the total staff cost incurred by the Group with respect to the provision of the Construction Supervision Service plus a margin of 18%.

The maximum management fee that may be awarded to the Group for each year/period under the Framework Agreement (i.e. the Annual Caps) is less than 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Framework Agreement is subject to the annual review, reporting and announcement requirements, and is exempted from independent shareholders' approval requirement.

An announcement containing the particulars of the Framework Agreement was made on 24 March 2016.

On 26 June 2018, Far East Global Group Limited ("FEG", the Company's subsidiary) completed to acquire China Overseas Supervision Limited (the then wholly owned subsidiary of the Company), which engaged in construction supervision services. The Framework Agreement was null and void.

For the period from 1 January 2018 to 26 June 2018, the total contract sum awarded to the Group under the Construction Supervision Services Framework Agreement was RMB4,884,148.50.

B.5 Urban Planning Management and Consultation Service Agreement (dated 30 December 2016)
(30 December 2016 to 31 December 2018)

On 30 December 2016, 3rd Construction Co., Ltd. of China Construction 5th Engineering Bureau ("CSCEC 5th Bureau", a subsidiary of CSCECL) and FEG entered into the Urban Planning Management and Consultation Service Agreement, whereby CSCEC 5th Bureau may engage FEG Subsidiary for provision of the Urban Planning Management and Consultation Service for a term commencing from 30 December 2016 and ending on 31 December 2018. Upon successful tender, the contract sum that may be awarded by CSCEC 5th Bureau to the FEG Group under the Urban Planning Management and Consultation Service Agreement for the period from 30 December 2016 to 31 December 2016 and each of two financial years ending 31 December 2017 and 31 December 2018 shall not exceed HK$80 million, HK$100 million and HK$100 million, respectively (i.e. the CSCFB Service Cap).

In determining the pricing terms, the fees for the Urban Planning Management and Consultation Service will be based on the prevailing market prices and ranging from 2% to 5% of the contract sum of CSCEC 5th Bureau's head agreements with the ultimate employer for the Urban Planning Projects, which will be determined with reference to the scope and complexity of the Urban Planning Management and Consultation Service, the location, size and development status of the Urban Planning Projects and the costs and expenses for providing the Urban Planning Management and Consultation Service.

Connected Transactions (continued)

The maximum total contract sum that may be awarded to the FEG Group for each year/period under the Urban Planning Management and Consultation Service Agreement (i.e. the CSCFB Service Cap) is less than 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the Urban Planning Management and Consultation Service Agreement is subject to the annual review, reporting and announcement requirements, and is exempted from independent shareholders' approval requirement.

An announcement containing the particulars of the Urban Planning Management and Consultation Service Agreement was made on 30 December 2016.

For the year ended 31 December 2018, there was no contract awarded by CSCECL Group to FEG Group under the Urban Planning Management and Consultation Service Agreement (i.e. CSCFB Service Cap).

B.6 FE-CSCECL Sub-construction Engagement Agreement (dated 11 October 2017)

(1 January 2018 to 31 December 2020)

On 11 October 2017, CSCECL and FEG entered into the FE-CSCECL Sub-construction Engagement Agreement, whereby the CSCECL Group may engage the FEG Group as its subcontractor for provision of Exterior Facade Works to the CSCECL Group's construction works for a term of three years commencing from 1 January 2018 and ending on 31 December 2020. Upon successful tender, the total contract sum that may be awarded by the CSCECL Group to the FEG Group for each of the three financial years ending 31 December 2020 shall not exceed HK$1,000 million (i.e. the CSCECL Works Cap).

In determining the pricing terms, the Group will review the technical requirement, quantity and quality of works, costs information, pricing information of previous tenders and the possible risk factors associated with the project.

The maximum total contract sum that may be awarded to the FEG Group for each year under the FE-CSCECL Sub-construction Engagement Agreement (i.e. the CSCECL Works Cap) is less than 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the FE-CSCECL Sub-construction Engagement Agreement is subject to the annual review, reporting and announcement requirements, and is exempted from independent shareholders' approval requirement.

An announcement containing the particulars of the FE-CSCECL Sub-construction Engagement Agreement was made on 11 October 2017.

For the year ended 31 December 2018, the total contract sum awarded by the CSCECL Group to the FEG Group under the FE-CSCECL Sub-construction Engagement Agreement (i.e. the CSCECL Works Cap) was HK$138,143,086.

B.7 COGO Framework Agreement (dated 26 June 2018)

(1 July 2018 to 30 June 2021)

On 26 June 2018, COGO and FEG entered into the COGO Framework Agreement, pursuant to which the COGO Group agreed to engage the FEG Group to provide the COGO Management Services for a term commencing from 1 July 2018 and ending on 30 June 2021. Upon successful tender, the maximum total contract sum that may be awarded by the COGO Group to the FEG Group under the COGO Framework Agreement for the period from 1 July 2018 to 31 December 2018 shall not exceed HK$30 million, for each of the two financial years ending 31 December 2020 shall not exceed HK$60 million, and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK$30 million (i.e. the COGO Engagement Cap).

Connected Transactions (continued)

In determining the pricing terms, the FEG Group will review the technical requirement, quantity and quality of works, costs information, pricing information of previous tenders and the possible risk factors associated with the project.

The maximum total contract sum that may be awarded by the COGO Group to the FEG Group for each period/year under the COGO Framework Agreement (i.e. the COGO Engagement Cap) are more than 0.1% but less than 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the COGO Framework Agreement is subject to the annual review, reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

An announcement containing the particulars of the COGO Framework Agreement was made on 26 June 2018.

For the period from 1 July 2018 to 31 December 2018, there was no contract awarded by the COGO Group to the FEG Group under the COGO Framework Agreement (i.e. the COGO Engagement Cap).

B.8 COLI Works Framework Agreement (dated 26 June 2018)

(20 August 2018 to 30 June 2021)

On 26 June 2018, COLI and FEG entered into the COLI Works Framework Agreement, pursuant to which the COLI Group may engage the FEG Group for the provision of the COLI Works for a period commencing from 20 August 2018 and ending on 30 June 2021. Upon successful tender, the maximum total contract sum that may be awarded by the COLI Group to the FEG Group under the COLI Works Framework Agreement for the period from 20 August 2018 to 31 December 2018 shall not exceed HK$1,200 million, for each of the two financial years ending 31 December 2020 shall not exceed HK$1,200 million, and for the period from 1 January 2021 to 30 June 2021 shall not exceed HK$800 million (i.e. the COLI Works Engagement Cap).

In determining the pricing terms, the FEG Group will review the technical requirement, quantity and quality of works, costs information, pricing information of previous tenders and the possible risk factors associated with the project.

The maximum total contract sum that may be awarded by the COLI Group to the FEG Group for each period/year under the COLI Works Framework Agreement (i.e. the COLI Works Engagement Cap) are more than 0.1% but less than 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the COLI Works Framework Agreement is subject to the annual review, reporting and announcement requirements, and is exempted from the independent shareholders' approval requirement.

An announcement containing the particulars of the COLI Works Framework Agreement was made on 26 June 2018.

For the period from 20 August 2018 to 31 December 2018, the total contract sum awarded by the COLI Group to the FEG Group under the COLI Works Framework Agreement (i.e. the COLI Works Engagement Cap) was HK$92,963,251.52.

Pursuant to rule 14A.55 of the Listing Rules, the above Continuing Connected Transactions have been approved by the Board and have been reviewed by the Independent Non-executive Directors of the Company, who confirmed that these Continuing Connected Transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there were not sufficient comparable transactions to judge whether they were on normal commercial terms, on terms no less favourable to the Company than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

Connected Transactions (continued)

In accordance with rule 14A.56 of the Listing Rules, the Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditor has confirmed in a letter to the Board that:

(1) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions had not been approved by the Board;

(2) nothing has come to their attention that causes them to believe that the transactions were not entered into in accordance with the relevant agreements governing such transactions;

(3) the relevant cap amount have not been exceeded during the financial year ended 31 December 2018; and

(4) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

The Board confirms that the Company has complied with the disclosure requirements as required by the Listing Rules in relation to the aforementioned connected/continuing connected transactions.

The continuing connected transactions disclosed above also constitute related party transaction under the Hong Kong Financial Reporting Standards. A summary of significant related party transactions made during the year was disclosed in the notes to the consolidated financial statements. Certain items also constitute connected/continuing connected transactions as defined in Chapter 14A of the Listing Rules.

Independent Auditor's Report

羅兵咸永道

To the shareholders of China State Construction International Holdings Limited
(incorporated in the Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of China State Construction International Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 197, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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Independent Auditor's Report (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Revenue recognition from construction works
- Recoverability of trade receivables
- Impairment of concession operating rights

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed the Key Audit Matter</th></tr>
<tr><td colspan="2">Revenue recognition from construction works</td></tr>
<tr><td>Refer to notes 4.27, 6.1 and 7 to the consolidated financial statements

For the year ended 31 December 2018, the Group recognised revenue from construction works of HK$52,175 million, including revenue from construction contracts, infrastructure investment projects and facade contracting business. Most construction works take several years to complete and the scope of work may change during that time. Management estimate the revenue and budgeted costs at the commencement of the contracts and regularly assess the progress of construction works as well as the financial impact of scope changes, claims, disputes and liquidation damages. The management's estimate of revenue, budgeted costs as well as the progress of related construction works requires significant judgement and has a significant impact on the amount and timing of revenue recognised. For this reason, we identified revenue recognition from construction works as a key audit matter.</td><td>We understood, evaluated and validated on a sample basis the internal controls relating to the contract budgeting and management process.

The measurement of revenue recognition requires management's estimates in respect of revenue, budgeted costs as well as the progress of related construction works. In our testing of the revenue recognition for the reporting period, we selected construction works on a sample basis and:

• discussed with management and the respective project teams about the progress of the projects and relevant contract terms;

• assessed management's estimates of the impact to revenue and budgeted costs arising from scope changes made to the original contracts, claims, disputes and liquidation damages with reference to supporting documents including variation orders and correspondence among the Group, customers, subcontractors and suppliers;

• tested on a sample basis the actual costs incurred on construction works during the reporting period;

• recalculated the revised estimate of the progress of the construction works based on the latest budgeted final costs and the total actual costs incurred; and

• recalculated the revenue recognised based on the revised estimate of the progress of the construction works.

We consider management's estimates used to determine the revenue and budgeted costs and the progress of the construction works for the reporting period as well as the revenue recognised to be supportable based on the evidence available.</td></tr>
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Independent Auditor's Report (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables	
Refer to notes 4.9(iv), 4.15, 6.3 and 30 to the consolidated financial statements As at 31 December 2018, the Group recognised trade receivables of HK$56,629 million, which was the most significant asset of the Group as of the year end, representing 42% of the total assets. In assessing the recoverability of trade receivables, management exercised significant judgements to evaluate the collectability from individual customers after taking into account their creditworthiness, whether they have financial difficulties, experience of default or delinquency in interest or principal payments, the probability that they will enter bankruptcy, aging analysis and forecast of future events and economic conditions which may impact the recoverability of trade receivables, and if applicable, the fair value of collateral provided by customers. The judgements applied by management have a significant impact on the level of provision required for trade receivables.	We performed the following procedures to assess the recoverability of trade receivables: • understood, evaluated and validated on a sample basis the design and operating effectiveness of management control over the collection and the assessment of the recoverability of receivables; • tested on a sample basis the aging of trade receivables at year end; • tested on a sample basis subsequent settlements and the latest amounts certified by quantity surveyors appointed by customers; • in respect of material trade receivables balances, inspected relevant contracts and correspondence with the customers, and assessed their creditworthiness with reference to publicly available information, where applicable; • in respect of material trade receivables balances which are past due, additional procedures were performed to evaluate their historical progress payment records, assess whether the customers are experiencing financial difficulties, default or delinquency in interest or principal payments, and assess the probability that the customers will enter bankruptcy with reference to publicly available information, where applicable; • compared, if applicable, the fair value of collateral provided by customers to available market information; and • evaluated the level of provisions made by management for trade receivables using forward-looking and historical information. We consider the judgements applied by management in assessing the recoverability of and determining the level of provision for trade receivables to be supportable based on the evidence available.

Independent Auditor's Report (continued)

Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of concession operating rights	
Refer to notes 4.8(c), 4.11, 6.5 and 23 to the consolidated financial statements The Group's concession operating rights represent the rights to operate, and charge for usage of, toll expressways in the Mainland China and were recognised as non-current assets with a net carrying amount of approximately HK$4,155 million as at 31 December 2018. Management perform an impairment assessment of the carrying amount of concession operating rights when impairment indicators exist, for example, the actual traffic flow is less than that budgeted. The recoverable amount of concession operating rights is the higher of the value determined based on value-in-use calculations and fair value less costs of disposal. The impairment assessment based on recoverable amount involves significant judgements and assumptions, including management's expectations of future traffic volumes, expected future toll fee levels, length of operating rights, maintenance costs and discount rates. Independent external valuers were also involved in the impairment assessment. Based on the results of these impairment assessments, impairment loss of HK$817 million was recognised for the concession operating rights for the year ended 31 December 2018. As the impairment assessments involve significant judgements and estimates, we regard these as a key audit matter.	We performed the following procedures to assess the impairment of concession operating rights: • We evaluated the competence, capabilities and objectivity of the independent external valuers; • involved our internal valuation experts to assess the valuation methodology and discount rates applied by management, and benchmarked the discount rates applied to other comparable companies in the same industry; • assessed the key assumptions adopted by management in the calculation of value-in-use, including the expected future traffic volumes, toll fee level projections, length of operating rights, maintenance costs and discount rates by comparing them with economic and industry forecasts; and We consider the judgements and assumptions applied by management to determine the recoverable amount of the concession operating rights to be supportable based on the evidence available.

Independent Auditor's Report (continued)

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditor's Report (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Pong Fei Ho.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2019

Consolidated Income Statement

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	7	**55,626,304**	50,152,524
Costs of sales		**(46,929,883)**	(42,537,494)
Gross profit		**8,696,421**	7,615,030
Investment income, other income and other (losses)/gains, net	9	**(360,250)**	747,678
Administrative, selling and other operating expenses		**(1,396,594)**	(1,394,668)
Share of profits of			
Joint ventures		**705,024**	731,380
Associates		**342,621**	160,300
Finance costs	10	**(1,781,717)**	(1,069,754)
Profit before tax		**6,205,505**	6,789,966
Income tax expenses, net	13	**(1,648,872)**	(1,255,662)
Profit for the year	14	**4,556,633**	5,534,304
Profit for the year attributable to:			
Owners of the Company		**4,500,148**	5,490,091
Holders of perpetual capital securities		**17,000**	—
Non-controlling interests		**39,485**	44,213
		4,556,633	5,534,304
Earnings per share (HK cents)	16		
Basic		**89.13**	118.85
Diluted		**89.13**	118.85

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	**4,556,633**	5,534,304
Other comprehensive (loss)/income		
Items that may be reclassified to consolidated income statement		
Gain on fair value changes of available-for-sale investments, net of tax	**—**	4,171
Loss on fair value changes of debt securities at fair value through other comprehensive income, net of tax	**(12,880)**	—
Release of investment revaluation reserve to consolidated income statement upon disposal of debt securities at fair value through other comprehensive income	**(109)**	—
Exchange differences on translation of subsidiaries	**(1,765,725)**	1,798,074
Exchange differences on translation of joint ventures	**(608,912)**	466,340
Exchange differences on translation of associates	**(9,527)**	42,016
Items that will not be reclassified to consolidated income statement		
Gain on fair value change of equity securities at fair value through other comprehensive income, net of tax	**14,429**	—
Other comprehensive (loss)/income for the year, net of tax	**(2,382,724)**	2,310,601
Total comprehensive income for the year, net of tax	**2,173,909**	7,844,905
Total comprehensive income for the year attributable to:		
Owners of the Company	**2,143,514**	7,803,426
Holders of perpetual capital securities	**17,000**	—
Non-controlling interests	**13,395**	41,479
	2,173,909	7,844,905

Consolidated Statement of Financial Position

As at 31 December 2018

	Note	At 31 December 2018 HK$'000	2017 HK$'000
Non-current Assets			
Property, plant and equipment	17	**4,149,806**	3,818,806
Investment properties	18	**4,680,776**	4,750,265
Interests in infrastructure project investments	19	**3,680,414**	3,294,041
Prepaid lease payments	20	**367,032**	391,306
Interests in joint ventures	21	**11,709,355**	9,956,111
Interests in associates	22	**5,654,865**	4,570,740
Concession operating rights	23	**4,154,800**	5,414,282
Deferred tax assets	41	**198,830**	222,580
Trademark, project backlogs and licences	24	**308,535**	334,686
Goodwill	24	**577,664**	577,664
Available-for-sale investments	25	**—**	411,234
Financial assets at fair value through other comprehensive income	25	**505,416**	—
Amounts due from investee companies	26	**211,806**	204,061
Trade and other receivables	30	**38,047,727**	29,094,860
Loans to joint ventures	32	**1,612,397**	—
		75,859,423	63,040,636
Current Assets			
Interests in infrastructure project investments	19	**45,811**	44,346
Inventories	27	**280,204**	214,039
Properties under development	28	**2,349,510**	—
Properties held for sale		**710,275**	414,367
Contract assets	29	**9,081,810**	—
Amounts due from customers for contract work	29	**—**	10,979,356
Trade and other receivables	30	**25,321,390**	22,136,148
Deposits and prepayments		**265,530**	298,577
Loans to joint ventures	32	**338,024**	—
Available-for-sale investments	25	**—**	38,996
Amounts due from joint ventures	32	**3,781,326**	3,728,290
Amount due from an associate	31	**105,179**	—
Tax recoverable		**57,901**	30,315
Bank balances and cash	33	**17,925,708**	17,593,203
		60,262,668	55,477,637

Consolidated Statement of Financial Position (continued)

As at 31 December 2018

	Note	At 31 December 2018 HK$'000	2017 HK$'000
Current Liabilities			
Amounts due to customers for contract work	29	—	5,438,063
Contract liabilities	29	**9,027,486**	—
Trade payables, other payables and accruals	34	**36,714,715**	33,193,966
Deposits received and advances from customers		**38,802**	1,330,600
Amounts due to joint ventures	32	**1,064,099**	2,231,753
Amount due to an associate	31	**102,645**	76,703
Current tax payables		**3,885,617**	3,247,384
Borrowings	35	**2,795,832**	2,580,590
Guaranteed notes payables	39	—	3,898,357
Obligations under finance leases		**793**	865
		53,629,989	51,998,281
Net current assets		**6,632,679**	3,479,356
Total assets less current liabilities		**82,492,102**	66,519,992
Capital and Reserves			
Share capital	36	**126,229**	126,229
Share premium and reserves	37	**38,328,139**	37,961,400
Equity attributable to owners of the Company		**38,454,368**	38,087,629
Perpetual capital securities	38	**3,878,468**	—
Non-controlling interests		**745,414**	375,282
		43,078,250	38,462,911
Non-current Liabilities			
Borrowings	35	**32,033,950**	20,592,443
Guaranteed notes payables	39	**6,210,963**	6,206,053
Contract liabilities	29	**740,010**	—
Deferred income	40	—	809,431
Deferred tax liabilities	41	**427,087**	446,655
Obligations under finance leases		**1,842**	2,499
		39,413,852	28,057,081
		82,492,102	66,519,992

On behalf of the Board

Zhang Haipeng
Director

Zhou Hancheng
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to owners of the Company				
	Share capital HK$'000 (Note 36)	Share premium and reserves HK$'000 (Note 37)	Total HK$'000	Non-controlling interests HK$'000	Total Equity HK$'000
At 1 January 2017	112,203	25,335,755	25,447,958	222,360	25,670,318
Profit for the year	—	5,490,091	5,490,091	44,213	5,534,304
Gain on fair value changes of available-for-sale investments, net of tax	—	4,171	4,171	—	4,171
Exchange differences on translation of subsidiaries	—	1,800,808	1,800,808	(2,734)	1,798,074
Exchange differences on translation of joint ventures	—	466,340	466,340	—	466,340
Exchange differences on translation of associates	—	42,016	42,016	—	42,016
Total comprehensive income for the year	—	7,803,426	7,803,426	41,479	7,844,905
Issue of ordinary shares	14,026	6,342,301	6,356,327	—	6,356,327
Share issuance expenses	—	(48,990)	(48,990)	—	(48,990)
Capital contribution relating to share-based payment borne by an intermediate holding company (Note 42)	—	10,033	10,033	—	10,033
Contribution from non-controlling interests of subsidiaries	—	—	—	108,379	108,379
Dividend paid to non-controlling shareholders	—	—	—	(10,065)	(10,065)
Disposal of a subsidiary	—	—	—	13,129	13,129
Acquisition of additional interest of a subsidiary	—	(39)	(39)	—	(39)
2016 final dividend paid	—	(807,865)	(807,865)	—	(807,865)
2017 interim dividend paid	—	(673,221)	(673,221)	—	(673,221)
Total transactions with owners, recognised directly in equity	14,026	4,822,219	4,836,245	111,443	4,947,688
At 31 December 2017	126,229	37,961,400	38,087,629	375,282	38,462,911

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2018

	Attributable to owners of the Company					
	Share capital HK$'000 (Note 36)	Share premium and reserves HK$'000 (Note 37)	Total HK$'000	Perpetual capital securities HK$'000	Non-controlling interests HK$'000	Total Equity HK$'000
At 1 January 2018	126,229	37,961,400	38,087,629	—	375,282	38,462,911
Profit for the year	—	4,500,148	4,500,148	17,000	39,485	4,556,633
Loss on fair value changes of debt securities at fair value through other comprehensive income, net of tax	—	(12,880)	(12,880)	—	—	(12,880)
Release of investment revaluation reserve to consolidated income statement upon disposal of debt securities at fair value through other comprehensive income	—	(109)	(109)	—	—	(109)
Gain on fair value changes of equity securities at fair value through other comprehensive income, net of tax	—	14,429	14,429	—	—	14,429
Exchange differences on translation of subsidiaries	—	(1,739,635)	(1,739,635)	—	(26,090)	(1,765,725)
Exchange differences on translation of joint ventures	—	(608,912)	(608,912)	—	—	(608,912)
Exchange differences on translation of associates	—	(9,527)	(9,527)	—	—	(9,527)
Total comprehensive income for the year	—	2,143,514	2,143,514	17,000	13,395	2,173,909
Issuance of perpetual capital securities	—	—	—	3,861,468	—	3,861,468
Capital contribution relating to share-based payment borne by an intermediate holding company (Note 42)	—	16,419	16,419	—	—	16,419
Contribution from non-controlling interests of subsidiaries	—	—	—	—	341,945	341,945
Dividend paid to non-controlling shareholders	—	—	—	—	(11,183)	(11,183)
Deemed disposal of interests in a subsidiary	—	(25,975)	(25,975)	—	25,975	—
Acquisition of additional interest of a subsidiary	—	(14)	(14)	—	—	(14)
2017 final dividend paid	—	(1,009,831)	(1,009,831)	—	—	(1,009,831)
2018 interim dividend paid	—	(757,374)	(757,374)	—	—	(757,374)
Total transactions with owners, recognised directly in equity	—	(1,776,775)	(1,776,775)	3,861,468	356,737	2,441,430
At 31 December 2018	126,229	38,328,139	38,454,368	3,878,468	745,414	43,078,250

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Operating activities		
Profit before tax	**6,205,505**	6,789,966
Adjustments for:		
Finance costs	**1,781,717**	1,069,754
Interest income	**(260,745)**	(198,518)
Dividend income	**(27,138)**	(29,464)
Gain on disposal of debt securities at fair value through other comprehensive income, net of tax	**(113)**	—
Loss/(gain) on fair value changes of investment properties	**6,828**	(445,640)
(Gain)/loss on disposal of property, plant and equipment	**(669)**	2,001
Gain on disposal of investment properties	**—**	(3,752)
Loss on disposal of a subsidiary	**—**	28,070
Impairment loss on concession operation rights	**817,000**	—
Share of profits of joint ventures	**(705,024)**	(731,380)
Share of profits of associates	**(342,621)**	(160,300)
Exchange gain	**(30,408)**	(47,849)
Depreciation of property, plant and equipment	**144,910**	131,786
Amortisation of concession operating rights	**211,879**	206,951
Amortisation of trademark and licences	**17,848**	17,685
Amortisation of prepaid lease payments	**7,399**	7,162
(Reversal of)/allowance for doubtful debts on trade and other receivables	**(7,083)**	3,931
Operating cash flows before working capital changes	**7,819,285**	6,640,403
Decrease/(increase) in income receivables from infrastructure project investments	**430,569**	(98,451)
Increase in inventories	**(66,165)**	(83,878)
Increase in properties under development	**(1,549,510)**	—
Increase in properties held for sale	**(296,020)**	—
Changes in net balances with customers for contract work	**—**	(3,357,947)
Changes in net balances in net contract assets/liabilities	**5,171,038**	—
Increase in trade and other receivables	**(16,220,149)**	(9,720,182)
Decrease in deposits and prepayments	**26,846**	270,462
Increase in trade payables, other payables and accruals	**4,791,972**	2,079,333
Decrease in deposits received and advances from customers	**(1,221,609)**	(42,366)
Increase in deferred income	**—**	110,343
Net cash used in operations	**(1,113,743)**	(4,202,283)
Income taxes paid	**(834,746)**	(698,832)
Income taxes refunded	**23,894**	55,409
Net cash used in operating activities (Note)	**(1,924,595)**	(4,845,706)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Investing activities			
Interest received		**150,958**	170,227
Purchases of property, plant and equipment		**(805,876)**	(1,410,112)
Payments for prepaid leases payments		**(2,601)**	(56,592)
Proceeds from disposal of property, plant and equipment		**93,734**	36,615
Proceeds from disposal of investment properties		**—**	7,265
Net movement of joint ventures current accounts		**(1,254,436)**	943,602
Net movement of loans to joint ventures		**(1,886,317)**	563,342
Capital investments in joint ventures		**(1,950,197)**	(4,794,670)
Dividends received from joint ventures		**293,065**	270,997
Advances from associates		**31,436**	76,703
Dividends received from associates		**335,263**	137,280
Dividends received from available-for-sale investments		**—**	29,464
Dividends received from equity securities at fair value through other comprehensive income		**27,138**	—
Increase in interests in associates		**(1,152,179)**	(406,994)
Acquisition of available-for-sale investments		**—**	(217,415)
Acquisition of debt securities at fair value through other comprehensive income		**(93,331)**	—
Proceeds from disposal of debt securities at fair value through other comprehensive income		**39,389**	—
Acquisition of investment properties		**(840)**	(18,512)
Proceeds from disposal of a subsidiary		**—**	29,288
Acquisition of subsidiaries	45	**(800,000)**	(138,800)
Decrease/(increase) in pledged bank deposits and deposits with financial institutions		**20,824**	(21,877)
Net cash used in investing activities		**(6,953,970)**	(4,800,189)

Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Financing activities			
Finance costs paid		**(1,757,784)**	(1,045,063)
Dividends paid to owners of the Company		**(1,767,205)**	(1,481,086)
Dividends paid to non-controlling interests		**(11,183)**	(10,065)
Contribution from non-controlling interests		**341,945**	108,379
New bank loans raised	43	**21,775,393**	12,905,177
Repayment of bank loans	43	**(8,960,494)**	(7,757,249)
Repayment of finance leases	43	**(1,026)**	(29)
Repayment of guaranteed notes payables		**(3,900,000)**	—
Issue of perpetual capital securities, net		**3,861,468**	—
Proceeds from issue of ordinary shares, net		**—**	6,307,337
Issue of guaranteed notes payables, net		**—**	6,225,515
Net cash from financing activities		**9,581,114**	15,252,916
Increase in cash and cash equivalents		**702,549**	5,607,021
Cash and cash equivalents at the beginning of the year		**17,570,868**	11,484,194
Effect of foreign exchange rate changes		**(349,221)**	479,653
Cash and cash equivalents at the end of the year		**17,924,196**	17,570,868
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		**17,925,708**	17,593,203
Less: Pledged bank deposits and deposits with financial institutions		**(1,512)**	(22,335)
		17,924,196	17,570,868

Note:

During the year, the Group has undertaken a number of infrastructure investment projects. The net expenditure for infrastructure investment projects (ie. the difference between the cash generated from and used in the construction of infrastructure investment projects) have decreased from HK$5.4 billion in 2017 to HK$4.5 billion in 2018.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1 General information

China State Construction International Holdings Limited (The "Company") is a public limited company incorporated in the Cayman Islands and its shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "SEHK") with effect from 8 July 2005. Its immediate holding company is China Overseas Holdings Limited ("COHL"), a company incorporated in Hong Kong. Its intermediate holding company and its ultimate holding company are China State Construction Engineering Corporation Limited ("CSCECL"), a joint stock company with its shares listed on the Shanghai Stock Exchange, and China State Construction Group Limited ("CSCGL"), respectively, both of which are established in the People's Republic of China ("PRC") and controlled by the PRC Government. The addresses of the registered office and principal place of business of the Company are Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, The Cayman Islands and 28th Floor, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong, respectively.

The principal activities of the Company and its subsidiaries (together, the "Group") are the construction business, project consultancy services, thermoelectricity business, infrastructure project investments, toll road operation and facade contracting business. The principal activities of its principal subsidiaries, joint ventures and associates are set out in notes 51, 21 and 22, respectively.

The consolidated financial statements are presented in Hong Kong dollar ("HK$'000"), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2019.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income and investment properties, which are carried at fair value.

The preparation of consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 6.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

2 Basis of preparation (continued)

(a) The adoption of new standards, amendments and improvements to existing standards and interpretation

In the current year, the Group has applied the following new amendments and improvements to existing Hong Kong Accounting Standards ("HKAS(s)"), HKFRS (hereinafter collectively referenced to as the "new HKFRSs") issued by the HKICPA.

Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transaction
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarifications to HKFRS 15, Revenue from Contracts with Customers
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK (IFRIC)—Int 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements 2014—2016 Cycle	Amendments to HKFRS 1 and HKAS 28

The application of the above new standards, amendments and improvements to existing standards and interpretation in the current year has had no material impact on the Group's results and financial position, except HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers". As a result of adopting the standards, the Group had to change its accounting policies. The impact of adoption is disclosed in note 3.

(b) New standards, amendments and improvements to existing standards and interpretation not yet effective

The Group has not early adopted the following new standards, amendments and improvements to existing standards and interpretation that have been issued but are not yet effective.

Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK (IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Annual Improvements 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] The mandatory effective date will be determined

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

2 Basis of preparation (continued)

(b) New standards, amendments and improvements to existing standards and interpretation not yet effective (continued)

The Group will adopt the above new standards, amendments and improvements to existing standards and interpretation as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16 "Leases"

HKFRS 16 will result in almost all leases being recognised on the statements of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right-to-use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. HKFRS 16 is mandatory for the Group's financial statements for annual periods beginning on or after 1 January 2019. The Group currently plans to adopt this new standard from 1 January 2019 and will not restate comparative amounts for the year prior to first adoption. Right-of-use for leases will be measured on transaction as if the new rules had always been applied.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$145,629,000. The Group estimates that the leases relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss are insignificant. For other leases, the Group expects i) the effect of other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, ii) the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and iii) the impact to the Group's profit or loss and classification of cash flows going forward will not be material.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

3 Changes in accounting policies

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different from those applied in prior years.

(a) HKFRS 9 *"Financial Instruments"*

HKFRS 9 replaces the provisions of HKAS 39 "Financial Instruments: Recognition and Remeasurement" that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 4.9. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

3 Changes in accounting policies (continued)

(a) HKFRS 9 *"Financial Instruments"* (continued)

(i) Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

(a) Equity securities at fair value through other comprehensive income ("FVOCI (equity)") previously classified as available-for-sale

The Group elected to present in other comprehensive income ("OCI") changes in the fair value of all its equity securities previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of HK$116,056,000 were reclassified from available-for-sale investments to FVOCI (equity) on 1 January 2018.

FVOCI (equity) is measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the fair value reserve (non-recycling); and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be reclassified from fair value reserve to retained profits.

(b) Debt securities at fair value through other comprehensive income ("FVOCI (debt)") previously classified as available-for-sale

Debt securities were reclassified from available for sale to FVOCI (debt), as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest. As a result, debt securities with a fair value of HK$334,174,000 were reclassified from available-for-sale investments to FVOCI (debt) on 1 January 2018.

FVOCI (debt) is measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the fair value reserve. Interest income from these financial assets is included in investment income using the effective interest rate method. Impairment expenses are presented as separate line item in the consolidated statement of income statement. Foreign exchange gains and losses are presented in other gains/(losses).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

3 Changes in accounting policies (continued)

(a) HKFRS 9 *"Financial Instruments"* (continued)

(i) Classification and measurement (continued)

The application of HKFRS 9 does not affect the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss ("FVPL") and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount
	Original (HKAS 39)	New (HKFRS 9)	HK$'000
Non-current financial assets			
Interests in infrastructure project investments	Amortised cost	Amortised cost	3,294,041
Available-for-sale investments — equity securities	Available for sale	FVOCI (equity)	116,056
Available-for-sale investments — debt securities	Available for sale	FVOCI (debt)	295,178
Amounts due from associates	Amortised cost	Amortised cost	280,283
Loans to associates	Amortised cost	Amortised cost	688,833
Amounts due from investee companies	Amortised cost	Amortised cost	204,061
Trade and other receivables	Amortised cost	Amortised cost	29,094,860
Current financial assets			
Interests in infrastructure project investments	Amortised cost	Amortised cost	44,346
Trade and other receivables	Amortised cost	Amortised cost	22,136,148
Deposits and prepayments	Amortised cost	Amortised cost	298,577
Available-for-sale investments — debt securities	Available for sale	FVOCI (debt)	38,996
Amounts due from joint ventures	Amortised cost	Amortised cost	3,728,290
Bank balances and cash	Amortised cost	Amortised cost	17,593,203
Non-current financial liabilities			
Guaranteed notes payable	Amortised cost	Amortised cost	6,206,053
Obligations under finance leases	Amortised cost	Amortised cost	2,499
Borrowings	Amortised cost	Amortised cost	20,592,443
Current financial liabilities			
Guaranteed notes payable	Amortised cost	Amortised cost	3,898,357
Obligations under finance leases	Amortised cost	Amortised cost	865
Borrowings	Amortised cost	Amortised cost	2,580,590
Trade payables, other payables and accruals	Amortised cost	Amortised cost	33,133,986
Amounts due to joint ventures	Amortised cost	Amortised cost	2,231,753
Amount due to an associate	Amortised cost	Amortised cost	76,703
Deposits received and advances from customers	Amortised cost	Amortised cost	33,478

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

3 Changes in accounting policies (continued)

(a) HKFRS 9 *"Financial Instruments"* (continued)

(ii) Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses associated with its debt securities assets carried at amortised cost and contract assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other financial assets originally categorised as loans and receivables under HKAS 39 which all have been classified as financial assets at amortised cost under HKFRS 9 from 1 January 2018. As permitted by a transition provision in HKFRS 9, provision for doubtful debts account for these financial assets will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a 12 months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.

The impact of the adoption of HKFRS 9 is shown as follows:

(a) Classification and measurement of financial assets and liabilities

At the date of initial application of HKFRS 9 (1 January 2018), the Company's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets and liabilities into the appropriate HKFRS 9 categories.

The financial assets held by the Group include debt securities and equity securities previously classified as available-for-sale investments under HKAS 39, and that have reclassified as debt securities at FVOCI (debt) and equity securities at FVOCI (equity) under HKFRS 9. Except for the above, the application of HKFRS 9 does not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 1 January 2018.

The application of HKFRS 9 does not affect the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss ("FVPL") and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 and have not been changed.

(b) Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost and contract assets under HKFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. At 1 January 2018 and 31 December 2018, the Group assessed the impact of loss allowance is immaterial.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

3 Changes in accounting policies (continued)

(b) HKFRS 15 *"Revenue from Contracts with Customers"*

The Group has adopted HKFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. The new accounting policies are set out in note 4.27. In accordance with the modified retrospective approach in HKFRS 15, comparative figures have not been restated.

The accounting policies were changed to comply with HKFRS 15, which replaces both the provisions of HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations that relate to the recognition, classification and measurement of revenue and costs.

The new accounting policies and the impact of the adoption of HKFRS 15 is shown as follows:

Accounting for revenue from construction contracts

In prior reporting years, the Group accounted for revenue from construction contracts when the outcome of construction contracts can be estimated reliably by reference to the stage of completion of the contract activities at the end of the reporting periods.

Under HKFRS 15, revenue from construction contracts is recognised when or as the construction projects are transferred to the customer. Depending on the terms of the contracts and the laws that are applicable to the contracts, control of the construction projects may transfer over time or at a point in time. If i) the Group creates or enhances an asset that the customer controls as the asset is created or enhanced, or ii) construction projects have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress.

The excess of cumulative revenue recognised in profit or loss over the cumulative billings to customers is recognised as contract assets. The excess of cumulative billings to customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

Accounting for revenue from project consultancy contracts, thermoelectricity business, toll revenue and services income

Revenue from rendering of these services is recognised over time for the period of the transaction. The Group has determined that there is no material impact on the Group's financial statements when HKFRS 15 is adopted in accounting for the Group's revenue from rendering of these services. The current accounting treatment of such contracts are aligned with the requirements of HKFRS 15.

Presentation of contract assets and liabilities

Previously, contract balances relating to construction contracts in progress were presented in the consolidated statement of financial position under "amounts due from/(to) customers for contract work", "trade and other receivables" or "trade payables, other payables and accruals" respectively.

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue (Note 4.27) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

3 Changes in accounting policies (continued)

(b) HKFRS 15 "*Revenue from Contracts with Customers*" (continued)

Presentation of contract assets and liabilities (continued)

Reclassifications were made as at 1 January 2018 to be consistent with the terminology used under HKFRS 15:

- contract assets recognised in relation to construction contracts were previously presented as amounts due from customers for contract work;
- contract liabilities recognised in relation to construction contracts were previously presented as amounts due to customers for contract work and deposits received and advances from customers; and
- contract liabilities recognised in relation to thermoelectricity business were previously presented as trade payables, other payables and accruals, deposits received and advance from customers and deferred income.

The following adjustments were made to the amounts recognised in the statement of financial position on 1 January 2018:

	At 31 December 2017 (as reported) HK$'000	Effects of adoption of HKFRS 15 HK$'000	At 1 January 2018 (as adjusted) HK$'000
Consolidated statement of financial position (extract)			
Amount due from customers for contract work	10,979,356	(10,979,356)	—
Contract assets	—	10,979,356	10,979,356
Trade payables, other payables and accruals	33,193,966	(59,980)	33,133,986
Amount due to customers for contract work	5,438,063	(5,438,063)	—
Deposits received and advances from customers	1,330,600	(1,297,122)	33,478
Deferred income	809,431	(809,431)	—
Contract liabilities	—	7,604,596	7,604,596

The following adjustments were made to the amounts recognised in the statement of financial position on 31 December 2018:

	At 31 December 2018 (without the adoption of HKFRS15) HK$'000	**Effects of adoption of HKFRS 15 HK$'000**	**At 31 December 2018 (as reported) HK$'000**
Consolidated statement of financial position (extract)			
Amount due from customers for contract work	**9,081,810**	**(9,081,810)**	**—**
Contract assets	**—**	**9,081,810**	**9,081,810**
Trade payables, other payables and accruals	**36,770,318**	**(55,603)**	**36,714,715**
Amount due to customers for contract work	**7,249,410**	**(7,249,410)**	**—**
Deposits received and advances from customers	**1,761,275**	**(1,722,473)**	**38,802**
Deferred income	**740,010**	**(740,010)**	**—**
Contract liabilities	**—**	**9,767,496**	**9,767,496**

The adoption of HKFRS 15 has no material impact to the consolidated income statement and has no impact to the net cash flow from operating, investing and financing activities on the consolidated statement of cash flows.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies

4.1 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2018.

(a) Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which the control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations — common control combinations

Business combinations under common control are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combination". In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

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

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

The consolidated income statement also takes into account the profit or loss attributable to the non-controlling interests of the controlling party. Upon the completion of common control combinations, the retained profit of the combining entities or business is transferred to the retained profits of the Group.

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

Business combinations — acquisition method

The Group applies the acquisition method to account for business combinations other than common control combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.1 Consolidation (continued)

(a) Subsidiaries (continued)

Business combinations — acquisition method (continued)

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in consolidated income statement.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intra-group transactions, balances, and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in OCI in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in OCI are reclassified to consolidated income statement.

Separate financial statements

In the Company's statement of financial position, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.1 Consolidation (continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in OCI is reclassified to consolidated income statement where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in OCI is recognised in OCI with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profits of associates" in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains and losses on dilution of equity interest in associates are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.1 Consolidation (continued)

(c) Joint arrangements

Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement.

Joint ventures

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in OCI. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which include any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for goodwill.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Joint operations

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

4.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that make strategic decisions.

4.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollar ("HK$"), which is the Company's functional and the Group's presentation currency.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.3 Foreign currency translation (continued)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Foreign exchange gains and losses are presented in the consolidated income statement within "Investment income, other income and other gains, net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in consolidated income statement, and other changes in carrying amount are recognised in OCI.

Translation differences on non-monetary financial assets and liabilities such as equities held at FVPL are recognised in consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale investments, are included in the investment revaluation reserve in OCI.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the end of the reporting period;

(ii) income and expenses for each income statement are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in OCI.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in OCI.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to consolidated income statement.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.3 Foreign currency translation (continued)

(d) Disposal of foreign operation and partial disposal (continued)

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement. For all other partial disposal (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to consolidated income statement.

4.4 Property, plant and equipment

Land and buildings comprise mainly factories and offices. Leasehold land classified as finance lease and all other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Freehold land	Not depreciated
Land and buildings	Over the shorter of the term of the relevant leases or 50 years
Heat and electricity supply facilities	20 years
Machinery	3 to 10 years
Furniture, fixtures and equipment and motor vehicles	3 to 8 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Construction in progress represents buildings and heat and electricity supply facilities under construction and machinery pending installation, and is stated at cost less impairment losses. It will be reclassified to the relevant property, plant and equipment category upon completion and depreciation begins when the relevant assets are available for use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated income statement.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.5 Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "Prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

4.6 Investment properties

Investment properties are properties held for long-term rental yields and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. After initial recognition, investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the consolidated income statement as part of a valuation gain or loss in "Investment income, other income and other gains, net".

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the assets (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in consolidated income statement in the period in which the item is derecognised.

4.7 Interests in infrastructure project investments

Interests in infrastructure project investments represent loans advanced to joint ventures whereby the Group's return is predetermined in accordance with the provisions of the relevant agreements.

The Group's interests in the infrastructure project investments are classified as loans and receivables and amortised cost in accordance with HKAS 39 and HKFRS 9 respectively and are stated at amortised cost using effective interest method. The carrying amount of such interests is reduced to recognise any identified impairment losses of individual investments.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquire and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to cash-generating units ("CGU(s)"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Trademark, project backlogs and licences

Separately acquired licences are shown at historical cost. Trademark and project backlogs acquired in a business combination are recognised at fair value at the acquisition date.

Trademark and project backlogs that have a definite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and project backlogs over their estimated useful lives of 20 years or specific contract period respectively.

Licences that have indefinite useful lives are not amortised. They are subject to impairment testing annually or more frequently if events or changes in circumstances indicate a potential impairment. License that has a definite useful life is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of license over its estimated life of 25 years.

(c) Concession operating rights

The Group applies the intangible asset model to account for toll expressways. The concession grantors (the respective local governments) have not provided any contractual guarantees for the recovery of the amounts of construction costs incurred. The intangible assets correspond to the rights granted by the respective concession grantors to the Group to charge users of the toll road services and are recorded in the consolidated statement of financial position as "Concession operating rights".

When the Group has a right to operate, and charge for usage of a toll expressway as a consideration for providing construction services in a service concession arrangement, it recognises a concession intangible asset at fair value upon initial recognition. The concession operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation of concession operating rights is calculated to write off their costs, commencing from the date of commencement of commercial operation of the underlying toll expressways to the end of the respective concession periods of thirty years. The annual amortisation of concession operating rights is calculated by using the straight-line method over the concession periods.

Gains or losses arising from derecognition of a concession operating right are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement in the period when the asset is derecognised.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.9 Investments and other financial assets

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at FVOCI (debt)
- those to be measured subsequently at FVOCI (equity) and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded in OCI. For investments in equity securities that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity securities at FVOCI (equity).

The Group reclassifies debt securities when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt securities

Subsequent measurement of debt securities depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the Group classifies its debt securities:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in consolidated income statement and presented in other gains/(losses) together with foreign exchange gains and losses or finance income/(cost).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.9 Investments and other financial assets (continued)

(iii) Measurement (continued)

Debt securities (continued)

- FVOCI (debt): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI (debt). Movements in the carrying amount are taken through OCI, except for the recognition of fair value gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in investment income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses).

Equity securities

The Group subsequently measures all equity securities at fair value. Where the Group's management has elected to present fair value gains and losses on equity securities in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity securities measured at FVOCI (equity) are not reported separately from other changes in fair value.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt securities carried at amortised cost and FVOCI (debt). The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 30 for further details.

As permitted by a transition provision in HKFRS 9, provision for impairment of receivables account for these financial assets will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a 12 months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.9 Investments and other financial assets (continued)

(v) Accounting policies applied until 31 December 2017

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2017 the Group classifies its financial assets in the following categories:

- Financial assets at FVPL
- Loans and receivables, and
- Available-for-sale investments

The classification determined on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and re-evaluated this designation at the end of each reporting period.

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets.

The Group's loans and receivables comprise "Interests in infrastructure project investments", "Amounts due from investee companies", "Amounts due from joint ventures", "Trade and other receivables", "Deposits and prepayments", "Loans to joint ventures" and "Bank balances and cash" in the consolidated statement of financial position.

(c) Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.9 Investments and other financial assets (continued)

(v) Accounting policies applied until 31 December 2017 (continued)

Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of "Investment income, other income and other gains, net" when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as "Investment income, other income and other gains, net".

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of "Investment income, other income and other gains, net". Dividends on available-for-sale equity instruments are recognised in the income statement as part of 'Investment income, other income and other gains, net' when the Group's right to receive payments is established.

4.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount are reported in the consolidated statement of financial position where there is a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.11 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of the reporting period.

4.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in selling expenses.

4.13 Properties held for sale

Properties acquired for subsequent resale are stated at the lower of cost and net realisable value. Net realisable value is determined by the management based on prevailing market conditions.

4.14 Contracts in progress

Until 31 December 2017, the Group recognises contracts in progress as below.

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion of contract costs incurred for work performed to date relative to the estimated total contract cost, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When a contract covers a number of assets, the construction of each asset is treated as a separate contract when separate proposals have been submitted for each asset, each asset has been separately negotiated and the costs and revenue of each asset can be separately identified. A group of contracts, performed concurrently or in a continuous sequence, is treated as a single construction contract when they were negotiated as a single package and are so closely inter-related that they constitute a single project with an overall profit margin.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as receipt in advance. Amounts billed for work performed, but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

4.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, pledged bank deposits, bank deposits with financial institutions with original maturities of three months or less, bank balance, and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

4.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

4.18 Trade payables, other payables and accruals

Trade payables are obligations to pay for materials or services that have been acquired in the ordinary course of business from suppliers. Trade payables, other payables and accruals are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables, other payables and accruals are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

4.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.20 Borrowing costs

Relevant general and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in consolidated income statement in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on forward currency rates at the inception of the borrowings.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

4.21 Deferred income

Deferred income represents connection fee income not yet recognised in relation to heat transmission services.

4.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in OCI or directly in equity. In this case the tax is also recognised in OCI or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis difference

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.22 Current and deferred income tax (continued)

(b) Deferred income tax (continued)

Inside basis difference (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis difference

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint arrangements except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets are recognised to the extent that their future utilisation is probable. Deferred income tax arising from revaluation of investment properties is recognised on the rebuttable presumption that the recovery of the carrying amount of the properties would be through sale and calculated at the applicable tax rates.

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

4.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle that obligation, and the amount has been reliably estimated. Provisions, including those arising from the contractual obligation specified in the service concession arrangement to maintain or restore the infrastructure before it is handed over to the granter, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.24 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(a) The Group as lessor

When assets are leased out under an operating lease, the assets are included in the consolidated statement of financial position based on the nature of the assets. Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

(b) The Group as lessee

(i) Operating lease

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(ii) Finance lease

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

4.25 Employee benefits

(a) Retirement benefits

The Group participates in mandatory provident fund schemes in Hong Kong which are defined contribution plan generally funded through payments to trustee-administered funds. The assets of the scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in Mainland China, the subsidiaries in Mainland China participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government of Mainland China is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme. The Group's contributions to the scheme are expensed as incurred.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.25 Employee benefits (continued)

(b) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

4.26 Share-based payments

(a) Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in consolidated income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve. When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

(b) Share-based payment transactions among group entities

Incentive shares granted by an intermediate holding company to the employees of the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the fair value of incentive shares on the date of grant, is recognised as an expense over the vesting period, with a corresponding credit to equity.

At the end of each reporting period, the Group revises its estimates of the number of incentive shares that are expected to be vested. The impact of the revision of the original estimates, if any, is recognised in profit or loss, with a corresponding adjustment to equity.

4.27 Revenue recognition

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. Control of the good or service is transferred over time if the Group's performance:

(a) Provides all of the benefits received and consumed simultaneously by the customer;

(b) Creates or enhances an asset that the customer control as the Group performs; or

(c) Does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the good or service transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the good or service.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.27 Revenue recognition (continued)

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group's performance in satisfying the performance obligation:

(a) Direct measurements of the value transferred by the Group to the customer; or

(b) The Group's efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract related assets and subsequently amortised when the related revenue is recognised.

(a) Revenue from contracts with customers

(i) Revenue from construction contracts

Revenue from individual contracts is recognised according to progress of the project. The Group recognises revenue based on progress towards complete satisfaction of performance obligation, which is measured based on the entity's effort or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended and cost incurred) relative to the total expected inputs to the satisfaction of that performance obligation. In addition, when determining the transaction price, the Group consider factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for finance purpose. The Group has, therefore, recognised revenue on progress confirmation over the period during which the services are rendered and transferred to customers.

(ii) Project consultancy contracts

Income from project consultancy contract is recognised on an accrual basis over time for the period of providing project consultancy services.

(iii) Thermoelectricity business

Revenue from thermoelectricity business consists of revenue from the supply of heat, steam and electricity, and connection service income.

Revenue from the supply of heat, steam and electricity are recognised over time based upon output delivered and capacity provided at rates specified under contract terms.

Connection service income received and receivable, to the extent which is attributable to the initial pipeline construction and connection of transmission of heat and steam, is recognised over time upon the completion of services provided for the relevant connection works. Connection service attributable to the continuing heat and steam transmission is recorded as deferred income and amortised on a straight-line basis over the expected service period of heat and steam transmission to be rendered with reference to the term of the operating license of the relevant entities.

(iv) Toll revenue

Toll revenue from road and bridge operations is recognised at the time when services are rendered.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.27 Revenue recognition (continued)

(a) Revenue from contracts with customers (continued)

(v) Sales of goods

Revenue from sales of goods are recognised at a point in time when goods are delivered and title has been passed.

(vi) Services income

Revenue from services income, including commission income, technical service income, logistics service income and management service income, is recognised over time when the corresponding services are rendered.

(b) Revenue from other sources

(i) Income from interests in infrastructure investment projects

Income from interests in infrastructure investment projects is accrued on a time basis, by making reference to the carrying amount and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash flows through the expected life of the infrastructure project to that project's net carrying amount at initial recognition.

(ii) Lease of machinery

Income from lease of machinery is recognised on a straight-line basis over the terms of the relevant leases.

(iii) Insurance income

Revenue from insurance service is recognised proportionally over the period of coverage.

(iv) Interest income generated from Public-Private-Partnership ("PPP") projects (previously known as "Build — Transfer" and "Build — Operation — Transfer" projects)

Interest income from PPP projects is recognised on an accrual basis, making reference to the carrying amount and at the interest rate specified under contract terms.

(v) Interest income

Interest income on financial assets at amortised cost and debt securities at FVOCI (debt) (2017: available-for-sale securities, loans and receivables and loans to joint ventures and associates) calculated using the effective interest method is recognised in the statement of profit or loss as part of other income.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.27 Revenue recognition (continued)

(b) Revenue from other sources (continued)

(vi) Dividend income

Dividends are received from equity securities at FVOCI (equity) (2017: available-for-sale investments). Dividends are recognised as other income in profit or loss when the right to receive payment is established.

(vii) Rental

Rental is recognised in the consolidated income statement on a straight-line basis over the lease term.

4.28 Government grant

Government grant is recognised when the Group complied with prerequisite conditions and there is a reasonable assurance that the grant will be received.

4.29 Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability, other than that assumed in a business combination, is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

4.30 Insurance contracts

The Group assesses at the end of each reporting period the liabilities under its insurance contracts using current estimates of future cash flows. If the carrying amount of the relevant insurance liabilities is less than the best estimate of the expenditure required to settle the relevant insurance liabilities at the end of the reporting period, the Group recognises the entire difference in the consolidated income statement. These estimates are recognised only when the outflow is probable and the estimates can be reliably measured.

4.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders/directors.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

4 Principal accounting policies (continued)

4.32 Contract related assets and contract liabilities

Upon entering into a contract with a customer, the Group obtains rights to receive consideration from the customer and assumes performance obligations to transfer goods or provide services to the customer.

The combination of those rights and performance obligations gives rise to a net contract asset or a net contract liability depending on the relationship between the remaining rights and the performance obligations. The contract is an asset and recognised as contract assets if the cumulative revenue recognised in profit or loss exceeds cumulative payments made by customers. Conversely, the contract is a liability and recognised as contract liabilities if the cumulative payments made by customers exceeds the revenue recognised in profit or loss.

Contract assets are assessed for impairment under the same approach adopted for impairment assessment of trade receivables. Contract liabilities are recognised as revenue when the Group transfers the goods or services to the customers and therefore satisfied its performance obligation.

The incremental costs of obtaining a contract with a customer are capitalised and presented as contract related assets, if the Group expects to recover those costs, and are subsequently amortised on a systematic basis that is consistent with the transfer to the customers of the goods or services to which the assets relate. The Group recognises an impairment loss in the consolidated income statement to the extent that the carrying amount of the contract related assets recognised exceeds the remaining amounts of consideration that the Group expects to receive less the costs that relate directly to providing those goods or services that have not been recognised as expenses.

4.33 Property under development

Properties under development comprise leasehold land and land use rights, development expenditure and borrowing costs capitalised, and are carried at the lower of cost and net realisable value. Net realisable value takes into account the proceeds ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to complete. Upon completion, the properties are transferred to properties held for sale. Properties under development included in the current assets are expected to be realised in, or is intended for sale in the Group's normal operating cycle.

4.34 Perpetual capital securities

Perpetual capital securities with no contracted obligation to repay its principal or to pay any distribution are classified as part of equity.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

5 Financial risk management

5.1 Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

The Group and the Company undertake certain transactions denominated in foreign currencies, primarily with respect to the Renminbi ("RMB") and United States dollar ("US$"), hence exposures to exchange rate fluctuation arise. The Group and the Company currently do not use any derivative contracts to hedge against their exposure to currency risk. The management manages its foreign currency risk by closely reviewing the movement of the foreign currency rate and adjust the financing structure if needed.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

In view of the fact that HK$ is pegged to US$, the foreign currency exposure of operating units having HK$ as functional currency on US$ transactions and balances is minimal.

At 31 December 2018, if HK$ had weakened/strengthened 5% against RMB with all other variables held constant, the consolidated profit before tax for the year would have been HK$406,000 higher/lower (2017: HK$692,000 higher/lower).

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to floating interest debt securities, floating rate trade and other receivables, floating rate bank borrowings and bank deposits. Interest rate risk on bank deposits is considered immaterial and therefore have been excluded from the sensitivity analysis below. The Group currently does not have any interest rate hedging policy. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of Hong Kong Interbank Offered Rate ("HIBOR") arising from its variable-rate borrowings, London Interbank Offered Rate ("LIBOR") arising from its holding of debt securities and borrowing rates offered by The People's Bank of China arising from its variable-rate borrowings and trade and other receivables. Please see notes 25, 30 and 35 for details of debt securities, trade and other receivables and borrowings.

The Group is also exposed to fair value interest rate risk in relation to fixed interest debt securities and guaranteed notes payables. Fair value interest rate risk on fixed interest debt securities is considered immaterial. Management will also consider hedging significant interest rate exposure should the need arises.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

5 Financial risk management (continued)

5.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

The sensitivity analyses below have been determined based on the exposure to interest rates for floating interest debt securities and variable-rate trade and other receivables and bank borrowings. The analysis is prepared assuming the amount of asset and liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 (2017: 50) basis points increase or decrease representing management's assessment of the reasonably possible change in interest rates is used.

If interest rates had been 50 (2017: 50) basis points higher/lower with all other variables held constant, the consolidated profit before tax for the year ended 31 December 2018 would decrease/increase by HK$62,032,000 (2017: decrease/increase by HK$74,108,000).

(b) Credit risk

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks in Mainland China.

The credit risk on amounts due from investee companies, joint ventures and associates is limited because the counterparties, which are engaged in property development and investment in Mainland China and Macau, have strong financial positions.

The credit risk on interests in infrastructure project investments, contract assets and trade receivables is limited because the counterparties are mainly PRC government-related entities and are covered by collateral, where applicable. The Group assessed the credit losses against contract assets and trade receivables and the lifetime expected credit loss rate is below 1%.

Other than concentration of credit risk on liquid funds, interests in infrastructure project investments, amounts due from investee companies, joint ventures and associates, contract assets and long term trade receivables, the Group does not have any other significant concentration of credit risk. Trade receivables, loans to joint ventures and associates and FVOCI (debt) consist of a large number of parties, spread across diverse industries and geographical areas.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

5 Financial risk management (continued)

5.1 Financial risk factors (continued)

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

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

	Less than 6 months HK$'000	Between 6 months and 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
The Group						
At 31 December 2018						
Trade payables, other payables and accruals	**30,685,456**	**436,891**	**3,028,638**	**1,037,638**	**23,998**	**35,212,621**
Amounts due to joint ventures	**1,064,099**	**—**	**—**	**—**	**—**	**1,064,099**
Amount due to an associate	**102,645**	**—**	**—**	**—**	**—**	**102,645**
Deposits received	**38,802**	**—**	**—**	**—**	**—**	**38,802**
Borrowings	**1,825,848**	**2,327,377**	**13,084,144**	**14,807,110**	**7,420,406**	**39,464,885**
Guaranteed notes payables	**110,175**	**110,175**	**220,350**	**4,777,485**	**2,163,338**	**7,381,523**
Obligations under finance leases	**409**	**409**	**819**	**1,294**	**—**	**2,931**
	33,827,434	**2,874,852**	**16,333,951**	**20,623,527**	**9,607,742**	**83,267,506**
At 31 December 2017						
Trade payables, other payables and accruals, excluding deferred income	27,859,967	592,938	1,820,619	1,048,085	4,437	31,326,046
Amounts due to joint ventures	2,231,753	—	—	—	—	2,231,753
Amount due to an associate	76,703	—	—	—	—	76,703
Deposits received	33,478	—	—	—	—	33,478
Borrowings	1,305,442	2,151,641	2,317,381	14,787,905	6,075,245	26,637,614
Guaranteed notes payables	4,040,644	110,175	210,600	4,908,710	2,273,112	11,543,241
Obligations under finance leases	446	446	819	2,132	—	3,843
	35,548,433	2,855,200	4,349,419	20,746,832	8,352,794	71,852,678

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

5 Financial risk management (continued)

5.2 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, redeem guarantee notes payable, issue and redeem perpetual capital securities, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital represents the equity attributable to owners of the Company, perpetual capital securities and non-controlling interests.

The Group's overall strategy remains unchanged from prior year. The net gearing ratio is 53.7% as at 31 December 2018 (2017: 40.8%). The increase was mainly caused by the increase in borrowings.

5.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018 and 2017.

	31 December 2018			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Debt and equity securities at FVOCI				
Listed debt securities	**375,628**	**—**	**—**	**375,628**
Unlisted equity securities	**—**	**—**	**129,788**	**129,788**
	375,628	**—**	**129,788**	**505,416**

	31 December 2017			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Available-for-sale investments				
Listed debt securities	334,174	—	—	334,174
Unlisted equity securities	—	—	116,056	116,056
	334,174	—	116,056	450,230

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

5 Financial risk management (continued)

5.3 Fair value estimation (continued)

There were no transfers between the levels during the year.

The following table presents the changes in level 3 instruments for the years ended 31 December 2018 and 2017:

	Equity securities at FVOCI (equity) (2017: Available-for-sale investments) HK$'000
At 1 January 2017	115,782
Exchange adjustments	274
At 31 December 2017	116,056
Exchange adjustments	**(697)**
Change in fair value	**14,429**
At 31 December 2018	**129,788**

The changes in fair value of the above financial instruments in level 3 were recognised in OCI.

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1, which are classified as available-for-sale investments.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Market value provided by the issuers as their best estimate of the fair value of the investment.

- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The unobservable inputs of the valuation include estimated revenue and discount rate by reference to other investments that are substantially the same. Changing unobservable inputs used in the level 3 valuation to reasonable alternative assumptions would not change significantly the fair values recognised.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

5 Financial risk management (continued)

5.3 Fair value estimation (continued)

The fair value of the following financial assets and liabilities approximate their carrying amount:

— Trade and other receivables, deposits and prepayments

— Bank balances and cash

— Loans to joint ventures and associates

— Amounts due from/to joint ventures and associates

— Trade payables, other payables and accruals and deposits received

— Borrowings

— Guaranteed notes payables

6 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

6.1 Progress of construction works

The Group recognises revenue according to the progress towards complete satisfaction of performance obligation of the individual contract of construction works. The progress is determined by the entity's efforts or inputs to the satisfaction of performance obligations (for example, resources consumed, labour hours expended and cost incurred) relative to the total expected inputs to the satisfaction of that performance obligation. Management's estimation of the cost incurred to date and the budgeted cost is primarily based on construction budget and actual cost report prepared by internal quantity surveyors, where applicable. Corresponding revenue from contract work is also estimated by management based on the progress and budgeted revenue. Because of the nature of the activities undertaken in construction contracts, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group regularly reviews and revises the estimation of both contract revenue and contract cost in the budget prepared for each construction contract as the contract progresses.

6.2 Estimation of foreseeable losses in respect of construction works

Management estimates the amount of foreseeable losses of construction works based on the management budgets prepared for the construction works. Budgeted construction income is determined in accordance with the terms set out in the relevant contracts. Budgeted construction costs which mainly comprise sub-contracting charges and costs of materials are prepared by management on the basis of quotations from time to time provided by the major sub-contractors/suppliers/vendors involved and experience of management. A foreseeable losses is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. In order to keep the budget accurate and up-to-date, management conducts periodic review on the management budgets by comparing the budgeted amounts to the actual amounts incurred.

6.3 Recoverability of receivables and amounts due from related parties

The provision for receivables and amounts due from related parties are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

6 Critical accounting estimates and judgements (continued)

6.4 Impairment of property, plant and equipment, trademark, project backlogs and licences, and goodwill

The Group regularly reviews whether there are any indications of impairment and recognises an impairment loss if the carrying amount of an asset is lower than its recoverable amount. The Group tests annually for impairment for those intangible assets that have an indefinite useful life, i.e. goodwill. The recoverable amounts have been determined based on the higher of the fair value less costs to sell and value in use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

6.5 Impairment of concession operating rights

Determining whether concession operating rights are impaired requires an estimation of the recoverable amount. In measuring the recoverable amount of the concession operating rights, the Group has looked at the value in use, based on the following factors: the expected future traffic volumes, expected future toll fee level, length of operating rights, maintenance costs and discount rates (the "Relevant Factors").

In arriving at the recoverable amount of the concession operating rights, the management exercised their judgement with reference to these Relevant Factors in estimating the recoverable amounts of the toll road operating rights.

6.6 Estimate of fair value of equity securities and investment properties

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for various equity securities at FVOCI (2017: available-for-sale investments) that are not traded in active markets.

The fair values of investment properties involve certain assumptions of market rent, market price and capitalisation rate. Favourable or unfavourable changes to these assumptions would result in changes in the fair values of the Group's investment properties and corresponding adjustments to the amount of gain or loss recognised in profit or loss.

6.7 Income and deferred tax

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. To determine the future taxable profits, reference is made to the latest available profit forecasts and relevant tax law is considered to determine the availability of the losses to offset against the future taxable profits.

The Group has exercised significant accounting judgement on recognition of deferred tax assets in respect of losses of certain subsidiaries. The amounts recognised in the consolidated financial statements are derived from the Group's best estimation and judgement regarding the future financial performance of the Far East Global Group Limited ("FEG"), a limited liability company incorporated in the Cayman Islands and listed on the Main Board of SEHK, and its subsidiaries (together the "FEG Group"). Those significant estimations and judgement include gross profit margin, overhead and capital expenditure applied to the profit forecasts.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

7 Revenue

Revenue represents the revenue arising from construction contracts, infrastructure investment projects, facade contracting business, infrastructure operation, project consultancy services, sales of building materials, machinery leasing, logistics services, insurance contracts and rental income from investment properties.

	2018 HK$'000	2017 HK$'000
Revenue from construction contracts	**22,000,707**	23,013,812
Revenue from infrastructure investment projects (note (a))	**29,311,340**	23,433,638
Revenue from facade contracting business	**2,909,636**	2,231,189
Revenue from infrastructure operation (note (b))	**849,358**	792,449
Others (note (c))	**555,263**	681,436
	55,626,304	50,152,524

An analysis of the Group's revenue for the year is as follows:

	2018 HK$'000	2017 HK$'000
Revenue from contracts with customers (note (d))		
— Revenue from construction contracts	**22,000,707**	23,013,812
— Revenue from infrastructure investment projects	**27,264,859**	21,445,124
— Revenue from facade contracting business	**2,909,636**	2,231,189
— Revenue from infrastructure operation	**849,358**	792,449
— Others (note (e))	**395,382**	499,749
	53,419,942	47,982,323
Revenue from other sources		
— Interest income generated from PPP projects	**1,844,441**	1,691,682
— Others (note (f))	**361,921**	478,519
	2,206,362	2,170,201
	55,626,304	50,152,524

Note:

(a) Revenue from infrastructure investment projects mainly comprise of revenue generated from the provision of construction services under PPP model, previously known as "Build — Transfer" model and the corresponding interest income.

(b) Revenue from infrastructure operation comprise of revenue from thermoelectricity business and toll road operation.

(c) Revenue from others mainly comprise of revenue from project consultancy services, sales of building materials, machinery leasing, logistics services, insurance contracts and rental income from investment properties.

(d) The revenue recognised for the year ended 31 December 2018 and 2017 are recognised over time, except for toll road operation of approximately HK$204,873,000 (2017: HK$169,909,000).

(e) Revenue from others mainly comprise of revenue from project consultancy services, sales of building materials and logistics services.

(f) Revenue from others mainly comprise of revenue from interest income generated from infrastructure investment projects, machinery leasing and rental income from investment properties.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

8 Segment information

The Group's reportable segments, based on information reported to the chief operating decision maker for the purposes of resources allocation and performance assessments, include (i) the Group's share of revenue and results of joint ventures, and (ii) geographical locations where the Group's subsidiaries operate, namely Mainland China (other than Hong Kong and Macau), Hong Kong, Macau and Overseas (mainly in the United Arab Emirates and India).

The FEG Group is currently managed by a separate business team. The chief operating decision maker regards the FEG Group as a distinct reportable segment and assesses its performance based on its overall result.

Segment revenue and results for the years ended 31 December 2018 and 2017 are as follows:

	Segment revenue		Gross profit		Segment result	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Reportable segment						
Mainland China	**30,620,785**	24,849,853	**6,384,059**	5,362,285	**5,998,575**	4,827,066
Hong Kong and Macau	**21,899,770**	23,071,482	**1,958,819**	1,812,390	**1,907,084**	1,739,863
Hong Kong	**14,875,260**	15,013,238	**1,206,249**	946,253	**1,170,897**	849,002
Macau	**7,024,510**	8,058,244	**752,570**	866,137	**736,187**	890,861
Overseas	**—**	—	**—**	3,855	**(8,374)**	(4,003)
FEG Group	**3,105,749**	2,231,189	**353,543**	436,500	**167,664**	252,466
	55,626,304	50,152,524	**8,696,421**	7,615,030	**8,064,949**	6,815,392
Share of revenue/ results of joint ventures	**4,519,203**	4,674,940			**705,024**	731,380
Total	**60,145,507**	54,827,464			**8,769,973**	7,546,772
Unallocated corporate expenses					**(1,125,372)**	(292,992)
Unallocated corporate incomes					**—**	445,640
Share of profits of associates					**342,621**	160,300
Finance costs					**(1,781,717)**	(1,069,754)
Profit before tax					**6,205,505**	6,789,966

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

8 Segment information (continued)

Measurement

Performance is measured based on segment result that is used by the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment revenue of Hong Kong, Macau and Overseas comprises the revenue mainly from construction contracts, machinery leasing, insurance contracts, rental income from investment properties and others while the segment revenue of regions in Mainland China comprises the revenue from construction contracts, interest income and construction income generated from infrastructure investment projects, thermoelectricity business, operating infrastructure projects, sales of building materials and logistics services.

Segment revenue of the FEG Group represents revenue from facade contracting business, project consultancy services and general contracting business derived from Hong Kong, Macau, Mainland China and overseas operations.

The revenue, gross profit and results of the Group are allocated based on operations of the segments. Taxation is not allocated to reportable segments.

Operating and reportable segments results represent the profit/(loss) earned or incurred by each segment excluding certain acquisition related costs, non-recurring investment income, other income and other gains, net, finance costs, share of profits of joint ventures and associates and unallocated corporate expenses. This is the measurement basis reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Amounts included in the measure of segment profit or loss:

	Hong Kong		Mainland China		Macau		Overseas		FEG Group		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Allowance for doubtful debts on trade and other receivables	**–**	–	**–**	3,489	**–**	–	**–**	–	**–**	442	**–**	3,931
Reversed impairment losses on trade and other receivables	**–**	–	**(7,083)**	–	**–**	–	**–**	–	**–**	–	**(7,083)**	–
Impairment loss on concession operating rights	**–**	–	**817,000**	–	**–**	–	**–**	–	**–**	–	**817,000**	–
Depreciation and amortisation	**30,734**	17,759	**332,098**	326,692	**1,503**	1,478	**–**	–	**17,701**	17,655	**382,036**	363,584
Net gain/(loss) on disposal of property, plant and equipment	**607**	(2,386)	**101**	318	**–**	–	**–**	–	**(39)**	67	**669**	(2,001)

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

8 Segment information (continued)

Other geographical information

	Non-current assets		Additions to property, plant and equipment	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Hong Kong	**5,881,938**	5,975,339	**90,107**	740,155
Mainland China	**7,668,040**	8,697,238	**582,551**	664,384
Macau	**372,675**	386,723	**16,639**	2,908
Overseas	**315,960**	227,709	**116,579**	2,665
	14,238,613	15,287,009	**805,876**	1,410,112

Non-current assets excluded debt and equity securities at FVOCI (2017: available-for-sale investments), deferred tax assets, interests in infrastructure project investments, amounts due from investee companies, trade and other receivables, loans to joint ventures and interests in joint ventures and associates.

Investments in financial assets that are managed by the treasury department are not considered to be segment assets. These are investments in debt and equity securities that are classified as FVOCI (2017: available-for-sale investments).

The information of the FEG Group was allocated to the Hong Kong, Macau, Mainland China and Overseas segments (including North America) in accordance with the locations that the FEG Group operated in.

Segment assets and liabilities

No assets and liabilities are included in the measures of the Group's segment reporting that are used by the chief operating decision maker for performance assessment and resource allocation. Accordingly, no segment assets and liabilities are presented.

Major customers' information

In 2018, none of the customers (2017: one customer in the Hong Kong reportable segment amounted to approximately HK$6,626,429,000) represents more than 10 percent of the Group's total revenue.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

9 Investment income, other income and other (losses)/gains, net

	2018 HK$'000	2017 HK$'000
Interest income on:		
Bank deposits	**136,629**	83,527
Debt securities	**14,329**	9,598
Imputed interest on amounts due from investee companies	**7,745**	7,243
Loans to joint ventures	**66,699**	27,674
Loans to associates	**35,343**	70,476
Dividend income from:		
Equity securities	**27,138**	—
Unlisted available-for-sale investments	**—**	29,464
Gain on disposal of:		
Debt securities	**113**	—
Property, plant and equipment, net	**669**	—
Investment properties	**—**	3,752
(Loss)/gain on fair value changes of investment properties	**(6,828)**	445,640
Loss on disposal of a subsidiary	**—**	(28,070)
Impairment loss on concession operating rights	**(817,000)**	—
Service income	**52,586**	32,685
Exchange gain	**30,408**	47,849
Others	**91,919**	17,840
	(360,250)	747,678

10 Finance costs

	2018 HK$'000	2017 HK$'000
Interest on bank loans	**1,482,198**	873,160
Interest on guaranteed notes payables	**252,974**	151,326
Finance lease charges	**182**	174
Others	**46,363**	45,094
	1,781,717	1,069,754

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

11 Benefits and interests of directors

(a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the eleven (2017: eleven) directors were as follows:

For the year ended 31 December 2018

	Zhou Yong HK$'000 (Note (a))	Zhang Haipeng HK$'000 (Note (b))	Tian Shuchen HK$'000	Zhou Hancheng HK$'000	Hung Cheung Shew HK$'000	Pan Shujie HK$'000 (Note (c))	Wu Mingqing HK$'000 (Note (c))	Raymond Ho Chung Tai HK$'000	Adrian David Li Man Kiu HK$'000	Raymond Leung Hai Ming HK$'000	Lee Shing See HK$'000	Total 2018 HK$'000
Fees	–	–	–	–	–	–	–	360	360	250	360	1,330
Other emoluments:												
Salaries and allowances	2,760	2,209	1,742	2,112	3,345	787	1,187	–	–	–	–	14,142
Contributions to retirement benefit schemes	18	9	18	18	18	12	12	–	–	–	–	105
Performance related incentive payments (Note (d))	–	3,409	2,879	2,159	2,600	1,797	1,400	–	–	–	–	14,244
Total emoluments	2,778	5,627	4,639	4,289	5,963	2,596	2,599	360	360	250	360	29,821

For the year ended 31 December 2017

	Zhou Yong HK$'000 (Note (a))	Tian Shuchen HK$'000	Zhou Hancheng HK$'000	Pan Shujie HK$'000	Hung Cheung Shew HK$'000	Wu Mingqing HK$'000	Zhang Haipeng HK$'000 (Note (b))	Raymond Ho Chung Tai HK$'000	Adrian David Li Man Kiu HK$'000	Raymond Leung Hai Ming HK$'000	Lee Shing See HK$'000	Total 2017 HK$'000
Fees	–	–	–	–	–	–	–	360	360	250	360	1,330
Other emoluments:												
Salaries and allowances	2,760	1,611	1,611	1,611	3,224	1,611	786	–	–	–	–	13,214
Contributions to retirement benefit schemes	18	18	18	18	18	18	–	–	–	–	–	108
Performance related incentive payments (Note (d))	–	3,176	2,887	2,310	2,252	2,310	2,510	–	–	–	–	15,445
Total emoluments	2,778	4,805	4,516	3,939	5,494	3,939	3,296	360	360	250	360	30,097

Notes:

(a) Mr. Zhou acts as executive director and Chairman of the Company. Mr. Zhou resigned as the executive director and Chairman of the Company with effect from 22 March 2019.

(b) Mr. Zhang Haipeng appointed as an executive director of the Company with effect from 13 July 2017 and acts as the Chief Executive Officer of the Company.

(c) Mr. Pan Shujie and Mr. Wu Mingqing resigned as the executive directors of the Company with effect from 21 August 2018.

(d) The performance related incentive payment is determined primarily based on the performance of each director and the profitability of the Group.

(e) Mr. Yan Jianguo appointed as a non-executive director and Chairman of the Company with effect from 22 March 2019.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

11 Benefits and interests of directors (continued)

(a) Directors' and chief executive's emoluments (continued)

No emolument was paid by the Group to any of the directors as inducement to join or upon joining the Group or as compensation for loss of office. Except for Zhou Yong who agreed to waive his director's fee of HK$800,000, none of the directors waived any emolument in 2017.

The four (2017: four) highest emolument individuals are directors of the Group during the year. Details of the remuneration for the year of the remaining one highest paid employee who is neither a director nor chief executive of the Group is as follows:

	2018 HK$'000	2017 HK$'000
Salaries and allowances	**2,530**	1,360
Contributions to retirement benefit schemes	**18**	18
Performance related incentive payments	**1,800**	2,743
	4,348	4,121

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: Nil).

12 Senior management emoluments

The emoluments of the senior management for the years ended 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**37,736**	27,809
Contributions to retirement benefit schemes	**216**	144
	37,952	27,953

The emoluments of the senior management for 2018 and 2017 were within the following bands:

	2018 No. of employees	2017 No. of employees
HK$2,000,001 to HK$2,500,000	**2**	—
HK$2,500,001 to HK$3,000,000	**3**	3
HK$3,000,001 to HK$3,500,000	**4**	1
HK$3,500,001 to HK$4,000,000	**1**	3
More than HK$4,000,000	**2**	1
	12	8

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

13 Income tax expenses, net

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong	**262,366**	156,174
Other jurisdictions	**1,394,639**	1,053,519
	1,657,005	1,209,693
(Over)/underprovision in prior years:		
Hong Kong	**(25,540)**	5,827
Other jurisdictions	**(356)**	(1,858)
	(25,896)	3,969
	1,631,109	1,213,662
Deferred tax, net (Note 41)	**17,763**	42,000
Income tax expenses for the year	**1,648,872**	1,255,662

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profit for both years.

Income taxes arising in other jurisdictions, mainly Mainland China, are calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2018 HK$'000	2017 HK$'000
Profit before tax	**6,205,505**	6,789,966
Share of profits of		
Joint ventures	**(705,024)**	(731,380)
Associates	**(342,621)**	(160,300)
	5,157,860	5,898,286
Tax at domestic income tax rate of 16.5% (2017: 16.5%)	**851,047**	973,217
Effect of different tax rates of profit arising from other jurisdictions	**246,864**	151,746
Tax effect of expenses not deductible for tax purpose	**203,792**	95,617
Tax effect of income not taxable for tax purpose	**(59,396)**	(176,371)
Tax effect of tax losses not recognised	**451,523**	153,111
Remeasurement of deferred tax — change in tax rate	**—**	54,600
Tax effect of utilisation of previously unrecognised tax losses	**(23,864)**	(4,123)
Deferred taxation on undistributed earnings of Mainland China subsidiaries and joint ventures (Note 41)	**2,969**	4,158
(Over)/under provision in prior years	**(25,896)**	3,969
Others	**1,833**	(262)
Tax charge for the year	**1,648,872**	1,255,662

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

14 Profit for the year

	2018 HK$'000	2017 HK$'000
Profit for the year has been arrived at after charging/(crediting):		
Auditors' remuneration	**10,625**	9,672
Depreciation of property, plant and equipment	**296,931**	282,435
Less: Amounts capitalised in contract assets/contracts in progress	**(152,021)**	(150,649)
	144,910	131,786
Employee benefits expense including directors' emoluments:		
Staff costs	**4,238,719**	3,708,019
Contributions to retirement benefit plans	**170,232**	127,557
Less: Amounts capitalised in contract assets/contracts in progress	**(3,361,129)**	(2,536,251)
	1,047,822	1,299,325
Operating lease rentals in respect of:		
Plant and machinery	**349,838**	291,291
Land and buildings	**42,209**	69,016
	392,047	360,307
Less: Amounts included in contract assets/contracts in progress	**(355,499)**	(308,033)
	36,548	52,274
Rental income from investment properties, net of direct outgoings	**(100,554)**	(110,520)
Amortisation of concession operating rights (included in Costs of sales)	**211,879**	206,951
Amortisation of trademark and licences (included in Administrative, selling and other operating expenses)	**17,848**	17,685
Amortisation of prepaid lease payments	**7,399**	7,162
Contract assets/contracts in progress costs recognised as expense	**46,037,852**	43,578,158
Raw materials and consumables used	**575,011**	543,838
Reversed impairment losses on trade and other receivables	**(7,083)**	—
Allowance for impairment losses on trade and other receivables	**—**	3,931
(Gain)/loss on disposal of property, plant and equipment, net	**(669)**	2,001

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

15 Dividends

	2018 **HK$'000**	2017 HK$'000
Dividends recognised as distributions during the year:		
2017 Final, paid — HK 20.00 cents (2017: 2016 Final, paid — HK 18.00 cents) per share	**1,009,831**	807,865
2018 Interim, paid — HK 15.00 cents (2017: 2017 Interim, paid — HK 15.00 cents) per share	**757,374**	673,221
	1,767,205	1,481,086

The final dividend of HK 12.00 cents (2017: HK20.00 cents) per share amounting to approximately HK$605,899,000 (2017: HK$1,009,831,000) in aggregate, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

16 Earnings per share

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2018 **HK$'000**	2017 HK$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**4,500,148**	5,490,091

	2018 **'000**	2017 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**5,049,157**	4,619,529

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2018 and 31 December 2017.

The weighted average number of ordinary share used in the calculation of basic and diluted earnings per share for the year ended 31 December 2017 has accounted for the bonus element of the rights issue which was completed on 12 October 2017.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

17 Property, plant and equipment

	Land and buildings HK$'000	Heat and electricity supply facilities HK$'000	Machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost							
At 1 January 2017	1,293,367	1,835,981	1,071,723	190,570	109,559	55,865	4,557,065
Exchange adjustments	97,836	140,401	12,909	8,708	5,444	8,711	274,009
Additions	894,442	22,092	82,698	58,439	19,316	333,125	1,410,112
Acquisition of subsidiaries	34,369	—	107	102	1,741	—	36,319
Reclassification upon the completion of construction	3,128	7,532	—	—	—	(10,660)	—
Transfer between property, plant and equipment and investment properties	50,295	—	—	—	—	—	50,295
Disposals	(21,862)	(755)	(26,681)	(13,611)	(9,693)	—	(72,602)
Disposal of a subsidiary	(16,763)	—	(7,778)	(1,059)	(1,681)	—	(27,281)
At 31 December 2017	2,334,812	2,005,251	1,132,978	243,149	124,686	387,041	6,227,917
At 1 January 2018	**2,334,812**	**2,005,251**	**1,132,978**	**243,149**	**124,686**	**387,041**	**6,227,917**
Exchange adjustments	**(75,806)**	**(101,781)**	**(11,308)**	**(6,055)**	**(3,640)**	**(17,753)**	**(216,343)**
Additions	**411,085**	**24,449**	**98,706**	**92,495**	**15,002**	**164,139**	**805,876**
Reclassification upon the completion of construction	**96,592**	**18,473**	**12,363**	**—**	**—**	**(127,428)**	**—**
Transfer between property, plant and equipment and investment properties	**56,649**	**—**	**—**	**—**	**—**	**—**	**56,649**
Disposals	**(52)**	**(21,592)**	**(10,449)**	**(78,558)**	**(12,856)**	**—**	**(123,507)**
At 31 December 2018	**2,823,280**	**1,924,800**	**1,222,290**	**251,031**	**123,192**	**405,999**	**6,750,592**
Depreciation							
At 1 January 2017	346,708	694,790	805,051	139,010	77,745	—	2,063,304
Exchange adjustments	26,003	55,582	11,670	8,666	3,405	—	105,326
Charge for the year	53,266	78,543	113,030	22,472	15,124	—	282,435
Transfer between property, plant and equipment and investment properties	(103)	—	—	—	—	—	(103)
Disposals	(4,519)	(281)	(11,541)	(12,030)	(5,615)	—	(33,986)
Disposal of a subsidiary	(1,458)	—	(4,667)	(143)	(1,597)	—	(7,865)
At 31 December 2017	419,897	828,634	913,543	157,975	89,062	—	2,409,111
At 1 January 2018	**419,897**	**828,634**	**913,543**	**157,975**	**89,062**	**—**	**2,409,111**
Exchange adjustments	**(17,871)**	**(44,589)**	**(6,009)**	**(3,539)**	**(2,688)**	**—**	**(74,696)**
Charge for the year	**85,085**	**76,730**	**84,379**	**37,935**	**12,802**	**—**	**296,931**
Transfer between property, plant and equipment and investment properties	**(118)**	**—**	**—**	**—**	**—**	**—**	**(118)**
Disposals	**(49)**	**(2,873)**	**(9,411)**	**(9,819)**	**(8,290)**	**—**	**(30,442)**
At 31 December 2018	**486,944**	**857,902**	**982,502**	**182,552**	**90,886**	**—**	**2,600,786**
Carrying values							
At 31 December 2018	**2,336,336**	**1,066,898**	**239,788**	**68,479**	**32,306**	**405,999**	**4,149,806**
At 31 December 2017	1,914,915	1,176,617	219,435	85,174	35,624	387,041	3,818,806

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

17 Property, plant and equipment (continued)

The carrying values of land and buildings shown above are situated on:

	2018 HK$'000	2017 HK$'000
Land and buildings in Hong Kong under medium-term leases	**882,219**	831,710
Heat and electricity plants in Mainland China under medium-term leases	**272,114**	303,761
Other premises in Mainland China under medium-term leases	**940,938**	648,382
Freehold land in Macau	**70,622**	72,342
Freehold land in Canada	**133,912**	22,189
Freehold land in the United States of America	**36,531**	36,531
	2,336,336	1,914,915

At 31 December 2018, the carrying amount of the Group's land and buildings pledged as security for the Group's banking facilities amounting to approximately HK$16,980,000 (2017: HK$19,103,000).

At 31 December 2018, the carrying amount of the Group's property and motor vehicles held under finance lease is approximately HK$33,491,000 (2017: HK$34,406,000).

18 Investment properties

	2018 HK$'000	2017 HK$'000
At 1 January	**4,750,265**	4,249,520
Additions	**840**	18,512
Acquisition of subsidiaries	**—**	83,674
Transfer between property, plant and equipment and investment properties	**(56,767)**	(50,398)
Disposal	**—**	(3,513)
Exchange adjustments	**(6,734)**	6,830
Change in fair value	**(6,828)**	445,640
At 31 December	**4,680,776**	4,750,265

Valuation process of the Group

The fair value of the investment properties has been arrived at based on an open market valuation performed by Jones Lang LaSalle Limited, 廣東鑫光土地房地產與資產評估諮詢有限公司, 鄭州市誠信房地產評估諮詢有限公司 and 合肥康嘉房地產評估諮詢有限公司. All of them are independent qualified professional valuers not connected with the Group and have appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations.

The valuation included the use of inputs that are not based on an observable market data (level 3 assets). The valuations were arrived at using the approach of (i) applying capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence and (ii) by making reference to comparable as available in the relevant market.

All of the Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

18 Investment properties (continued)

Fair value measurements using significant unobservable inputs

The valuation for completed investment properties was arrived at by considering the capitalized income derived from the existing tenancies and the reversionary potential of the properties or, where appropriate, by reference to market evidence of transaction prices for similar properties in the same locations and conditions. All investment properties carried at fair value under level 3 valuation method as at 31 December 2018 and 2017.

There were no changes to the valuation techniques and no transfers among the levels during the year.

Information about fair value measurements using significant unobservable inputs

Description	Fair value at 31 December 2018 HK$'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Property in Hong Kong	**4,264,810**	Income Capitalisation Approach	(1) capitalisation rate	2%–4%
			(2) market rent per square foot per month for retail portion	HK$59–HK$180
			(3) market price per square foot for office portion	HK$20,700–HK$25,600
Properties in Macau	**209,000**	Income Capitalisation Approach	(1) capitalisation rate	2.75%–3.5%
			(2) market rent per square foot per month	HK$10–HK$12
Properties in Mainland China	**206,966**	Direct Comparison Approach	(1) market price per square foot	RMB947–RMB2,862

Description	Fair value at 31 December 2017 HK$'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Property in Hong Kong	4,334,000	Income Capitalisation Approach	(1) capitalisation rate	2%–4%
			(2) market rent per square foot per month for retail portion	HK$59–HK$180
			(3) market price per square foot for office portion	HK$20,700–HK$25,600
Properties in Macau	220,000	Income Capitalisation Approach	(1) capitalisation rate	2%–3.5%
			(2) market rent per square foot per month	HK$10–HK$20
Properties in Mainland China	196,265	Direct Comparison Approach	(1) market price per square foot	RMB1,115–RMB3,845

Prevailing market rents are estimated based on management and independent valuers' view of recent lettings transactions within the subject properties and other comparable properties. The higher the rent, the higher the fair value.

Reversionary yield and discount rate are estimated by independent valuers and management based on the risk profile of the properties being valued and the market conditions. The lower the yield and the rate, the higher the fair value.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

19 Interests in infrastructure project investments

	2018 **HK$'000**	2017 HK$'000
Interests in infrastructure project investments	**3,726,225**	3,338,387
Less: Portion due within one year included in current assets	**(45,811)**	(44,346)
Portion due after one year	**3,680,414**	3,294,041

Interests in infrastructure project investments represent funding denominated in RMB advanced to joint ventures for PPP infrastructure projects located in Mainland China. The Group is responsible to provide finance for the construction of the infrastructure of these projects, whereby the Group's return is predetermined in accordance with the provisions of the relevant agreements. The duration of the projects ranges from five to twenty-two years.

The effective interest rates on the infrastructure project investments range from 6.6% to 19.93% (2017: 8% to 22.18%) per annum. The interests in infrastructure project investments were not past due as at 31 December 2018 and 2017.

The Directors reviewed individually the infrastructure projects' operations and financial positions as at 31 December 2018 and 2017 based on the present values of estimated future cash flows from those investments, discounted at their respective original effective interest rates.

20 Prepaid lease payments

As at 31 December 2018 and 2017, the Group's prepaid lease payments comprise of leasehold land located in Mainland China under medium-term leases.

21 Interests in joint arrangements

Joint ventures

	2018 **HK$'000**	2017 HK$'000
Cost of investments, unlisted	**10,080,165**	8,129,968
Share of post-acquisition profits and other comprehensive income, net of dividends	**1,629,190**	1,826,143
	11,709,355	9,956,111

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

21 Interests in joint arrangements (continued)

Joint ventures (continued)

Set out below is the aggregate financial information of joint ventures that are not individually material:

	2018 HK$'000	2017 HK$'000
Aggregate carrying value	**11,709,355**	9,956,111
Aggregate amounts of the Group's share:		
Post-tax profit from continuing operations	**705,024**	731,380
Other comprehensive (loss)/income	**(608,912)**	466,340
Total comprehensive income	**96,112**	1,197,720

There are no contingent liabilities relating to the Group's interests in joint ventures as at 31 December 2018 and 2017. As at 31 December 2018, there are HK$3,344,776,000 (2017: HK$5,395,000,000) unpaid committed investments relating to the Group's interests in joint venture.

Joint operations

In addition to the construction projects undertaken by certain joint ventures as listed above, the Group has also established joint arrangements with other contractors to undertake construction and engineering projects in the form of joint operations.

Particulars regarding the principal joint operations as at 31 December 2018 and 2017 are as follows:

Name of entity	Form of business structure	Place of registration/ establishment and operations	Percentage of interest held by the Group		Principal activities
			2018 %	2017 %	
Atal — Degremont — China State Joint Venture	Unincorporated	Hong Kong	**32.5**	32.5	Civil engineering works
China Overseas Building — Bordon Joint Venture	Unincorporated	Hong Kong	**50**	50	Building construction
China State — Atal Joint Venture	Unincorporated	Hong Kong	**51**	51	Civil engineering works
China State — Atal Joint Venture	Unincorporated	Hong Kong	**50**	50	Civil engineering works
China State — Build King Joint Venture	Unincorporated	Hong Kong	**51**	51	Civil engineering works
China State — Shui On Joint Venture	Unincorporated	Hong Kong	**60**	60	Building construction
Consorcio De Krueger — CSME	Unincorporated	Macau	**55**	55	Mechanical and electrical engineering works
Krueger — China State M & E Joint Venture	Unincorporated	Hong Kong	**50**	50	Mechanical and electrical engineering works
Leighton — China State — Van Oord Joint Venture	Unincorporated	Hong Kong	**45**	45	Civil engineering works
Leighton — China State Joint Venture	Unincorporated	Hong Kong	**49**	49	Civil engineering works
Maeda — China State Joint Venture	Unincorporated	Hong Kong	**30**	30	Civil engineering works
Penta Ocean — China State Joint Venture	Unincorporated	Hong Kong	**49**	49	Civil engineering works
中建鋼構 — CSHK 合作經營	Unincorporated	Macau	**30**	30	Structural steel works
China State — Dong Ah Joint Venture	Unincorporated	Hong Kong	**50**	50	Civil engineering works
Leighton — China State Joint Venture	Unincorporated	Hong Kong	**49**	49	Civil engineering works
Penta-Ocean — China State — Dong Ah Joint Venture	Unincorporated	Hong Kong	**25**	25	Civil engineering works

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

22 Interests in associates

	2018 HK$'000	2017 HK$'000
Unlisted companies		
Cost of investments in associates	**3,698,026**	3,488,449
Share of post-acquisition profits and other comprehensive income, net of dividends	**78,390**	113,175
	3,776,416	3,601,624
Amounts due from associates	**1,089,273**	280,283
Loans to associates	**789,176**	688,833
	5,654,865	4,570,740

Included in the cost of investments in associates is goodwill of approximately HK$494,000 (2017: HK$494,000) arising from acquisitions of associates in prior years.

The amounts due from associates are unsecured, interest free and have no specific repayment terms, but are considered by the directors to be part of the long term interests in associates.

The loans to associates are unsecured, interest bearing range from 5.5% to 6.0% per annum (2017: from 5.5% to 6.0% per annum) and is not expected to be repaid within twelve months after the end of reporting period. The balance denominated in HK$.

Set out below are the associates of the Group as at 31 December 2018 and 2017.

Name of entity	Form of business structure	Place of incorporation and operations	Class of shares held	Proportion of nominal value of issued share capital held by the Group 2018 %	2017 %	Principal activities
Hong Kong Concrete Company Limited	Incorporated	Hong Kong	Ordinary	**31.5**	31.5	Manufacture and sale of ready-mixed concrete
Macau CPM Holdings*	Incorporated	Macau	Ordinary	**40.0**	—	Property management
On On-Sociedade De Administracao De Propriedades Limitada###	Incorporated	Macau	Ordinary	**40.0**	40.0	Property management
Matadouro De Macau, S.A.	Incorporated	Macau	Ordinary	**20.0**	20.0	Operation of slaughterhouse
Fast Shift Investments Limited ("Fast Shift")	Incorporated	BVI	Non-voting class B#	**29.0**	29.0	Investment holding
Omar Property Development Company Limited##	Incorporated	Macau	Ordinary	**15.0**	15.0	Property development
安徽興泰融資租賃有限責任公司	Incorporated	PRC	Ordinary	**25.0**	25.0	Loan financing
澳門水泥廠	Incorporated	Macau	Ordinary	**31.34**	31.34	Manufacture and sale of ready-mixed concrete
深圳市毅駿房地產開發有限公司	Incorporated	PRC	Ordinary	**20.0**	20.0	Property development
Trillion Vantage Investments limited	Incorporated	BVI	Ordinary	**20.0**	20.0	Investment holding
安徽福佑健康產業有限公司	Incorporated	PRC	Ordinary	**20.0**	20.0	Infrastructure investment
六盤水董大公路投資開有限責任公司	Incorporated	PRC	Ordinary	**25.0**	15.0	Infrastructure investment
包頭市中海宏洋地產有限公司	Incorporated	PRC	Ordinary	**20.0**	20.0	Property development
安徽省岳黃高速公路有限責任公司##	Incorporated	PRC	Ordinary	**17.2**	17.2	Infrastructure investment
顯意國際有限公司*	Incorporated	Hong Kong	Ordinary	**30.0**	—	Property development
合肥濱湖金融小鎮管理有限公司*	Incorporated	PRC	Ordinary	**25.0**	—	Property development
中建(泉州)城市發展有限公司*	Incorporated	PRC	Ordinary	**35.0**	—	Property development

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

22 Interests in associates (continued)

* Incorporated in 2018

Holder of non-voting class B shares of Fast Shift, through Fast Shift's interest in Nova Taipa — Urbanizações, Limitada ("NTUL"), is entitled to 29% of the economic benefits in or losses arising from the residential portion of Nova City Phase V in Macau owned and developed by NTUL.

Significant influence is obtained by the Group through participation in the board of directors of the associate.

Indirectly held through investment in Macau CPM Holdings as at 31 December 2018.

Set out below is the aggregate financial information of associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Aggregate carrying value	**3,776,416**	3,601,624
Aggregate amounts of the Group's share:		
Post-tax profit from continuing operations	**342,621**	160,300
Other comprehensive (loss)/income	**(9,527)**	42,016
Total comprehensive income	**333,094**	202,316

There are no contingent liabilities relating to the Group's interests in associates as at 31 December 2018 and 2017.

23 Concession operating rights

	HK$'000
Cost	
At 1 January 2017	6,283,033
Exchange adjustments	473,051
At 31 December 2017	6,756,084
Exchange adjustments	**(305,785)**
At 31 December 2018	**6,450,299**
Amortisation and impairment	
At 1 January 2017	1,048,693
Exchange adjustments	86,158
Charge for the year	206,951
At 31 December 2017	1,341,802
Exchange adjustments	**(75,182)**
Charge for the year	**211,879**
Impairment (included in investment income, other income and other (losses)/gains, net)	**817,000**
At 31 December 2018	**2,295,499**
Carrying values	
At 31 December 2018	**4,154,800**
At 31 December 2017	5,414,282

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

23 Concession operating rights (continued)

The concession operating rights relate to Shanxi Yangquan Yangwu Expressway (Yangquan to Yuxian section) and Class 1 Highway from Yangquan to Niangziquan, Shanxi Province with net carrying amounts of approximately HK$2,014,851,000 (2017: HK$2,947,512,000) and HK$2,139,949,000 (2017: HK$2,466,770,000), respectively, both of which are located in the Mainland China. The carrying amount is measured by the construction and other costs incurred by the Group plus estimated profit margin, which is calculated by making reference to similar projects undertaken in the Mainland China. The Group has been granted by the relevant local government authorities the rights to operate the respective toll roads for 30 years from the date of approval by the local government. The operation of Shanxi Yangquan Yangwu Expressway (Yangquan to Yuxian section) is from 8 May 2011 to 7 May 2041 and class 1 Highway from Yangquan to Niangziquan, Shanxi Province is from 22 July 2015 to 21 July 2045. According to the relevant government authorities' approval documents and the relevant regulations, the Group is responsible for construction of the toll expressways, acquisition of the related facilities and equipment, operations, management, maintenance and overhaul of the toll roads during the approved operating periods. The toll fees collected during the operating periods are attributable to the Group. The relevant concession operating rights and relevant assets are required to be returned to the local government authorities when the operating rights periods expire without any payments made to the Group. An average growth of 7% to 10% and discount rates of 10% were applied in the impairment assessment.

During the year, since the business performance of both Expressways were worse than expected which an impairment indicator is considered. The Group engaged an independent valuer to perform business valuations of Shanxi Yangquan Yangwu Express (Yangquan to Yuxian section) and Class 1 Highway from Yangquan to Niangziquan, Shanxi Province using income approach. Based on the valuation result, the Group considered that the recoverable amount of the concession intangible assets of both expressways were lower than its carrying value, and an impairment provision amounting to HK$817,000,000 was made accordingly. The assessment relied on the key assumptions, including management's expectations of future traffic volumes, expected future toll fee levels, maintenance costs and discount rates.

At 31 December 2018 and 2017, the concession operating rights related to Shanxi Yangquan Yangwu Expressway (Yangquan to Yuxian section) with a net carrying amount of approximately HK$2,014,851,000 (2017: HK$2,947,512,000) was pledged to secure the bank loan with a carrying amount of approximately HK$1,842,105,000 (2017: HK$2,072,289,000) (Note 35).

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

24 Trademark, project backlogs, licences and goodwill

	Trademark HK$'000	Project backlogs HK$'000	Licences HK$'000	Goodwill HK$'000	Total HK$'000
Cost					
At 1 January 2017	216,708	45,359	9,950	577,664	849,681
Acquisition of subsidiaries	—	—	164,911	—	164,911
Exchange adjustments	—	—	12,517	—	12,517
At 31 December 2017	216,708	45,359	187,378	577,664	1,027,109
Exchange adjustments	**—**	**—**	**(8,933)**	**—**	**(8,933)**
At 31 December 2018	**216,708**	**45,359**	**178,445**	**577,664**	**1,018,176**
Amortisation					
At 1 January 2017	51,468	45,359	—	—	96,827
Charge for the year	10,835	—	6,850	—	17,685
Exchange adjustments	—	—	247	—	247
At 31 December 2017	62,303	45,359	7,097	—	114,759
Charge for the year	**10,835**	**—**	**7,013**	**—**	**17,848**
Exchange adjustments	**—**	**—**	**(630)**	**—**	**(630)**
At 31 December 2018	**73,138**	**45,359**	**13,480**	**—**	**131,977**
Carrying values					
At 31 December 2018	**143,570**	**—**	**164,965**	**577,664**	**886,199**
At 31 December 2017	154,405	—	180,281	577,664	912,350

The intangible assets include trademark, project backlogs, construction licences and goodwill recognised from various acquisitions of subsidiaries by the Group.

The estimated useful lives of trademark and project backlogs of 20 and 3 years respectively are based on the terms of existing contracts and historical data.

The construction licences were granted by the Works Branch, Development Bureau of the Hong Kong Special Administrative Region ("HKSAR"). The construction licences basically have no legal life but are renewable every year as long as the subsidiary holding the licences is able to comply with certain provisions and requirements set out by the Works Branch, Development Bureau of the HKSAR throughout the relevant period. Accordingly, the construction licences are not amortised but are instead tested for impairment annually and whenever there is an indication that they may be impaired.

A Mainland China construction licence was acquired as part of a business combination. It is recognised at its fair value at the date of acquisition and is subsequently amortised on a straight-line based on the timing of projected cash flows of the licence over its estimated useful life of 25 years.

For impairment assessment of licences, the recoverable amount of the licenses is determined based on value-in-use calculations. These calculations use cash flow projections prepared based on financial budgets covering a 5-year period approved by the management, using zero growth rates which do not exceed the long-term average growth rates of the sectors covered by the construction licenses.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

24 Trademark, project backlogs, licences and goodwill (continued)

Goodwill is allocated to the Group's CGU of the FEG Group. For impairment assessment of goodwill, the recoverable amount of the FEG Group is determined based on fair value less costs to sell by making reference to its market share price.

Based on the impairment testing at the end of the reporting period, the management considered that there is no impairment of the Group's construction licences and goodwill.

25 Financial assets at fair value through other comprehensive income and available-for-sale investments

(i) Classification of debt and equity securities at FVOCI

Debt and equity securities at FVOCI comprise:

- Equity securities which are not held for trading and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers the classification to be more relevant.

- Debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

(ii) Equity securities at FVOCI (equity)

Equity securities at FVOCI (equity) comprise the following individual investments:

	2018 HK$'000
Non-current assets	
Unlisted securities	
Equity securities (Note)	**129,788**

On disposal of these equity securities, any related balance within the FVOCI (equity) reserve is reclassified to retained profits.

In the prior financial year, the Group had designated equity securities as available for sale where management intends to hold them for the medium to long-term.

Note 3(a) explains the change of accounting policy and the reclassification of certain equity securities from available-for-sale to at fair value through profit or loss. Note 4.9 sets out the related accounting policies.

Note:

At 31 December 2018, an amount of HK$70,724,000 (2017: HK$nil) included in the carrying amount of equity securities are those issued by subsidiaries of China Overseas Land & Investment Ltd. ("COLI"), a fellow subsidiary of the Group.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

25 Financial assets at fair value through other comprehensive income and available-for-sale investments (continued)

(iii) Debt securities at FVOCI (debt)

Debt securities at FVOCI (debt) comprise the following individual investments in listed bonds:

	2018 HK$'000
Non-current assets	
Listed securities	
— Debt securities listed in Hong Kong with fixed interest of 3.88%-6.45% and maturity date in 2022-2043 (Note)	**178,708**
— Debt securities listed in overseas with fixed interest of 3.5% and maturity date in 2022-2028	**196,920**
	375,628

On disposal of these debt securities, any related balance within the FVOCI (debt) reserve is reclassified to profit or loss.

Note 3(a) explains the change of accounting policy and the reclassification of certain debt securities from available-for-sale to FVOCI (debt). Note 4.9 sets out the related accounting policies.

Note:

At 31 December 2018, an amount of HK$54,203,000 (2017: HK$nil) included in the carrying amount of debt securities listed in Hong Kong, is debentures issued by a subsidiary of COLI, a fellow subsidiary of the Group.

(iv) Financial assets previously classified as available-for-sale investments (2017)

Available-for-sale investments included the following classes of financial assets:

	2017 HK$'000
Non-current assets	
Listed securities:	
— Debt securities listed in Hong Kong with fixed interest of 3.88%-6.45% and maturity date in 2022-2042 (Note (a))	140,621
— Debt securities listed in overseas with fixed interest of 3.5% and maturity date in 2022-2027	154,557
	295,178
Unlisted securities:	
— Equity securities (Note (b))	116,056
	411,234
Current assets	
Listed securities:	
— Debt securities listed in Hong Kong with fixed interest of 4.75% and maturity date in 2018	38,996

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

25 Financial assets at fair value through other comprehensive income and available-for-sale investments (continued)

(iv) Financial assets previously classified as available-for-sale investments (2017) (continued)

Notes:

(a) At 31 December 2018, an amount of HK$nil (2017: HK$59,822,000) included in the carrying amount of debt securities listed in Hong Kong, is debentures issued by a subsidiary of COLI, a fellow subsidiary of the Group.

(b) At 31 December 2018, an amount of HK$nil (2017: HK$65,636,000) included in the carrying amount of equity securities are those issued by subsidiaries of COLI, a fellow subsidiary of the Group.

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities. None of these financial assets is either past due or impaired. No impairment loss on debt securities is recognised as the issuers of the securities have high credit ratings and no default interest payment have occurred in the past.

Financial assets at fair value through other comprehensive income and available-for-sale investments are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**74,627**	60,700
RMB	**3,681**	3,876
US$	**375,628**	334,174
Macao Pataca ("MOP")	**51,480**	51,480
	505,416	450,230

The financial assets were presented as non-current assets unless they matured, or management intended to dispose of them within 12 months of the end of the reporting period.

26 Amounts due from investee companies

The amounts due from investee companies are unsecured, interest-free and have no fixed repayment terms. No repayment is expected within next twelve months from the end of the reporting period.

The fair values of these amounts on initial recognition are determined based on effective interest rate ranging from 5.94% to 7.83% per annum (2017: 5.94% to 7.83% per annum) and the balances are denominated in RMB (2017: RMB).

At 31 December 2018, amounts due from investee companies including HK$192,178,000 (2017: HK$184,433,000) to subsidiaries of COLI, a fellow subsidiary of the Group.

27 Inventories

	2018 HK$'000	2017 HK$'000
Raw materials and consumables	**194,071**	166,885
Work in progress	**516**	1,466
Finished goods	**85,617**	45,688
	280,204	214,039

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

28 Properties under development

	2018 HK$'000	2017 HK$'000
Properties under development	**2,349,510**	—

Note:

Included in the amount are properties under development of HK$1,409,252,000 not expected to be completed and ready for sale within twelve months from the end of the reporting period.

29 Contract assets and contract liabilities/Amounts due from/(to) customers for contract work

	2017 HK$'000
Amounts due from customers for contract works	10,979,356
Amounts due to customers for contract works	(5,438,063)
	5,541,293

As at 31 December 2017, the contracts in progress recognised under HKAS 11 comprised contract costs incurred plus attributable profits less foreseeable losses amounted to HK$152,252,144,000, netted off with the progress payments received and receivable amounted to HK$146,710,851,000.

The Group has recognised the following revenue-related contract assets/(liabilities):

	2018 HK$'000
Contract assets related to construction services (note (i))	**9,081,810**
Contract liabilities related to (note (ii))	
— Construction services	**(8,248,920)**
— Thermoelectricity business	**(1,518,576)**
	(9,767,496)

Notes:

(i) Contract assets related to construction services consist of unbilled amount resulting from construction when the cost-to-cost method of revenue recognised exceeds the amount billed to the customer.

(ii) The Group receives payments from customers based on billing schedule as established in contracts. Payments are usually received in advance of the performance under the contracts which are mainly from construction services.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

29 Contract assets and contract liabilities/Amounts due from/(to) customers for contract work (continued)

The following table shows the amount of the revenue recognised in the current reporting period relates to contract liability balance at the beginning of the year and the amount relates to performance obligations that were satisfied in previous years:

	2018 HK$'000
Revenue recognised that was included in the contract liability balance at the beginning of the year	
— Construction services	**6,021,654**
— Thermoelectricity business	**578,732**
	6,600,386
Revenue recognised from performance obligations satisfied/partially satisfied in previous periods	
— Construction services	**(303,839)**

The following table shows the amount of unsatisfied performance obligations:

	2018 HK$'000
Expected to be recognised within one year	**48,472,935**
Expected to be recognised after one year	**20,359,556**
	68,832,491

For all other contracts with an original expected duration of one year or less or are billed based on time incurred, as permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

30 Trade and other receivables

	2018 HK$'000	2017 HK$'000
Trade receivables and retention receivables	**61,035,426**	48,652,236
Less: allowance for doubtful debts	**(19,817)**	(28,326)
	61,015,609	48,623,910
Other receivables	**2,355,121**	2,608,797
Less: allowance for doubtful debts	**(1,613)**	(1,699)
	2,353,508	2,607,098
Trade and other receivables (Note (a))	**63,369,117**	51,231,008
Current portion	**(25,321,390)**	(22,136,148)
Non-current portion (Note (b))	**38,047,727**	29,094,860

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

30 Trade and other receivables (continued)

Notes:

(a) Trade receivables and retention receivables include balances with related companies amounting to approximately HK$29,551,000 (2017: HK$51,295,000), which are unsecured, interest free and repayable in accordance with the terms of relevant agreements. Other receivables included balances with related companies amounting to approximately HK$415,850,000 (2017: HK$642,718,000), which are unsecured, interest free and repayable on demand.

(b) The balances of non-current portion were mainly attributable to certain infrastructure investment projects (trading under PPP model) in Mainland China. Certain balances are secured by the collateral from employers and interest bearing in accordance with the relevant contract terms. The amount is expected to be gradually and fully recovered from 2020 to 2024, with approximately HK$18,124,190,000 in 2020, HK$12,753,950,000 in 2021, HK$7,169,587,000 in 2022 to 2024. As a result, they are classified as non-current.

The analysis of trade and other receivables, including the aging analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice date or the term of the related contract, is as follows:

	2018 HK$'000	2017 HK$'000
Trade receivables, net of allowance for doubtful debts, aged:		
0-30 days	**7,160,723**	5,989,786
31-90 days	**4,287,398**	4,103,596
Over 90 days	**45,180,936**	34,636,080
	56,629,057	44,729,462
Retention receivables	**4,386,552**	3,894,448
Other receivables	**2,353,508**	2,607,098
Trade and other receivables	**63,369,117**	51,231,008
Portion classified as current assets	**(25,321,390)**	(22,136,148)
Non-current portion	**38,047,727**	29,094,860

Included in the receivables aged over 90 days are receivables attributable to the infrastructure investment projects amounting to HK$42,066,594,000 (2017: HK$33,606,541,000).

Retention receivables are interest-free and recoverable at the end of the retention period of individual construction contracts ranging from 1 to 2 years. At 31 December 2018, the amount of retention receivables expected to be recovered after more than one year was approximately HK$2,970,715,000 (2017: HK$2,092,077,000).

Except for the receivables arising from construction contracts, including infrastructure investment projects trading under PPP model which are billed and payable in accordance with the terms of relevant agreements, the Group generally allows an average credit period of not exceeding 90 days (2017: 90 days) to its trade customers and the retention receivables are recoverable upon the expiry of defect liability period of construction.

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group determines the provision for expected credit losses by grouping together trade and other receivables with similar credit risk characteristics and collectively assessing them for likelihood of recovery, taking into account prevailing economic conditions. For trade and other receivables relating to accounts which are long overdue with significant amounts or known insolvencies or non-response to collection activities, they are assessed individually for impairment allowance.

At 31 December 2017, trade receivables of approximately HK$1,264,049,000 were past due but not impaired, of which (presented based on the invoice date) approximately HK$46,019,000 aged 91 days to 180 days; approximately HK$45,403,000 aged 181 days to 365 days; and approximately HK$1,172,627,000 aged over one year. The balances remain unsettled as of year and was largely due to the longer-than-expected administrative settlement procedures taken by the respective debtors, including auditing and negotiating the final account.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

30 Trade and other receivables (continued)

At 31 December 2018, trade receivables of approximately HK$11,519,083,000 (2017: HK$3,949,553,000) had been pledged to secure the bank loans with carrying amount of approximately HK$5,247,140,000 (2017: HK$1,813,678,000) (Note 35).

Movement in the allowance for doubtful debts

	2018 HK$'000	2017 HK$'000
1 January	**30,025**	25,240
Exchange adjustments	**(1,512)**	854
Reversed impairment losses recognised on receivables	**(7,083)**	—
Impairment losses recognised on receivables	**—**	3,931
31 December	**21,430**	30,025

Before accepting any new customer, the Group will assess the potential customer's credit quality and will define a credit limit. Limits attributed to customers are reviewed every year.

Trade and other receivables are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**6,468,815**	5,860,105
RMB	**54,299,210**	42,586,944
MOP	**2,411,533**	2,263,645
US$	**176,203**	126,997
Others	**13,356**	393,317
	63,369,117	51,231,008

31 Amounts due from/(to) associates

Amounts due from/(to) associates are unsecured, interest-free and repayable on demand. The balance is mainly denominated in RMB.

32 Amounts due from/(to) joint ventures and loans to joint ventures

The amounts due from/(to) joint ventures are unsecured, interest-free and repayable on demand. The balances are mainly denominated in RMB.

Current portion of the loans to joint ventures is unsecured, carrying interest at 6.0% to 6.3% per annum expected to be repaid within twelve months after the end of the reporting period.

Non-current portion of the loans to joint ventures is unsecured, carrying interest at 4.75% to 7.5% per annum not expected to be repaid within twelve months after the end of the reporting period.

The balances of loans to joint ventures are denominated in RMB.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

33 Bank balances and cash

	2018 HK$'000	2017 HK$'000
Pledged bank deposits	**1,490**	22,307
Deposits with financial institutions	**22**	28
Bank balances and cash	**17,924,196**	17,570,868
	17,925,708	17,593,203

Pledged bank deposits

At 31 December 2018, bank deposits amounting to approximately HK$1,490,000 (2017: HK$22,307,000) are pledged and earn interest at fixed rates 0.6% per annum (2017: 0.6% per annum).

Deposits with financial institutions

Deposits with financial institutions comprise deposits with original maturity dates of 1 month (2017: 1 to 6 months) earning interest at fixed rates ranging from 0.01% to 0.172% per annum (2017: 0.001% to 0.022% per annum).

Bank balances and cash

Bank balances, excluding bank current accounts, earn interest at market rates ranging from 0.125% to 3.7% per annum (2017: 0.001% to 10% per annum). Bank balances comprise fixed deposits held by the Group with an original maturity of three months or less.

Pledged bank deposits, deposits with financial institutions, bank balances and cash are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**5,145,574**	3,814,130
RMB	**8,984,103**	7,088,850
MOP	**2,090,352**	1,759,683
US$	**1,498,148**	4,862,123
Others	**207,531**	68,417
	17,925,708	17,593,203

In respect of the balance denominated in RMB of the Group's subsidiaries incorporated in the PRC, conversion into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

34 Trade payables, other payables and accruals

An analysis of trade payables, other payables and accruals, including the aging analysis of trade payables, presented based on the invoice date, is as follows:

	2018 HK$'000	2017 HK$'000
Trade payables, aged:		
0-30 days	**12,472,392**	10,837,606
31-90 days	**2,912,983**	2,981,808
Over 90 days	**5,209,148**	4,898,971
	20,594,523	18,718,385
Retention payables	**12,551,670**	11,163,334
Other payables and accruals	**3,568,522**	3,312,247
	36,714,715	33,193,966

Other payables included in the other payables and accruals amounted to approximately HK$3,548,724,000 (2017: HK$3,252,267,000), which comprise primarily staff cost, other tax and other operating expenses payables.

Trade payables and retention payables included balances with related companies amounting to approximately HK$6,259,531,000 (2017: HK$5,141,448,000), which were unsecured, interest free and repayable in accordance with the terms of relevant agreements.

Other payables included balances with related companies amounting to approximately HK$308,703,000 (2017: HK$403,293,000), which were unsecured, interest free and repayable on demand.

The average credit period on trade and construction cost payables is 60 days (2017: 60 days). At 31 December 2018, the amount of retention payables expected to be due after more than one year was approximately HK$4,090,277,000 (2017: HK$2,873,143,000).

Trade payables, other payables and accruals are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**8,597,073**	7,658,921
RMB	**24,969,195**	23,095,367
MOP	**2,853,730**	2,145,190
US$	**48,269**	41,870
Others	**246,448**	252,618
	36,714,715	33,193,966

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

35 Borrowings

	2018 HK$'000	2017 HK$'000
Bank loans, secured	**7,101,428**	3,938,939
Bank loans, unsecured	**27,728,354**	19,234,094
	34,829,782	23,173,033
Less: Amount due within one year shown under current liabilities	**(2,795,832)**	(2,580,590)
Amount due after one year	**32,033,950**	20,592,443
Carrying amount repayable:		
Within one year	**2,795,832**	2,580,590
More than one year but not exceeding two years	**12,073,222**	1,529,003
More than two years but not more than five years	**13,335,877**	13,554,679
More than five years	**6,624,851**	5,508,761
	34,829,782	23,173,033

The fair values of borrowings approximate their carrying amounts as the impact of discounting is not significant.

The secured bank loans including the bank loans with assets pledged as securities to the banks. The unsecured bank loans including the bank loans with financial undertaking is required to fulfill by the Group to the banks.

Borrowings are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
HK$	**10,270,915**	7,665,053
RMB	**24,119,792**	15,093,102
Canadian Dollar ("CAD")	**15,221**	28,852
US$	**423,854**	386,026
	34,829,782	23,173,033

The effective interest rates of borrowings are as follows:

	2018				2017			
	HK$ %	RMB %	CAD %	US$ %	HK$ %	RMB %	CAD %	US$ %
Bank loans, secured	**—**	**4.99**	**4.24**	**—**	—	4.80	4.24	—
Bank loans, unsecured	**3.06**	**4.91**	**4.45**	**5.02**	2.40	4.66	3.95	4.11

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

36 Share capital

	Number of shares	Amount HK$'000
Authorised:		
Ordinary shares of HK$0.025 each	60,000,000,000	1,500,000
Issued and paid up:		
Balance at 1 January 2017	4,488,139,261	112,203
Issue of ordinary shares on rights issue (Note)	**561,017,407**	**14,026**
Balance at 31 December 2017 and 2018	**5,049,156,668**	**126,229**

Note: A right issue of one rights share for every eight existing shares held by members on the register of members on 12 October 2017 was made, at an issue price of HK$11.33 per rights share, resulting in the issue of 561,017,407 ordinary shares for a total cash consideration of HK$6,356,327,000. The new shares rank pari passu with the then existing shares in all respects.

37 Share premium and reserves

	Share premium HK$'000	Special reserve HK$'000 (Note (a))	Capital redemption reserve HK$'000 (Note (b))	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000 (Note (c))	Retained profits HK$'000 (Note (d))	Total HK$'000
At 1 January 2017	14,247,148	(6,602,497)	337	50,358	(2,683,342)	283,813	20,039,938	25,335,755
Profit for the year	—	—	—	—	—	—	5,490,091	5,490,091
Gain on fair value changes of available-for-sale investments, net of tax	—	—	—	4,171	—	—	—	4,171
Exchange differences on translation of its subsidiaries	—	—	—	—	1,800,808	—	—	1,800,808
Exchange differences on translation of joint ventures	—	—	—	—	466,340	—	—	466,340
Exchange differences on translation of associates	—	—	—	—	42,016	—	—	42,016
Total comprehensive income for the year	—	—	—	4,171	2,309,164	—	5,490,091	7,803,426
Issue of ordinary shares	6,342,301	—	—	—	—	—	—	6,342,301
Share issues expenses	(48,990)	—	—	—	—	—	—	(48,990)
Capital contribution relating to share-based payment borne by an intermediate holding company (Note 42)	—	10,033	—	—	—	—	—	10,033
Acquisition of additional interest of a subsidiary	—	(39)	—	—	—	—	—	(39)
2016 final dividend paid	—	—	—	—	—	—	(807,865)	(807,865)
2017 interim dividend paid	—	—	—	—	—	—	(673,221)	(673,221)
Transfer to statutory reserve	—	—	—	—	—	12,705	(12,705)	—
Total transactions with owners, recognised directly in equity	6,293,311	9,994	—	—	—	12,705	(1,493,791)	4,822,219
At 31 December 2017	20,540,459	(6,592,503)	337	54,529	(374,178)	296,518	24,036,238	37,961,400

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

37 Share premium and reserves (continued)

	Share premium HK$'000	Special reserve HK$'000 (Note (a))	Capital redemption reserve HK$'000 (Note (b))	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Statutory reserve HK$'000 (Note (c))	Retained profits HK$'000 (Note (d))	Total HK$'000
At 1 January 2018	20,540,459	(6,592,503)	337	54,529	(374,178)	296,518	24,036,238	37,961,400
Profit for the year	—	—	—	—	—	—	4,500,148	4,500,148
Loss on fair value changes of debt securities at FVOCI through other comprehensive income, net of tax	—	—	—	(12,880)	—	—	—	(12,880)
Release of investment revaluation reserve to consolidated income statement upon disposal of debt securities at FVOCI	—	—	—	(109)	—	—	—	(109)
Gain on fair value changes of equity securities at FVOCI through other comprehensive income, net of tax	—	—	—	14,429	—	—	—	14,429
Exchange differences on translation of its subsidiaries	—	—	—	—	(1,739,635)	—	—	(1,739,635)
Exchange differences on translation of joint ventures	—	—	—	—	(608,912)	—	—	(608,912)
Exchange differences on translation of associates	—	—	—	—	(9,527)	—	—	(9,527)
Total comprehensive income for the year	—	—	—	1,440	(2,358,074)	—	4,500,148	2,143,514
Capital contribution relating to share-based payment borne by an intermediate holding company (Note 42)	—	16,419	—	—	—	—	—	16,419
Deemed disposal of interest in a subsidiary	—	(25,975)	—	—	—	—	—	(25,975)
Acquisition of additional interests of subsidiaries	—	(14)	—	—	—	—	—	(14)
2017 final dividend paid	—	—	—	—	—	—	(1,009,831)	(1,009,831)
2018 interim dividend paid	—	—	—	—	—	—	(757,374)	(757,374)
Transfer to statutory reserve	—	—	—	—	—	248,311	(248,311)	—
Total transactions with owners, recognised directly in equity	—	(9,570)	—	—	—	248,311	(2,015,516)	(1,776,775)
At 31 December 2018	20,540,459	(6,602,073)	337	55,969	(2,732,252)	544,829	26,520,870	38,328,139

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

37 Share premium and reserves (continued)

Notes:

(a) Special reserve arose from:

(i) The balance of special reserve brought forward from prior years arose from the combinations of China State Construction Engineering (Hong Kong) Limited, Zetson Enterprises Limited and its subsidiaries, China Construction Engineering (Macau) Company Limited and its subsidiaries, China Overseas Insurance Limited, China Overseas Insurance Services Limited, COHL (Macao) Commercial and Industrial Company Limited, 深圳中海建築有限公司 and its subsidiary, China Overseas Public Utility Investment Limited and its subsidiaries, Fuller Sky Enterprises Limited, Value Idea Investments Limited, 陽泉市陽五高速公路投資管理有限公司 and China Overseas Technology Holdings Limited and its subsidiaries ("COTHL") under common control. In 2016, the Group acquired Precious Deluxe Global Limited and its subsidiaries under common control. The amount represents excess of considerations paid over the share capital of the acquired companies net of contribution from/(distribution to) the former shareholders in prior years.

(ii) During 2012, the Group obtained control over FEG which then became the Group's subsidiary. Subsequent to the acquisition, a wholly-owned subsidiary of the Company, disposed of an aggregate of 45,500,000 shares of FEG at a price of HK$1.26 per share through private placing to certain independent investors. As a result, the Group's shareholding in FEG was reduced from 76.2% to 74.1%. The partial disposal did not result in a loss of control and was thus accounted for as an equity transaction. Accordingly, the excess of approximately HK$34 million, representing the difference between the cash consideration received for the disposal of partial interest in FEG of approximately HK$57 million and the carrying amount of the attributable share of net assets of FEG of approximately HK$23 million, was credited to the special reserve.

(iii) During 2016, the FEG Group further acquired 36.63% of equity interests in Gamma North America, Inc. through conversion of shareholder's loans. The net liability value of Gamma North America, Inc. of HK$229,666,000 has been transferred from non-controlling interests to special reserve in equity.

(iv) During the year, the Group disposed its wholly owned subsidiary, 中海監理有限公司 and its subsidiary of FEG Group, resulted in an addition of 25.94% non-controlling interest. The net assets value of 中海監理有限公司 and its subsidiary of HK$25,975,000 has been transferred from special reserve in equity to non-controlling interests

(b) Capital redemption reserve represents the amount by which the Company's issued share capital was diminished on cancellation of ordinary shares repurchased.

(c) Statutory reserve of the Group represents general and development fund reserve applicable to the overseas and Mainland China subsidiaries which were established in accordance with the relevant regulations.

(d) Included in retained profits as at 31 December 2018 is the proposed 2018 final dividend of approximately HK$605,899,000 (2017: HK$1,009,831,000).

38 Perpetual capital securities

As at 3 December 2018, a subsidiary of the Group issued US$500 million 6.0% subordinated perpetual capital securities (the "Perpetual Capital Securities"). The perpetual capital securities do not have maturity dates and the distribution payments can be deferred at the discretion of either the subsidiary or the Company. Therefore, the Perpetual Capital Securities are classified as equity instruments and recorded in equity in the consolidated balance sheet. When the subsidiary or the Company elects to declare dividends to their shareholders, the Group shall make distributions to the holders of Perpetual Capital Securities at the distribution rates as defined in the subscription agreements.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

39 Guaranteed notes payables

In April 2013, a subsidiary of the Company issued guaranteed notes with an aggregate principal amount of US$500 million (equivalent to approximately HK$3,860 million) (the "Notes I") at the issue price of 99.542%. The Notes I, which bear fixed interest at the rate of 3.125% per annum payable semi-annually, are unconditionally and irrevocably guaranteed by the Company. The Notes I shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the Trust Deed which includes, inter alia, the negative pledge given by the Company and the said subsidiary. The Notes I was matured and fully settled on 2 April 2018 at the principal amount.

In November 2017, a subsidiary of the Company issued guaranteed notes with an aggregate principal amount of US$550 million and US$250 million (equivalent to approximately HK$4,276 million and HK$1,938 million) (the "Notes II") at the issue price of 99.982% and 99.688%. The Notes II, which bear fixed interest at the rate of 3.375% and 3.875% per annum payable semi-annually, are unconditionally and irrevocably guaranteed by the Company. The Notes II shall become immediately due and payable in the event of the failure to perform or observe certain conditions set out in the Trust Deed which includes, inter alia, the negative pledge given by the Company and the said subsidiary. The Notes II will mature on 29 November 2022 and 29 November 2027 at the principal amount. The fair value of the Notes II at 31 December 2018 was estimated at approximately HK$4,158 million (2017: HK$4,260 million) and HK$1,842 million (2017: HK$1,925 million), which was determined based on the closing market price of the Notes II at that date and is within level 1 of the fair value hierarchy.

40 Deferred income

	2017 HK$'000
Deferred income arose from the following:	
Connection services	869,411

Connection fee income is attributable to the connecting pipeline construction for heat transmission and continuing repairs and maintenance services relating to the pipelines. Connection fee income is recorded as deferred income and amortised on a straight-line basis over the expected service period of heat transmission to be rendered with reference to the term of the operating licence of the relevant entities.

The deferred income represents the connection service income received attributable to the transmission of heat services not yet recognised as income.

The following is the analysis of the deferred income balances for financial reporting purposes:

	2017 HK$'000
Deferred income due within one year included in trade payables, other payables and accruals under current liabilities	59,980
Deferred income due after one year	809,431
	869,411

The deferred income has reclassified to contract liabilities upon the adoption of HKFRS 15.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

41 Deferred taxation

The analysis of the Group's deferred tax assets and deferred tax liabilities is as follows:

	2018 HK$'000	2017 HK$'000
Deferred tax assets:		
To be recovered after more than twelve months	**181,582**	154,419
To be recovered within twelve months	**17,248**	68,161
	198,830	222,580
Deferred tax liabilities:		
To be recovered after more than twelve months	**419,352**	438,827
To be recovered within twelve months	**7,735**	7,828
	427,087	446,655

	Revaluation of investment properties HK$'000	Accelerated tax depreciation HK$'000	Concession operating rights HK$'000	Deferred income HK$'000	Undistributed earnings of Mainland China subsidiaries and joint ventures HK$'000	Recognition of intangible assets on business combination HK$'000	Revaluation of land HK$'000	Tax losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	39,877	12,579	217,053	(2,320)	76,239	20,287	5,158	(242,245)	(2,743)	123,885
Exchange adjustments	2,062	—	3,497	(116)	—	618	—	(3,094)	—	2,967
Charged/(credited) to consolidated income statement (Note 13)	766	(3,770)	(7,216)	(7,627)	4,158	(8,914)	—	64,603	—	42,000
Acquisition of subsidiaries	13,995	—	—	—	—	41,228	—	—	—	55,223
At 31 December 2017	56,700	8,809	213,334	(10,063)	80,397	53,219	5,158	(180,736)	(2,743)	224,075
At 1 January 2018	**56,700**	**8,809**	**213,334**	**(10,063)**	**80,397**	**53,219**	**5,158**	**(180,736)**	**(2,743)**	**224,075**
Exchange adjustments	**(2,831)**	**—**	**(10,600)**	**605**	**—**	**(1,701)**	**—**	**946**	**—**	**(13,581)**
Charged/(credited) to consolidated income statement (Note 13)	**763**	**(9,583)**	**(7,247)**	**2,263**	**2,969**	**(6,872)**	**—**	**35,470**	**—**	**17,763**
At 31 December 2018	**54,632**	**(774)**	**195,487**	**(7,195)**	**83,366**	**44,646**	**5,158**	**(144,320)**	**(2,743)**	**228,257**

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

41 Deferred taxation (continued)

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**198,830**	222,580
Deferred tax liabilities	**(427,087)**	(446,655)
	(228,257)	(224,075)

At the end of the reporting period, the Group has the following deductible temporary differences and unused tax losses not recognised in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Unused tax losses (Note (a))	**5,442,930**	2,851,026
Excess of depreciation charged in the consolidated financial statements over tax depreciation allowances (Note (b))	**(24)**	9
	5,442,906	2,851,035

Notes:

(a) No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future taxable profit streams. Included in unrecognised tax losses are losses of approximately HK$3,830,329,000 (2017: HK$1,246,869,000) that will expire within five years. Other losses may be carried forward indefinitely.

(b) No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

42 Share-based payments

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase II) (the "Incentive Plan (Phase II)") of CSCECL, an intermediate holding company of the Company, 10,485,000 incentive shares were granted to certain employees of the Company (including five directors and certain senior management) on 29 December 2016 (the "Grant Date (Phase II)") with an exercise price of RMB4.866 per share, subject to a lock-up period of two years' service from the Grant Date (Phase II) (the "Lock-Up Period (Phase II)"). During the Lock-Up Period (Phase II), these shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the awards are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date (Phase II). Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over these shares will be removed, otherwise, CSCECL has a constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or the individual's key performance indicators are not achieved.

The fair value of incentive shares on the Grant Date (Phase II) determined using the Black-Scholes valuation model was RMB2.21 per share. The significant inputs into the model include closing price of RMB9.16 per share on the Grant Date (Phase II), exercise price of RMB4.866 per share, share-based payments cap at 40% of the respective employees' remuneration, average volatility of 44%, average dividend yield of 3.32% and an average annual risk-free interest rate of 2.84%. The volatility measured at the standard deviation of continuously compounded share returns is calculated based on statistical analysis of historical daily share prices.

Pursuant to the bonus issue of CSCECL on the basis of 4 new shares for 10 existing shares on 3 May 2018, there was an increase in number of ordinary shares of CSCECL. As the fair value of the incentive shares on the Grant Date (Phase II) remained RMB2.21 per share, the number of incentive shares granted on the Grant Date (Phase II) and the exercise price per share were adjusted to 14,679,000 shares and RMB3.476 per share respectively.

During the year, except for 1,218,000 incentive shares lapsed due to transfer or resignation of directors and employees, no other share options were exercised or cancelled.

Pursuant to the A-shares Restricted Stock Incentive Plan (Phase III) (the "Incentive Plan (Phase III)") of CSCECL, 18,870,000 incentive shares were granted to certain employees of the Company (including three directors and certain senior management) on 26 December 2018 (the "Grant Date (Phase III)") with an exercise price of RMB3.468 per share, subject to a lock-up period of two years' service from the Grant Date (Phase III) (the "Lock-Up Period (Phase III)"). During the Lock-Up Period (Phase III), these shares are not transferrable, nor subject to any guarantee, indemnity or pledge. One-third of the awards are vested each year starting from the beginning of the third year on a time-apportionment basis since the Grant Date (Phase III). Subject to CSCECL's achievement of performance conditions and individual's key performance indicators, the restriction over these shares will be removed, otherwise, CSCECL has a constructive obligation to repurchase the ordinary shares in cash if the performance conditions of CSCECL or the individual's key performance indicators are not achieved.

The fair value of incentive shares on the Grant Date (Phase III) determined using a comparable generally accepted methodology was RMB2.112 per share. The significant inputs into the methodology include closing price of RMB5.58 per share on the Grant Date (Phase III), exercise price of RMB3.468 per share and share-based payments cap at 30% of respective two years' employees' remuneration.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

43 Cash flow information

Reconciliation of liabilities arising from financing activities

	Liabilities from financing activities						
	Guaranteed notes payable due within 1 year HK$'000	Guaranteed notes payable due after 1 year HK$'000	Finance leases due within 1 year HK$'000	Finance leases due after 1 year HK$'000	Borrowings due within 1 year HK$'000	Borrowings due after 1 year HK$'000	Total HK$'000
At 1 January 2017	—	3,888,839	774	2,139	1,455,620	15,849,056	21,196,428
Cash flows	—	6,225,515	(29)	—	1,036,100	4,111,828	11,373,414
Foreign exchange adjustments	—	(7,957)	—	—	88,870	631,559	712,472
Other non-cash movements	3,898,357	(3,900,344)	120	360	—	—	(1,507)
At 31 December 2017 and 1 January 2018	3,898,357	6,206,053	865	2,499	2,580,590	20,592,443	33,280,807
Cash flows	**(3,900,000)**	**—**	**(1,026)**	**—**	**442,842**	**12,372,057**	**8,913,873**
Foreign exchange adjustments	**—**	**—**	**—**	**—**	**(227,600)**	**(930,550)**	**(1,158,150)**
Other non-cash movements	**1,643**	**4,910**	**954**	**(657)**	**—**	**—**	**6,850**
At 31 December 2018	**—**	**6,210,963**	**793**	**1,842**	**2,795,832**	**32,033,950**	**41,043,380**

44 Contingent liabilities

As at 31 December 2018, the Group provided guarantees amounted to approximately HK$50,852,000 (2017: nil) for the repayment of the mortgage bank loans granted to purchasers of the Group's properties.

45 Business Combination

In March 2018, the Group acquired 100% equity interest in Macau (Site 1) Limited ("Macau (Site 1)") at a consideration of MOP824,000,000 (equivalent to HK$800,000,000) from an independent third party. The principal activities of Macau (Site 1) are property development and investment. It has prepared a blueprint of the redevelopment plan with the relevant Government authorities' approval being underway.

	HK$'000
Purchase consideration:	
Cash paid	800,000

Asset acquired at the date of acquisition is as follows:

	HK$'000
Asset acquired:	
Properties under development	800,000

Net cash outflow arising on acquisition of Macau (Site 1):

	HK$'000
Cash consideration paid	800,000
Cash and cash equivalent balances acquired	—
	800,000

Since the acquisition, contribution to the Group's revenue and consolidated profit for the year ended 31 December 2018 by Macau (Site 1)'s contribution is insignificant.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

45 Business Combination (continued)

In January 2017, the Group acquired 100% equity interest in 中建國際工程有限公司 (formerly known as 合肥市第二建築安裝有限公司) ("中建國際") at a consideration of RMB221,000,000 (equivalent to approximately HK$247,480,000) from an independent third party. The principal activities of 中建國際 and its subsidiaries are building construction, infrastructure investment and investment holding in Mainland China.

	HK$'000
Purchase consideration:	
Cash paid	247,480

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Fair value of acquired assets and liabilities HK$'000
Net assets acquired:	
Property, plant and equipment (Note 17)	36,319
Investment property (Note 18)	83,674
Prepaid lease payment	3,842
Licences (Note 24)	164,911
Amounts due from customers for contract work	403,375
Trade and other receivables	108,002
Deposits and prepayments	130,761
Bank balances and cash	108,680
Trade payables, other payables and accruals	(229,070)
Deposits received and advances from customers	(482,435)
Current tax liabilities	(25,356)
Deferred tax liabilities	(55,223)
	247,480

Net cash outflow arising on acquisition of 中建國際 and its subsidiaries:

	HK$'000
Cash consideration paid	247,480
Cash and cash equivalents balances acquired	(108,680)
	138,800

Since the acquisition, 中建國際 and its subsidiaries contributed approximately HK$3,473 million to the Group's revenue and HK$368 million to the consolidated profit for the year ended 31 December 2017.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

46 Operating lease arrangements

The Group as lessee

At 31 December 2018 and 2017, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due:

	2018 HK$'000	2017 HK$'000
Within one year	**56,060**	53,910
In the second to fifth year inclusive	**89,569**	99,204
	145,629	153,114

Leases in respect of land and buildings are negotiated and fixed for an average term of two years.

Leases in respect of plant and machinery are negotiated based on individual contracts and the Group had no commitments for future minimum lease payments under the operating leases of plant and machinery.

The Group as lessor

At the end of the reporting period, investment properties with carrying amounts of HK$4,304,333,000 (2017: HK$4,572,348,000) were let out under operating leases.

Property rental income earned, net of direct outgoings, during the year was approximately HK$92,402,000 (2017: HK$110,520,000) which was derived from the letting of investment properties. All of the properties leased out have committed tenants for the next one to seven years without termination options granted to tenants.

At 31 December 2018 and 2017, the Group had contracted with tenants for the following future minimum lease payments:

	2018 HK$'000	2017 HK$'000
Within one year	**103,565**	84,864
In the second to fifth year inclusive	**119,479**	92,467
Over five years	**4,848**	8,605
	227,892	185,936

47 Commitments

At 31 December 2018 and 2017, the Group had the following commitments contracted but not provided for in the consolidated financial statements.

	2018 HK$'000	2017 HK$'000
Contracted but not provided for		
— construction in progress for property, plant and equipment	**30,475**	115,156

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

48 Related party transactions

Apart from the balances due from or to related parties set out in notes 25, 26, 30, 31, 32 and 34, the Group had the following transactions with related parties during the year:

The Group had the following transactions with an immediate holding company, an intermediate holding company, fellow subsidiaries, associates and joint ventures during the year:

Transactions

	2018 HK$'000	2017 HK$'000
Fellow subsidiaries		
Rental income	**3,948**	3,573
Rental expenses	**1,498**	—
Security service payment	**7,807**	10,822
Revenue from construction contracts	**10,530,406**	2,263,253
Project consultancy services income	**37,209**	57,473
Construction costs	**14,835,285**	14,069,811
Insurance premium income	**894**	931
Revenue from connection service	**39,194**	19,729
Associates		
Purchase of construction materials	**287,705**	279,971
Revenue from construction contracts	**2,116,215**	2,415,601
Interest income	**35,343**	70,476
Management fee income	**36,006**	—
Joint ventures		
Revenue from construction contracts	**7,587,335**	3,630,724
Rental income from lease of machinery	**835**	3,455
Purchase of materials	**108,649**	75,594
Sales of building materials	**1,837**	40,287
Insurance premium income	**11,490**	14,551
Construction costs	**332,956**	299,663
Management fee income	**—**	21,336
Interest income	**66,699**	27,674
Immediate holding company		
Revenue from construction contracts	**12,314**	—
Intermediate holding company		
Revenue from construction contracts	**105,594**	91,304

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

48 Related party transactions (continued)

Transactions with other state-controlled entities in Mainland China

Certain of the Group's business are operated in an economic environment currently predominated by entities directly or indirectly owned, controlled or significantly influenced by the PRC government. In addition, the Group is itself part of a larger group of companies under CSCGL which is controlled by the PRC government.

Apart from transactions with its immediate holding company, intermediate holding company, fellow subsidiaries, associate and joint ventures of the Group, the Group has transactions with other state-controlled entities including but not limited to the following:

- Revenue from construction contracts
- Investment income
- Finance costs

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

Certain of the Company's subsidiaries had entered into various transactions with state-controlled entities, including general banking facilities transactions with certain banks and financial institutions which are state-controlled entities, in their ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2018 **HK$'000**	2017 HK$'000
Short-term benefits	**67,452**	57,798
Post-employment benefits	**321**	252
	67,773	58,050

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

49 Subsequent event

Subsequent to 31 December 2018, the Group entered into two sale and purchase agreements to dispose its intra-group loans and loan to an associate with carrying amount of approximately HK$2,797,623,000 and HK$1,000,000,000 respectively to a joint venture company, with no material gain or loss from disposal is expected. The Group owns 50% issued share capital of the joint venture company and another shareholder entered into a Shareholder Facility Agreement with the joint venture company to provide a shareholder loan up to maximum limit of US$800,000,000 to the joint venture company. The Group also entered into a Standby Letter of Credit Facility Agreement with the joint venture company, to provide the joint venture company up to a maximum limit of US$800,000,000 to fund the joint venture company's purchase of financial assets, to pay any interest shortfall (but not any repayment of principal) under the Shareholder Facility Agreement, and to pay any joint venture company's operating expenses incurred by the joint venture company.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

50 Company Statement of Financial Position and Reserve Movement

	2018 HK$'000	2017 HK$'000
Non-current Asset		
Interests in subsidiaries	**20,252,731**	18,591,549
Current Assets		
Deposits, prepayments and other receivables	**383**	7,657
Amounts due from subsidiaries	**5,985,454**	5,130,783
Bank balances and cash	**1,463,924**	4,696,126
	7,449,761	9,834,566
Current Liabilities		
Other payables	**13,110**	12,840
Borrowings	**—**	984,038
Tax payable	**273**	2,025
	13,383	998,903
Net Current Assets	**7,436,378**	8,835,663
Total Assets less Current Liabilities	**27,689,109**	27,427,212
Capital and Reserves		
Share capital	**126,229**	126,229
Share premium and reserves (Note)	**20,834,680**	21,572,783
	20,960,909	21,699,012
Non-current Liability		
Borrowings	**6,728,200**	5,728,200
	27,689,109	27,427,212

On behalf of the Board

Zhang Haipeng
Director

Zhou Hancheng
Director

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

50 Company Statement of Financial Position and Reserve Movement (continued)

Note:

	Share Premium HK$'000	Capital redemption reserve HK$'000	Special reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2017	14,247,148	337	—	438,661	14,686,146
Profit and total comprehensive income for the year	—	—	—	2,064,682	2,064,682
Issue of ordinary shares	6,342,301	—	—	—	6,342,301
Share issues expenses	(48,990)	—	—	—	(48,990)
Capital contribution relating to share-based payment borne by an intermediate holding company	—	—	9,730	—	9,730
2016 final dividend paid	—	—	—	(807,865)	(807,865)
2017 interim dividend paid	—	—	—	(673,221)	(673,221)
At 31 December 2017	20,540,459	337	9,730	1,022,257	21,572,783
Profit and total comprehensive income for the year	**—**	**—**	**—**	**1,013,010**	**1,013,010**
Capital contribution relating to share-based payment borne by an intermediate holding company	**—**	**—**	**16,092**	**—**	**16,092**
2017 final dividend paid	**—**	**—**	**—**	**(1,009,831)**	**(1,009,831)**
2018 interim dividend paid	**—**	**—**	**—**	**(757,374)**	**(757,374)**
At 31 December 2018	**20,540,459**	**337**	**25,822**	**268,062**	**20,834,680**

51 Particulars of principal subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held 2018 %	Attributable equity interest held 2017 %	Principal activities
Directly held by the Company:					
China Overseas Insurance Limited	Hong Kong	300,000,000 ordinary shares of HK$300,000,000	**100**	100	Insurance business
China Overseas Insurance Services Limited	Hong Kong	150,000 ordinary shares of HK$150,000	**100**	100	Insurance brokerage services
China State Construction Engineering (Hong Kong) Limited	Hong Kong	655,569,190 ordinary shares of HK$655,569,190 and 844,430,810 non-voting deferred shares of HK$844,430,810	**100**	100	Building construction, civil and foundation engineering works and investment holding
China State Construction Science and Technology Limited	Hong Kong	100 ordinary shares of HK$100	**100**	100	Provision of related installation repairs and maintenance services
Add Treasure Holdings Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Zetson Enterprises Ltd	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
China State Construction Finance (Cayman) I Limited	Cayman Islands/ Hong Kong	1 ordinary share of US$1	**100**	100	Issuance of guaranteed notes
CS International Holdings Limited	Hong Kong	1 ordinary share of HK$1	**100**	100	Investment holding

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

51 Particulars of principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held 2018 %	2017 %	Principal activities
Directly held by the Company: (continued)					
China State Grand Wealth Investments Limited	Hong Kong	1 ordinary share of HK$1	**100**	100	Investment holding
Ever Power Group Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
China State Construction Finance (Cayman) II Limited	Cayman Islands/ Hong Kong	1 ordinary share of US$1	**100**	100	Issuance of guaranteed notes
Indirectly held by the Company:					
China Overseas Building Construction Limited	Hong Kong	49,999,900 ordinary shares of HK$499,999,000 and 100 non-voting deferred shares of HK$1000 (2017: 19,999,900 ordinary shares of HK$199,999,000 and 100 non-voting deferred shares of HK$1000)	**100**	100	Building construction, project management and investment holding
China Overseas (Hong Kong) Limited	Hong Kong	5,000,000 ordinary shares of HK$50,000,000	**100**	100	Investment holding and provision of management services
China State Civil Engineering Limited	Hong Kong	1,999,900 ordinary shares of HK$19,999,000 and 100 non-voting deferred shares of HK$1,000	**100**	100	Civil engineering works, project management and investment holding
China State Foundation Engineering Limited	Hong Kong	99,500,000 ordinary shares of HK$99,500,000 and 500,000 non-voting deferred shares of HK$500,000	**100**	100	Foundation engineering works and project management
China State Machinery Limited	Hong Kong	2 ordinary shares of HK$2	**100**	100	Lease of plant and machinery
China State Mechanical & Electrical Engineering Limited	Hong Kong	100,000,000 ordinary shares of HK$100,000,000	**100**	100	Mechanical and electrical engineering works and project management
CSCEC Trade Mark Limited	Hong Kong	2 ordinary shares of HK$2	**100**	100	Holding of trade marks
China Overseas Foundation Engineering Limited	Hong Kong	1 ordinary shares of HK$1	**100**	100	Holding of investment properties
Eastgood Investments Limited	Hong Kong	2 ordinary shares of HK$2	**100**	100	Investment holding
China Overseas Mechanical & Electrical Engineering Limited	Hong Kong	1 ordinary shares of HK$1	**100**	100	Mechanical and electrical engineering works and project management
Far East Aluminium Works Company Limited	Hong Kong	900,000 ordinary shares of $90,000,000	**74.06**	74.06	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Speedclass Development Limited	Hong Kong	100 ordinary shares of HK$100	**100**	100	Project management
Treasure Construction Engineering Limited	Hong Kong	2 ordinary shares of HK$2	**74.06**	74.06	Building construction
Transendence Company Limited	Hong Kong	1 ordinary share of HK$1	**100**	100	Sales and distribution of construction materials
Barkgate Enterprises Limited	BVI/Hong Kong	200 ordinary shares of US$1 each	**100**	100	Investment holding
China Overseas Public Utility Investment Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
China Overseas Ports Investment Company Limited	BVI	US$64,100,000	**100**	100	Investment holding

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

51 Particulars of principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held 2018 %	2017 %	Principal activities
Indirectly held by the Company: (continued)					
China Overseas Technology Holdings Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Citycharm Investments Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
China State Hailong Construction Technology Company Limited (Formerly known as China State Building Construction Limited)	Hong Kong	1 ordinary share of HK$1	**100**	100	Manufacture and sales of precast structures
Fuller Sky Enterprises Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Perfect Castle Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Oceanic Empire Holdings Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Value Idea Investments Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Weedon International Limited	BVI/Hong Kong	1 ordinary share of US$1	**100**	100	Investment holding
Gamma Windows and Walls International, Inc.	Canada	100 common shares of CAD53,362.36 each	**69.34**	69.34	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Far East Global Group Limited (iii)	Cayman Islands/ Hong Kong	2,155,545,000 ordinary shares of HK$0.01 each	**74.06**	74.06	Investment holding
Alchmex International Construction Limited	United Kingdom/ Hong Kong	4,000,000 ordinary shares of GBP1 each	**100**	100	Building construction, civil and marine engineering works, project and construction management
Far East Facade (UK) Limited	United Kingdom	1 ordinary share of GBP1	**74.06**	74.06	Installation of curtain walls, aluminium windows and other related products
China Construction Engineering (Macau) Company Limited	Macau	MOP300,000,000	**100**	100	Building construction and civil engineering works, properties holding and investment holding
COHL (Macao) Commercial and Industrial Company Limited	Macau	MOP200,000	**100**	100	Investment holding
CSFE (Macau) Limited	Macau	MOP200,000	**100**	100	Foundation engineering works
CSME (Macau) Limited	Macau	MOP200,000	**100**	100	Mechanical and electrical engineering works and investment holding
Netfortune Engineering (FEA) Macau Limited	Macau	MOP25,000	**74.06**	74.06	Installation of curtain walls, aluminium windows and other related products
C.S.H.K. Dubai Contracting L.L.C.	United Arab Emirates	1,000 ordinary shares of AED1,000 each	**100**	100	Building construction and road contracting
Gamma North Corporation	United States of America	1 share of US$1	**69.34**	69.34	Manufacture of curtain walls, aluminium windows and other related products
Gamma USA, Inc.	United States of America	1,000 shares of US$0.001 each	**69.34**	69.34	Design, manufacture and installation of curtain walls, aluminium windows and other related products

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

51 Particulars of principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held		Principal activities
			2018 %	2017 %	
Indirectly held by the Company: (continued)					
Precious Deluxe Global Limited	BVI	1 ordinary share of US$1	**100**	100	Investment Holding
On Success Development Limited	Hong Kong	10,000 shares of HK$1 each	**100**	100	Property investment
Advocate Properties Limited	Hong Kong	10,000,000 share of HK$1 each	**100**	100	Investment Holding
中建(珠海)有限公司 (i)	PRC	HK$10,770,000	**100**	100	Property investment and management
瀋陽皇姑熱電有限公司 (i)	PRC	RMB680,660,000	**100**	100	Generation and supply of heat and electricity and investment holding
深圳中海建築有限公司 (i)	PRC	RMB350,000,000	**100**	100	Building construction and investment holding
中海監理有限公司 (ii)	PRC	RMB50,000,000	**74.06**	74.06	Provision of project consultant services
深圳海龍建築科技有限公司 (i)	PRC	RMB100,000,000 (2017: RMB50,000,000)	**100**	100	Manufacturing and sales of precast structures
安徽海龍建築工業有限公司 (ii)	PRC	RMB10,000,000	**100**	100	Manufacturing and sales of precast structures
中建陽泉基礎設施投資有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure construction and operation
陽泉市陽五高速公路投資管理有限公司 (ii)	PRC	RMB202,000,000	**100**	100	Infrastructure construction and operation
深圳市中建宏達投資有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Investment holding
深圳市中海投資有限公司 (ii)	PRC	RMB500,000,000	**100**	100	Investment holding
中海創業投資(深圳)有限公司 (i)	PRC	US$29,800,000	**100**	100	Investment holding
中建國際投資(中國)有限公司 (ii)	PRC	US$1,768,000,000 (2017: US$878,000,000)	**100**	100	Investment holding
中建(漳州)建設開發有限公司 (ii)	PRC	US$48,000,000	**100**	100	Building investment
重慶海建投資有限公司 (ii)	PRC	RMB10,000,000)	**100**	100	Building investment
重慶海勝基礎設施開發有限公司 (ii)	PRC	RMB380,000,000 (2017: RMB310,000,000)	**100**	100	Infrastructure investment
杭州海嘉建設有限公司 (ii)	PRC	RMB460,000,000 (2017: RMB210,000,000)	**100**	100	Infrastructure investment
無錫海嘉建設有限公司 (ii)	PRC	RMB150,000,000	**100**	100	Infrastructure investment
鎮江海嘉建設有限公司 (ii)	PRC	RMB120,000,000	**100**	100	Infrastructure investment
溫洲海嘉建設有限公司 (ii)	PRC	RMB500,000,000	**100**	100	Infrastructure investment
平陽海嘉建設有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
中建國際投資(鎮江)有限公司 (ii)	PRC	RMB180,000,000	**100**	100	Infrastructure investment
中海物流(深圳)有限公司 (ii)	PRC	HK$50,000,000	**100**	100	Provision of logistic services and properties holding
深圳市中海港口物流有限公司 (ii)	PRC	RMB10,000,000	**100**	100	Provision of logistic services
上海力進鋁質工程有限公司 (ii)	PRC	RMB10,000,000	**74.06**	74.06	Design, manufacture of curtain walls, aluminium windows and other related products

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

51 Particulars of principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held		Principal activities
			2018 %	2017 %	
Indirectly held by the Company: (continued)					
遠東幕牆製品(深圳)有限公司 (ii)	PRC	RMB20,000,000	**74.06**	74.06	Manufacture of curtain walls, aluminium windows and other related products
龍海海嘉建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
中建國際投資(湖州)有限公司 (ii)	PRC	RMB170,000,000	**100**	100	Infrastructure investment
中建國際投資(杭州)有限公司 (ii)	PRC	RMB240,000,000 (2017: RMB100,000,000)	**100**	100	Infrastructure investment
中建國際投資(青島)有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
中建國際投資(淮安)有限公司 (ii)	PRC	RMB100,000,000 (2017: RMB96,000,000)	**100**	100	Infrastructure investment
中建國際投資(句容)有限公司 (ii)	PRC	RMB200,000,000 (2017: RMB150,000,000)	**90**	90	Infrastructure investment
嘉興海悦建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
資陽海悦建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
濱州海嘉建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
淮安海嘉建設有限公司 (ii)	PRC	RMB438,000,000 (2017: RMB250,000,000)	**100**	100	Infrastructure investment
合肥中建國際投資發展有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
深圳裕龍建築有限公司 (ii)	PRC	RMB2,000,000	**100**	100	Provision of subcontracting services
山東海龍建築科技有限公司 (ii)	PRC	RMB10,000,000	**100**	100	Manufacture and sales of precast structures
中建國際投資(台州)有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
中建國際投資(合肥)有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
杭州海榮建設有限公司 (ii)	PRC	RMB160,000,000	**90**	90	Infrastructure investment
淄博海勝建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
鄭州海河建設工程有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
鄭州海欣建設工程有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
淄博海嘉建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
淄博海悦建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
淮安海悦建設有限公司 (ii)	PRC	RMB120,000,000	**100**	100	Infrastructure investment
嘉興海悦建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
嘉興海耀建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
杭州海悦建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
中建國際投資(嘉興)有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
成都海耀建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
西安海嘉建設發展有限公司 (ii)	PRC	RMB100,000,000	**95**	95	Infrastructure investment
長沙海嘉建設有限公司 (ii)	PRC	RMB692,200,000 (2017: RMB200,010,000)	**90**	90	Infrastructure investment
句容海嘉建設有限公司 (ii)	PRC	RMB200,000,000 (2017: RMB120,000,000)	**90**	90	Infrastructure investment
平和海嘉建設有限公司 (ii)	PRC	RMB150,000,000	**80**	80	Infrastructure investment
濟寧海嘉建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
安康中建建設發展有限公司 (ii)	PRC	RMB150,000,000	**89**	89	Infrastructure investment
淄博海榮建設有限公司 (ii)	PRC	RMB200,000,000	**99**	99	Infrastructure investment
溫洲海耀建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
句容海悦建設有限公司 (ii)	PRC	RMB150,000,000	**90**	90	Infrastructure investment
南昌海博建設有限公司 (ii)	PRC	RMB100,000,000	**94**	94	Infrastructure investment

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

51 Particulars of principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held 2018 %	Attributable equity interest held 2017 %	Principal activities
Indirectly held by the Company: (continued)					
南昌海悦建設有限公司 (ii)	PRC	RMB167,000,000	**94**	94	Infrastructure investment
龍山海嘉建設有限公司 (ii)	PRC	RMB98,251,100	**79**	79	Infrastructure investment
成都海旭建設有限公司 (ii)	PRC	RMB50,000,000	**100**	100	Infrastructure investment
臨沂海嘉建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
汝陽縣海耀建設工程有限公司 (ii)	PRC	RMB58,000,000	**80**	80	Infrastructure investment
杭州海騰建設有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
徐州海嘉建設有限公司 (ii)	PRC	RMB120,000,000	**100**	100	Infrastructure investment
濟寧海耀建設有限公司 (ii)	PRC	RMB100,000,000	**99**	99	Infrastructure investment
貴州海投建設有限公司 (ii)	PRC	RMB250,000,000	**100**	100	Infrastructure investment
淄博海新建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
商丘海嘉建築工程有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
宿州海龍建築科技有限公司 (ii)	PRC	RMB10,000,000	**100**	100	Manufacturing and sales of precast structure
商丘海河建築工程有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Infrastructure investment
武穴海嘉建設有限公司 (ii)	PRC	RMB100,000,000	**90**	90	Infrastructure investment
溫州海騰建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
六安中建國際投資發展有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
濱洲中建國際建設有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
長葛海嘉建設工程有限公司 (ii)	PRC	RMB100,000,000	**100**	100	Infrastructure investment
中建國際投資(徐州)有限公司 (ii)	PRC	RMB361,500,000	**90**	90	Infrastructure investment
濟南海嘉建設有限公司 (ii)	PRC	RMB70,000,000	**100**	100	Infrastructure investment
湖州海榮建設有限公司 (ii)	PRC	RMB100,000,000	**80**	80	Infrastructure investment
杭州海旭建設有限公司 (ii)	PRC	RMB60,000,000	**100**	100	Infrastructure investment
中建國際工程有限公司 (ii)	PRC	RMB137,000,000	**100**	100	Building construction, civil engineering works, materials and investment holding
安徽中建國際投資置業有限公司 (ii)	PRC	RMB200,000,000	**100**	100	Property development
中建興業投資(湖南)有限公司 (ii)	PRC	RMB200,000,000	**74.06**	74.06	Infrastructure investment
湖南遠東力進建築工程有限公司 (ii)	PRC	RMB50,000,000	**74.06**	74.06	Construction and related engineering services
十堰海悦建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**80**	–	Infrastructure investment
鄖西海嘉建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**75**	–	Infrastructure investment
永州海嘉建設有限公司 (ii)(iv)	PRC	RMB80,000,000	**90**	–	Infrastructure investment
龍山海耀建設有限公司 (ii)(iv)	PRC	RMB161,204,000	**70**	–	Infrastructure investment
新沂海悦建設有限公司 (ii)(iv)	PRC	RMB140,000,000	**90**	–	Infrastructure investment
新沂海耀建設有限公司 (ii)(iv)	PRC	RMB287,500,000	**90**	–	Infrastructure investment
句容海耀建設有限公司 (ii)(iv)	PRC	RMB460,000,000	**80**	–	Infrastructure investment
湖州海旭建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**90**	–	Infrastructure investment
杭州海勝建設有限公司 (ii)(iv)	PRC	RMB116,000,000	**93**	–	Infrastructure investment
邯鄲海嘉建設有限公司 (ii)(iv)	PRC	RMB283,950,900	**95**	–	Infrastructure investment
保山海悦建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**80**	–	Infrastructure investment

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2018

51 Particulars of principal subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held 2018 %	2017 %	Principal activities
Indirectly held by the Company: (continued)					
綿陽海升建設有限公司 (ii)(iv)	PRC	RMB360,000,000	**90**	–	Infrastructure investment
泉州海嘉建設有限公司 (ii)(iv)	PRC	RMB30,000,000	**80**	–	Infrastructure investment
泉州海悅建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**80**	–	Infrastructure investment
淄博海恒建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**90**	–	Infrastructure investment
樂平海嘉工程建設有限公司 (ii)(iv)	PRC	RMB50,000,000	**95**	–	Infrastructure investment
十堰海勝建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**80**	–	Infrastructure investment
北京海悅置業有限公司 (ii)(iv)	PRC	RMB500,000,000	**100**	–	Infrastructure investment
滁州海嘉同創建設管理有限公司 (ii)(iv)	PRC	RMB100,000,000	**69**	–	Infrastructure investment
濟南海新建設有限公司 (ii)(iv)	PRC	RMB56,000,000	**100**	–	Infrastructure investment
煙臺海嘉建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**100**	–	Infrastructure investment
安福海福建設有限公司 (ii)(iv)	PRC	RMB100,000,000	**95**	–	Infrastructure investment
台州海旭建設有限公司 ii)(iv)	PRC	RMB157,120,000	**100**	–	Infrastructure investment
湖州海悅實業發展有限公司 (ii)(iv)	PRC	RMB100,000,000	**100**	–	Infrastructure investment

Notes:

(i) Registered as foreign owned enterprise

(ii) Limited liability company registered in the PRC

(iii) Listed company

(iv) Incorporated/registered in 2018, if applicable

None of the subsidiaries had issued any debt securities outstanding at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Five Year Financial Summary

Consolidated Results

	For the year ended 31 December				
	2014 HK$'000 (restated)	2015 HK$'000 (restated)	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Revenue	34,522,262	38,001,876	46,207,508	50,152,524	**55,626,304**
Operating profit	4,331,373	5,265,160	6,136,914	6,968,040	**6,939,577**
Share of profits of					
Joint ventures	294,345	423,728	420,295	731,380	**705,024**
Associates	23,787	72,462	142,670	160,300	**342,621**
Finance costs	(475,569)	(629,105)	(688,159)	(1,069,754)	**(1,781,717)**
Profit before tax	4,173,936	5,132,245	6,011,720	6,789,966	**6,205,505**
Income tax expense, net	(668,137)	(659,562)	(1,004,504)	(1,255,662)	**(1,648,872)**
Profit for the year	3,505,799	4,472,683	5,007,216	5,534,304	**4,556,633**
Profit/(loss) for the year attributable to:					
Owners of the Company	3,575,331	4,524,126	5,130,066	5,490,091	**4,500,148**
Holders of perpetual capital securities	—	—	—	—	**17,000**
Non-controlling interests	(69,532)	(51,443)	(122,850)	44,213	**39,485**
	3,505,799	4,472,683	5,007,216	5,534,304	**4,556,633**

Note: The consolidated results for the years ended 31 December 2014 and 2015 have been restated for the application of merger accounting for common control combination, acquisition of Precious Deluxe and changes of measurement of investment properties.

Five Year Financial Summary (continued)

Consolidated Net Assets

	For the year ended 31 December				
	2014 HK$'000 (restated)	2015 HK$'000 (restated)	2016 HK$'000	2017 HK$'000	**2018 HK$'000**
NON-CURRENT ASSETS					
Property, plant and equipment	2,844,595	2,786,916	2,493,761	3,818,806	**4,149,806**
Investment properties	2,726,676	3,050,468	4,249,520	4,750,265	**4,680,776**
Interests in infrastructure project investments	1,489,188	1,536,372	1,495,041	3,294,041	**3,680,414**
Prepaid lease payments	273,022	269,816	315,097	391,306	**367,032**
Interests in joint ventures	3,449,034	3,573,662	4,949,241	9,956,111	**11,709,355**
Interests in associates	2,104,943	3,800,193	4,070,378	4,570,740	**5,654,865**
Concession operating rights	6,530,992	6,044,202	5,234,340	5,414,282	**4,154,800**
Deferred tax assets	187,320	280,951	225,006	222,580	**198,830**
Trademark, project backlogs and licences	200,640	186,025	175,190	334,686	**308,535**
Goodwill	577,664	577,664	577,664	577,664	**577,664**
Available-for-sale investments	453,286	239,503	228,370	411,234	**—**
Debt and equity securities at fair value through other comprehensive income	—	—	—	—	**505,416**
Amounts due from investee companies	411,838	281,858	196,818	204,061	**211,806**
Trade and other receivables	12,901,282	17,949,961	21,820,299	29,094,860	**38,047,727**
Deposit paid for an investment	—	108,043	—	—	**—**
Loans to joint ventures	804,918	—	—	—	**1,612,397**
	34,955,398	40,685,634	46,030,725	63,040,636	**75,859,423**
CURRENT ASSETS	34,342,389	32,418,461	40,143,720	55,477,637	**60,262,668**
TOTAL ASSETS	69,297,787	73,104,095	86,174,445	118,518,273	**136,122,091**
NON-CURRENT LIABILITIES					
Borrowings	(10,361,804)	(13,085,694)	(15,849,056)	(20,592,443)	**(32,033,950)**
Guaranteed notes payables	(3,869,804)	(3,879,322)	(3,888,839)	(6,206,053)	**(6,210,963)**
Contract liabilities	—	—	—	—	**(740,010)**
Deferred income	(735,808)	(738,610)	(699,088)	(809,431)	**—**
Deferred tax liabilities	(431,059)	(406,265)	(348,891)	(446,655)	**(427,087)**
Obligations under finance leases	(3,480)	(2,719)	(2,139)	(2,499)	**(1,842)**
	(15,401,955)	(18,112,610)	(20,788,013)	(28,057,081)	**(39,413,852)**
CURRENT LIABILITIES	(32,238,529)	(31,706,669)	(39,716,114)	(51,998,281)	**(53,629,989)**
TOTAL LIABILITIES	(47,640,484)	(49,819,279)	(60,504,127)	(80,055,362)	**(93,043,841)**
NET ASSETS	21,657,303	23,284,816	25,670,318	38,462,911	**43,078,250**

Note: The consolidated net assets as at 31 December 2014 and 2015 have been restated for the application of merger accounting for common control combination, acquisition of Precious Deluxe and changes of measurement of investment properties.

Particulars of Major Investment Properties

	Address	Use	Lease term	Approximate gross floor area (sq.ft.)	Group's interest %
(a)	11th, 12th and 13th Floors, China Construction Commercial Building, Rua do Campo No: 88-96 and Rua de Santa Clara No: 1-3A, Macau	Commercial	Freehold	15,672	100
(b)	1st, 2nd, 3rd, 13th, 14th, 22nd and 23rd Floors, Zhongjian Commercial Building, Yingbin Road South, Gongbei District, Zhuhai, Guangdong Province, the PRC	Commercial	Medium-term lease	60,692	100
(c)	No. 201, Ground Store, No. 245 Qiaoguang Road, Gongbei District, Zhuhai, Guangdong Province, the PRC	Commercial	Medium-term lease	1,057	100
(d)	Room 1104, 11th Floor, Zhongzhu Building, No. 1081 Yingbin Road South Gongbei District, Zhuhai, Guangdong Province, the PRC	Commercial	Medium-term lease	1,134	100
(e)	Shop A on Ground Floor and Car Parking Spaces Nos. 1 to 24 on 1st Floor, Fu Po Garden, Estrada Marginal do Hipodromo No: 70-76, Macau	Commercial	Medium-term lease	6,542	100
(f)	Shops on Basement, Ground Floor and 1st Floor, Car Parking Spaces Nos. 1 to 6 on 1st Floor and Nos. 15 to 16 on 2nd Floor, Edificio Ou Va, Rua do Ribeira do Patane No: 109-115, Avenida Marginal do Patane No: 26-36, Macau	Commercial	Freehold	16,175	100
(g)	Shops A, C and E on Ground Floor, Shops B and D on 1st Floor, office floors 4th, Room B to F 5th Floor, 6th Floor to 12th Floors, Room C to F 15th Floor, 16th Floor to 23 Floors, Room A, B, E, F 24th Floor, 25th Floor and 60 car parking spaces on 2nd and 3rd Floor, China Overseas Building, 139 Hennessy Road, 138 Lockhart Road, Wanchai, Hong Kong	Commercial	Medium-term lease	171,432	100

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