

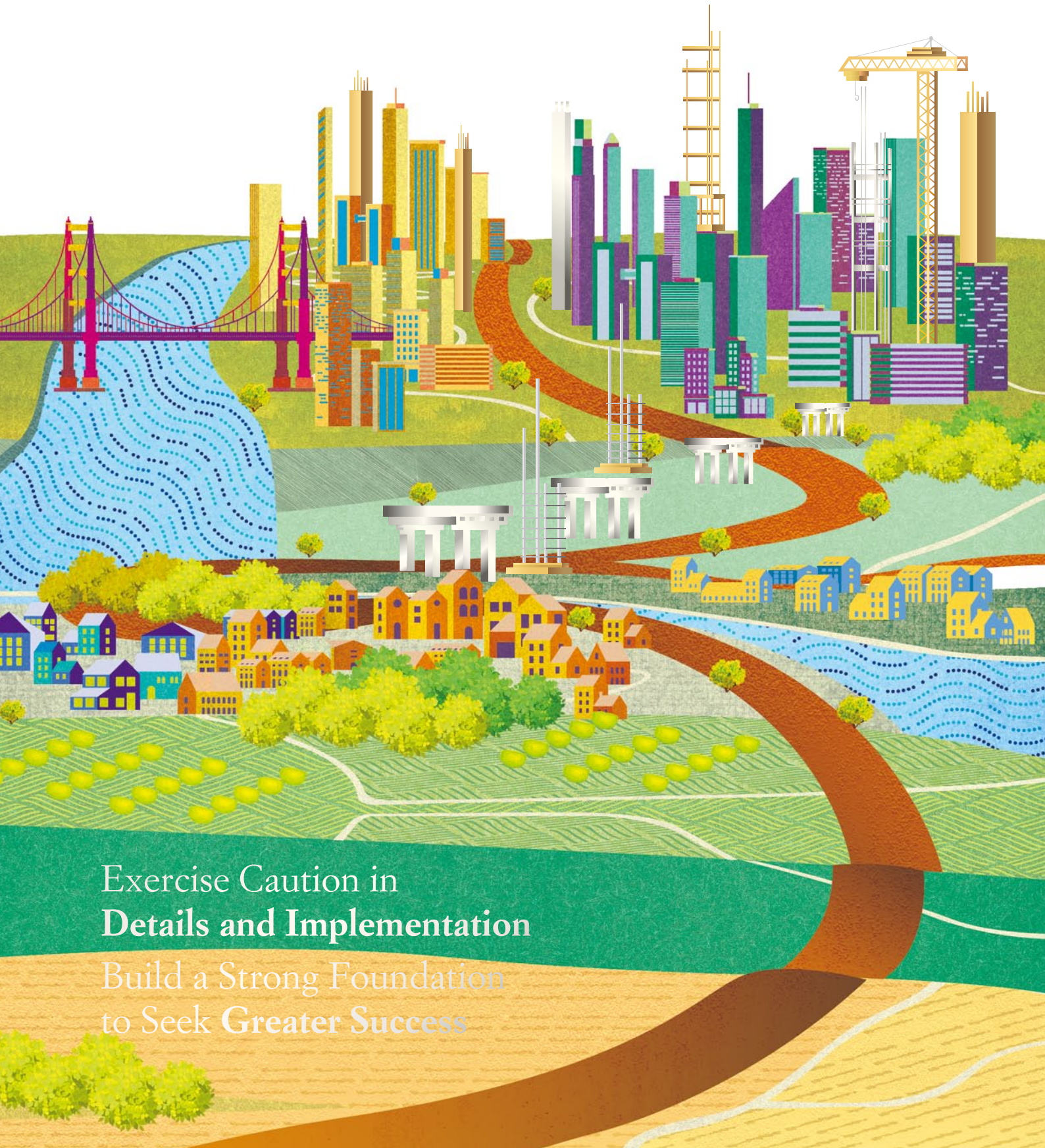


中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

Stock Code : 03311

Annual Report 2017



Exercise Caution in  
Details and Implementation  
Build a Strong Foundation  
to Seek Greater Success

# 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.



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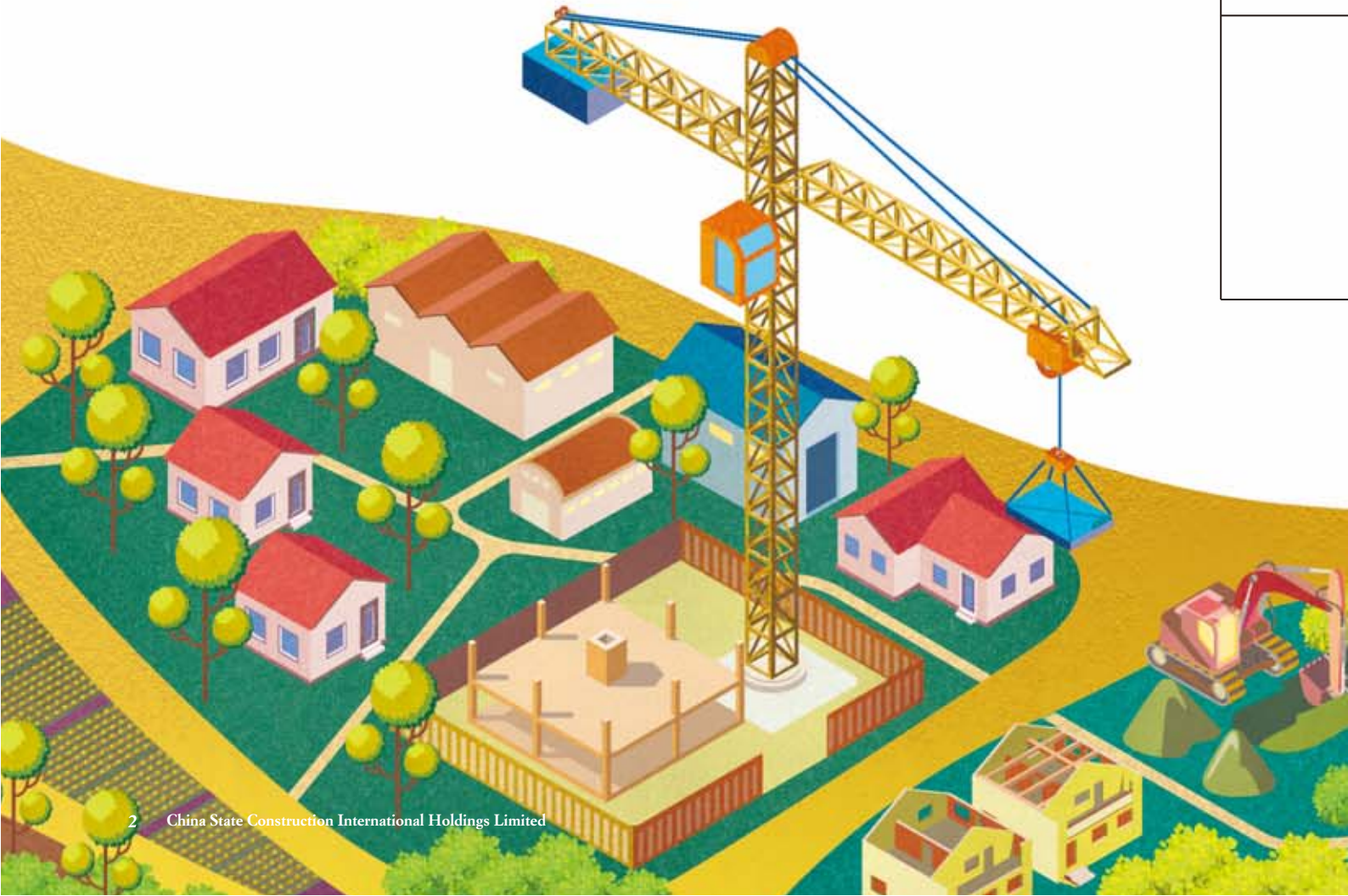
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# Corporate Structure



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\*)

Operation of  
Infrastructure Assets

Prefabricated  
Construction

Supervision  
Services

Other Construction  
Related Business

## HONG KONG

Building  
Construction

Civil Engineering  
Works

Foundation  
Engineering Works

Mechanical and  
Electrical  
Engineering Works

Other Construction  
Related Business

## MACAU

Building  
Construction

Civil Engineering  
Works

Foundation  
Engineering Works

Mechanical and  
Electrical  
Engineering Works

Other Construction  
Related Business

## OTHERS

Curtain Wall System\*\*

\* "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

### Executive Directors

Zhou Yong (Chairman and Chief Executive Officer)

Tian Shuchen

Zhou Hancheng

Pan Shujie

Hung Cheung Shew

Wu Mingqing

Zhang Haipeng

### 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

# Corporate Information

## Authorised Representatives

Zhou Yong  
Tian Shuchen

## 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 (CSC FIN N1804)

Hong Kong Stock Exchange: 05916  
US\$500,000,000 3.125% Guaranteed Notes due 2018 issued by  
China State Construction Finance (Cayman) I Limited

### 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

## Website

[www.csci.com.hk](http://www.csci.com.hk)

## Financial Calendar

### Closure of Register of Members — Annual General Meeting

29 May 2018 to 1 June 2018 (both days inclusive)

### Annual General Meeting

1 June 2018

### Closure of Register of Members — Final Dividend

8 June 2018

### Payment of Proposed Final Dividend

4 July 2018

# Financial Highlights

	For the year ended 31 December (Note a)				
	2013 (restated)	2014 (restated)	2015 (restated)	2016	2017
<b>Results (HK\$'000)</b>					
Revenue	27,365,719	34,522,262	38,001,876	46,207,508	<b>50,152,524</b>
EBITDA (Note b)	4,305,419	5,118,701	6,103,727	7,061,232	<b>8,223,304</b>
Profit from core business (Note c)	2,996,716	3,575,331	4,524,126	4,153,546	<b>5,072,521</b>
Profit attributable to owners of the Company	2,996,716	3,575,331	4,524,126	5,130,066	<b>5,490,091</b>
<b>Financial Ratios</b>					
Net margin (%)	11.0	10.4	11.9	11.1	<b>11.0</b>
Current ratio (times)	1.22	1.07	1.02	1.01	<b>1.07</b>
<b>Financial Information Per share</b>					
Earnings (HK cents) (Note d)	77.07	91.77	112.37	119.51	<b>118.85</b>
Dividend (HK cents)	21.00	26.00	33.00	33.00	<b>35.00</b>
Net assets (HK\$)	4.56	5.40	5.74	5.72	<b>7.62</b>
<b>Other Information</b>					
Value of incomplete contracts at 31 December (HK\$ billion)	76.48	93.10	127.06	153.89	<b>188.01</b>

Notes:

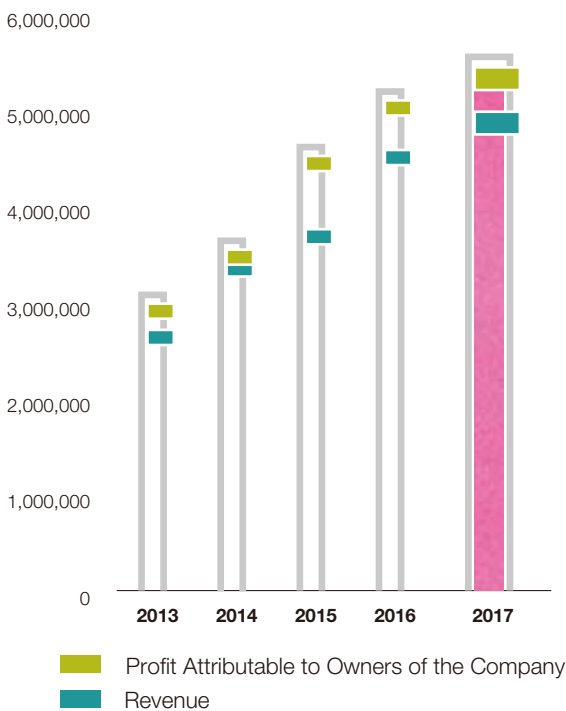
- (a) The figures from 2013 to 2015 have been restated for the application of merger accounting for common control combination, acquisition of Precious Deluxe Global Limited and its subsidiaries and changes of measurement of investment properties.
- (b) EBITDA represents Profit before Tax, Finance costs, 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

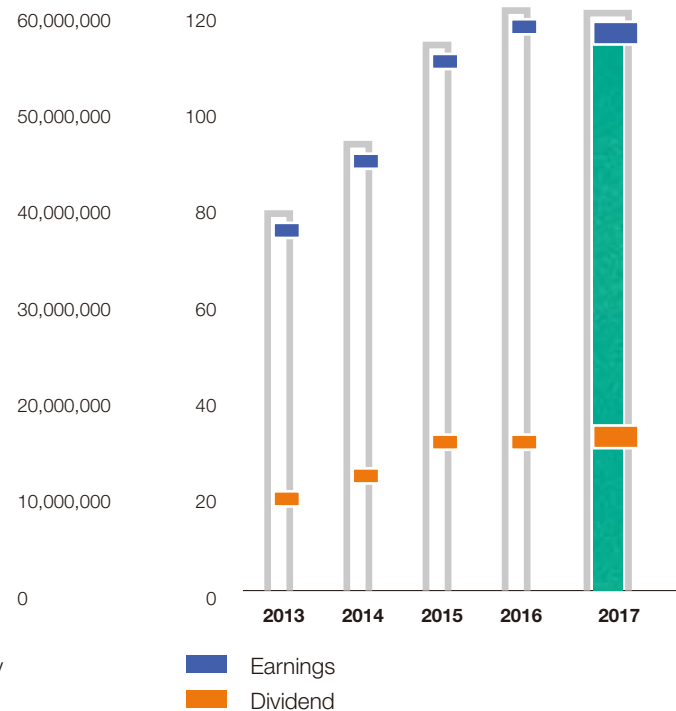
### Profit Attributable to Owners of the Company (HK'000)



## Financial Information Per Share

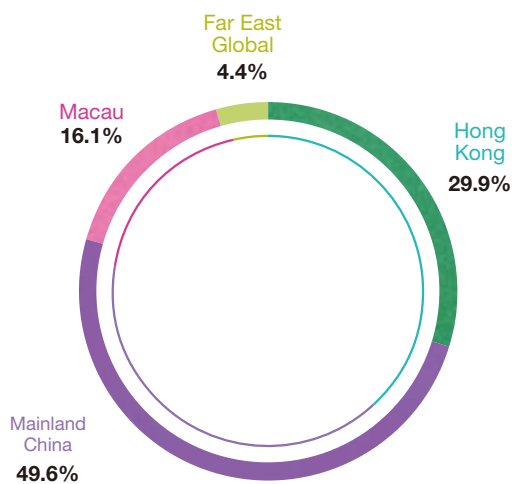
### Revenue (HK'000)

### (HK cents)



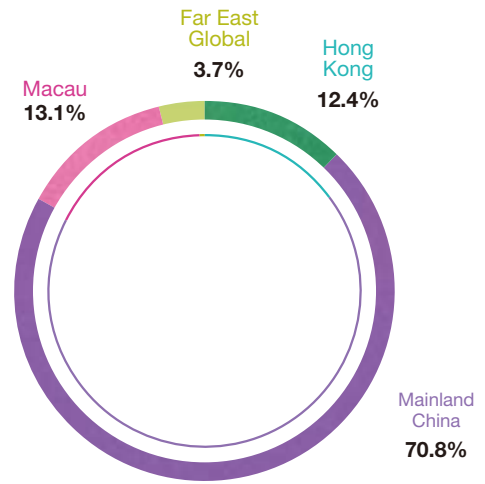
## Breakdown of Segment Revenue

for the year ended 31 December 2017



## Breakdown of Segment Results\*

for the year ended 31 December 2017



\* Excluding loss of Overseas Segment

# Major Events of the Year 2017

## JANUARY



### Anhui Provincial Deputy CPC Secretary and Acting Governor Li Guoying inspected construction site of Binhu Runyuan Project

On 4 January, Mr. Li Guoying (Deputy Secretary of Anhui Provincial CPC Committee and Acting Governor of Anhui Province), Mr. Wu Cunrong (Executive Member of Anhui Provincial Committee and Executive Deputy Governor of Anhui Province) and Mr. Song Guoquan (Executive Member of Anhui Provincial Committee and Secretary of Hefei Municipal CPC Committee) inspected the construction site of the Bihu Runyuan Project of our Anhui Branch Company, with a special focus on the company's achievements in prefabricated construction.

## JANUARY

### Group employees rendered full support to "Walks for Millions"

Close to 300 staff members of the Group and their families took part in "Hong Kong and Kowloon Walk for Millions 2016/17" on 8 January, the first large-scale fund raising activity organised by the Community Chest of Hong Kong in the year. Fund raised from this event this year will go to "Family and Child Welfare Services" to help those families in need and to reinforce family values in the society by encouraging family members to build close relationships with love and respect.



## Major Events of the Year 2017 (continued)

MARCH



### China State Construction Engineering (Hong Kong) Limited garnered awards at in the Construction Industry Safety Award Scheme 2016/2017

On 19 March, the Group won a gold award in the Building Sites (Private Sector) category and other awards in the Construction Industry Safety Award Scheme 2016/2017” organised by 16 government bodies and industry groups including the Labour Department and the Occupational Safety and Health Council on the back of its sustained excellent performance.

APRIL

### Macau government officials inspected construction site of China Construction Engineering (Macau) Company Limited for upper structure of light-rail train plant

Mr. Raimundo Arrais do Rosário, Secretary for Transport and Public Works, and Mr. Ho Cheong Kei, Coordinator of the Transportation Infrastructure Office of Macau invited 14 legislators to visit construction site of China Construction Engineering (Macau) Company Limited for the upper structure of the light-rail train plant. Secretary do Rosário and the legislators commended the progress and quality of the construction project.



APRIL

### Far East Global Group Limited named “Top 100 Enterprises in the PRC Construction and Decoration Industry”



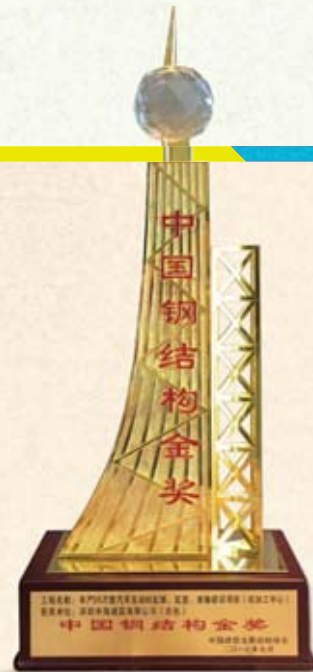
Netfortune (Shanghai) Aluminium Works Co., Ltd, a subsidiary of Far East Global Group Limited which is in turn a subsidiary of the Group, was awarded the title of “Top 100 Enterprises in the PRC Construction and Decoration Industry 2016”.

## Major Events of the Year 2017 (continued)

**MAY**

### Binzhou Project in Shandong clinched “China’s Steel Structure Gold Award”

On 18 May, China State Construction International Investments (China) Limited was awarded the “China’s Steel Structure Gold Award” at the national steel structure industry assembly 2017 for its construction of a mechanical processing centre (with an annual capacity of 250,000 sets of cylinder bodies, cylinder caps and crankshafts for car engines). The award represents the highest honour for construction quality in China’s construction steel structure industry.



**JUNE**



### SASAC Secretary Hao Peng paid visit to the Hong Kong Children’s Hospital project

On 3 June, Mr. Hao Peng, Secretary of the State-owned Assets Supervision and Administration Commission (“SASAC”) and other SASAC officials paid a visit to the Hong Kong Children’s Hospital project designed and built by China State Construction Engineering (Hong Kong) Limited. The HK\$9.09 billion project was the largest in terms of standalone contract amount in the history of the Architectural Services Department of the Hong Kong Government.

## Major Events of the Year 2017 (continued)

### JUNE

#### Mr. Zhou Yong attended closure ceremony for PPP Project Hunan Changsha Huanghua Integrated Free Trade Zone

On 25 June, Hunan Changsha Huanghua Integrated Free Trade Zone, a PPP Project invested in and constructed by China State Construction International Investments (China) Limited, was officially enclosed for operation. Mr. Zhou Yong, Chairman and CEO of the Group, attended the closure ceremony on behalf of the Group. Over 100 guests, including members of provincial and municipal government leaderships Mr. Yi Lianhong

(Executive Member of Hunan Provincial Committee Member and Secretary of Changsha Municipal CPC Committee) and Mr. He Baoxiang (Deputy Governor of Hunan Province), representatives of Central Government Offices in Hunan, relevant bureaus and departments under the direct administration of the provincial government and relevant municipal and county authorities, corporate delegates and members of the media, also attended the ceremony.



### JULY

#### President Xi Jinping inspected sections of Hong Kong-Zhuhai-Macau Bridge Hong Kong Link Road

On 1 July, President Xi Jinping, accompanied by Mrs. Carrie Lam, Chief Executive of the Hong Kong SAR, inspected the Scenic Hill to Hong Kong Customs Section of the Hong Kong-Zhuhai-Macau Bridge Hong Kong Link Road constructed by China State Construction Engineering (Hong Kong) Limited during his visit to Hong Kong on the occasion of the 20th anniversary of the city's return to China.



## Major Events of the Year 2017 (continued)

### JULY

#### Members of Macau Association of Building Contractors and Developers paid visit to China State Construction Engineering (Hong Kong) Limited

On 21 July, 30 members of the Macau Association of Building Contractors and Developers China State Construction Engineering (Hong Kong) Limited, led by Mr. Lau Wing Shing (劉永誠) (Macau legislator and president of the Macau Association of Building Contractors and Developers) and Mr. Chui Sai Ping (崔世平) (Macau legislator and vice president of the Macau Association of Building Contractors and Developers) and accompanied by Mr. Tse Ka Keung (謝家強), visited the Hong Kong Children's Hospital project and the Scenic Hill to Hong Kong Customs Section of the Hong Kong-Zhuhai-Macau Bridge Hong Kong Link Road, both constructed by China State Construction Engineering (Hong Kong) Limited.



### JULY



FTSE4Good

#### The Group selected constituent of FTSE4 Good Index

On 26 July, the Group was selected, for the first time, as a constituent of FTSE4Good Index in recognition of its outstanding performance in environmental performance, social responsibility and corporate governance.

### JULY

#### The Group convened "Business Conference 2017" and "Belt and Road Strategic Forum" in Shenzhen

On 6–7 July, the Group convened the "Business Conference 2017" and "Belt and Road Strategic Forum" at The Coli Hotel, Longgang, Shenzhen. More than 100 staff members, including members of the top management and intermediary and senior management officers of functional departments, tier-two units and regional companies, attended the conference.



# Major Events of the Year 2017 (continued)

## AUGUST

### Far East Global Group Limited honoured with “National Hi-tech Enterprise” award

Far East Facade Manufacturing (Shenzhen) Company Limited, a subsidiary of Far East Global Group Limited, which is in turn a subsidiary of the Group, clinched the “National Hi-tech Enterprise” award.



## SEPTEMBER



### Letter of appreciation to China Construction Engineering (Macau) Company Limited in the aftermath of the typhoon

On 7 September, the Central People's Government Liaison Office in Macau sent a letter of appreciation to China State Construction Engineering Corporation, commending China Construction Engineering (Macau) Company Limited for paving the way for Macau's post-disaster relief and rebuilding in the aftermath of the August 23rd typhoon. The Liaison Office expressed sincere gratitude and respect for the dedication and contribution of China Construction Engineering (Macau) Company Limited. The Macau SAR Government and public also praised China Construction Engineering (Macau) Company Limited for its disaster relief efforts.



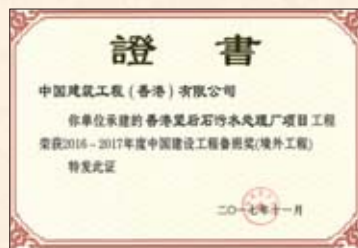


## Major Events of the Year 2017 (continued)

### NOVEMBER

#### China State Construction Engineering (Hong Kong) Limited and China Construction Engineering (Macau) Company Limited honoured with “Lu Ban Award for Construction Works in China (Overseas Works)”

Pillar Point Sewage Treatment Works in Hong Kong and Lot CN5a of Seac Pai Van Public Housing in Macau were honoured with the “Lu Ban Award for Construction Works in China (Overseas Works) 2016-2017”.



### DECEMBER

#### China State Construction Engineering (Hong Kong) Limited clinched numerous awards at “Good Housekeeping 2017-18”

At the “Good Housekeeping 2017-18” Forum and Award Presentation co-hosted by the Occupational Safety and Health Council of Hong Kong, the Labour Department and the Construction Industry Council and held on 21 December at the Hong Kong Convention and Exhibition Centre, China State Construction Engineering (Hong Kong) Limited clinched a number of awards on the back of sound and safe site conditions and caring site management, including a gold award in the construction category for Lohas Park Package Seven Contract A and B in Tseung Kwan O, being a gold award won by China State Construction Engineering (Hong Kong) Limited for the third year in a row.



# Chairman's Statement



In the year, the Group secured 78 new contracts with attributable contract value of approximately

**103.14** HK\$ billion.

**Mr. Zhou Yong**  
Executive Director,  
Chairman and  
Chief Executive Officer



# Chairman's Statement (continued)

## Meticulous Brand Building Through Quality and Efficiency Enhancement

### Operation Results

The Group's audited profit attributable to owners of the Company and revenue for the year ended 31 December 2017 amounted to HK\$5,490 million and HK\$50,152 million, respectively, representing year-on-year growth of 7.0% and 8.5%, respectively, while cash return from investment projects amounted to HK\$12,971 million. Core profit amounted to HK\$5,072 million, representing a year-on-year increase of 22.1%.

### Dividend Payment

The Board has recommended the payment of a final dividend of HK20 cents per share for the year ended 31 December 2017, which represents a year-on-year increase of 11.1%. Total dividend payment for the year will increase by 6.1%, year-on-year, to HK35 cents.

### Review of Operation

Global economic growth gained pace in 2017 with the benefit of a broader foundation, evidenced by steady recovery in the investment, manufacturing and trade sectors. The U.S. economy continued to expand, as the Federal Reserve increased its interest rate three times during the year, while planning for a gradual downsizing of its balance sheet and commencing a new round of tax reforms towards the end of the year. In Europe, improvements in the economy were reported despite numerous obstacles on the political front. Meanwhile, China's macro-economic growth beat expectations in the wake of "deleveraging" efforts, in a further manifestation of the strong resilience and vigour of the nation's economy.

The Group's operating principles for the year have called for "**determination to overcome challenges, quality and efficiency enhancement, synergy and innovation, and meticulous brand-building**". We overcame difficulties and moved forward with assured confidence amidst complex market conditions, as we sought business transformation and upgrade as well as enhancement in scale and efficiency on the back of stronger synergistic collaborations within the Group and with external parties, while highlighting the spirit of craftsmanship to scale new heights in brand quality.

## Market Conditions

In Hong Kong and Macau, there were opportunities as well as challenges in the construction markets, as both cities showed positive trends of economic growth. In Mainland China, the economy continued to enjoy sound development with the further advancement of supply-side structural reforms. Infrastructure investment remained strong, while PPP ("Public-Private-Partnership") was developing at a faster speed and in a more regulated manner.

### 1. Hong Kong and Macau

Driven by a balanced mix of domestic and external demands, the Hong Kong economy enjoyed notable growth underpinned by robust development in the real estate investment and construction sectors, although there was a slowdown in growth of government works with the launch of fewer large-scale infrastructure projects. In the meantime, market competition for small- and medium-sized project works was intense. In Macau, the construction market as a whole was diminishing, as fewer government projects were launched, while private construction works reported slow progress. Nevertheless, the Group succeeded in consolidating and enlarging its market share, thanks to a prudent approach adopted in response to market changes with measures to integrate resources and strengthen management based on past experience, as well as persistent efforts to offer premium services to owners on the back of its superior experience in management and to foster a distinguished brand image. New contracts in Hong Kong and Macau amounted to HK\$25,470 million for the year. All major projects under construction reported smooth progress during the year, as the Group overcame challenges on various fronts, including the havoc caused by Super Typhoon Hato. Meanwhile, the Group's vigorous effort in the investment-driven contracting business also started to reap rewards.

## Chairman's Statement (continued)

### 2. Mainland China

Infrastructure investment in Mainland China continued to provide a stabilising factor in the nation's economic growth, as PPP projects were implemented at a notably faster speed amidst surging demand, evidenced by the inclusion in database of more than 14,000 projects commanding total investments of more than RMB18,000 billion. In the meantime, market competition was escalating as large construction companies made active moves to build their business presence, while the government announced a series of new policies aiming to clear up the marketplace and regulate its development. In response to the profound change resulting from the swift standardisation of the PPP market, the Group persisted in an equal emphasis on scale, quality and efficiency with a resolute commitment to assuring the compliance, economic viability and financing availability of projects, so as to enhance the quality and efficiency of its projects and sustain healthy development in the long term. On the back of the traditional business model, resource integration along the industrial chain was enhanced, alongside consistent efforts to introduce innovative business models and broaden the boundaries for investment, in a bid to bolster the Group's general strengths in investment and construction. New contracts for the year amounted to HK\$73,490 million. 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

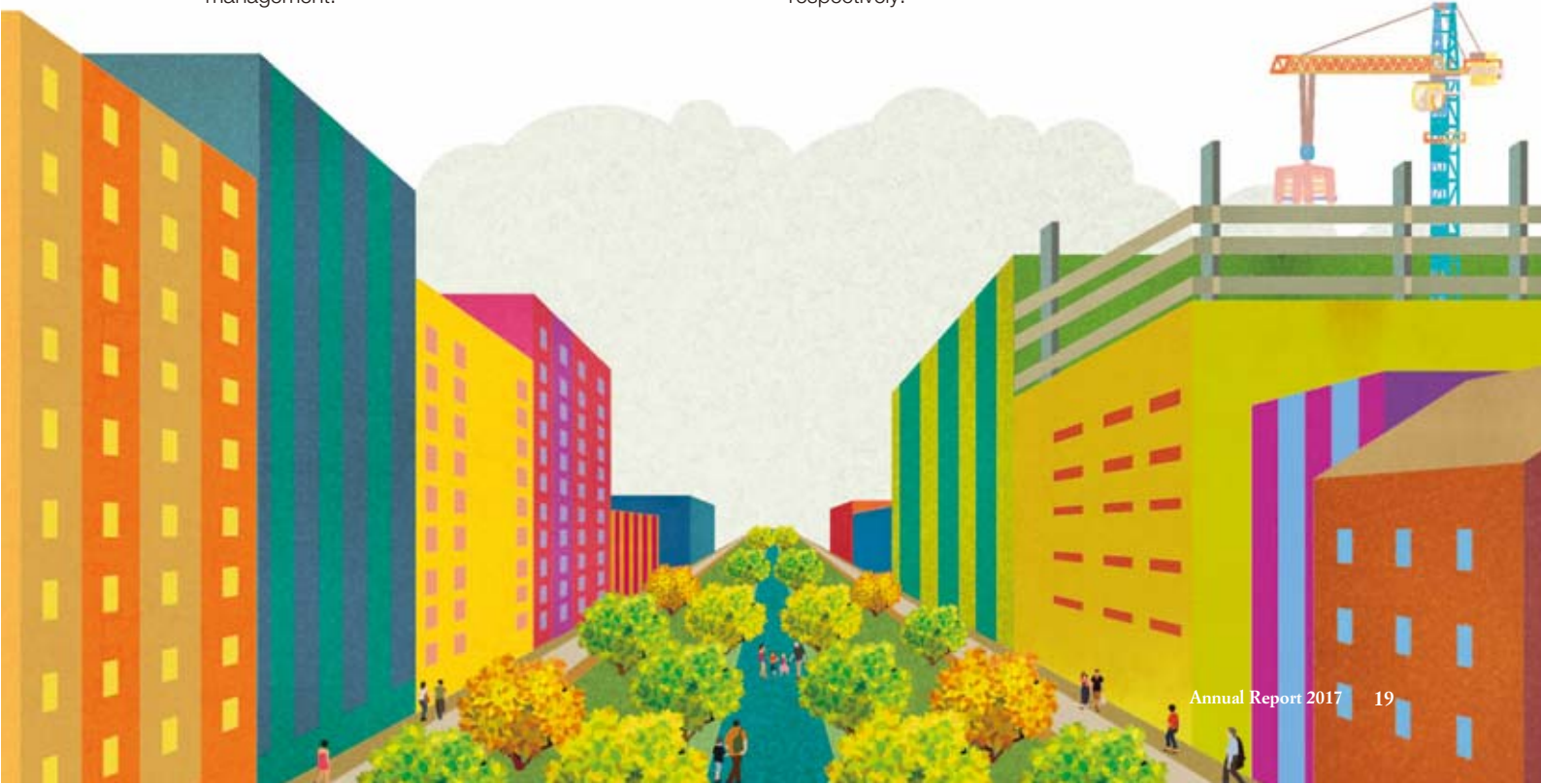
The curtain wall markets of Hong Kong and Macau were marked by slackened growth and intense competition, while increasing disparity was seen in Mainland China's curtain wall market, although sentiments were picking up in their counterpart in North America. In adherence to its consistent approach of offering high-end premium products, Far East Global Group Limited ("FEG") has made vigorous efforts to track key project works and diversify to commercial projects, especially curtain wall projects for high-end landmark buildings, which efforts have been met with notable success. Effective breakthroughs have also been achieved in small-scale general contracting business, with new contracts for the year amounting to HK\$4,180 million. FEG has enhanced its ability in resource allocation in the international market through cross-regional posting of international talents and sharing of advanced technologies and by identifying suitable supplier resources in countries along the "Belt and Road" route.

#### Completed Projects during the Period

The Group completed 32 projects in 2017.

#### New Projects Awarded

The Group secured 78 new projects in 2017 with an aggregate attributable contract value of HK\$103,140 million, of which the Hong Kong market, Macau market, Mainland China market and FEG accounted for 18.9%, 5.8%, 71.2% and 4.1%, respectively.



# Chairman's Statement (continued)

## Projects in Progress

As at 31 December 2017, the Group had a total of 146 projects in progress with an aggregate attributable contract value of HK\$309,070 million. The attributable contract value of outstanding works was HK\$188,010 million. At the end of February 2018, the Group had an attributable contract value of HK\$329,270 million.

## Corporate Governance

The Group conducts itself in strict compliance with laws and regulations. Through effective monitoring by the Board and enhanced communication with investors, 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 healthy corporate culture 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 stepped up with its business transformation and upgrade with strong efforts in innovative developments, such as integrated urban operational services in the domestic market and investment-driven contracting businesses in the overseas market, in a bid to compete through differentiation in a largely homogenised market and to avert market risks at their source. The prevention and mitigation of policy and financing risks has been achieved through the completion of all required procedures in strict accordance with new national policies and regulations on PPP to ensure legal compliance for all projects, as well as reasonable and balanced fund allocations. The prevention of risks relating to financial compliance has been achieved through full-scale investigation and revision of its financial management system and enhanced inspection of all regional platforms. In support of its overseas business expansion under the "Belt and Road" initiative, the Group has planned ahead on the back of past experience to address risks associated with overseas operations.

## Financial Management

In adherence to the principle of prudent financial management, the Group has persisted in centralised fund management to enhance its capital strengths, while seeking to improve its ability in financial resource allocation and maintain a reasonable debt profile, with a view to cementing its cost advantage in financing. As at 31 December 2017, the Group had bank deposits amounting to HK\$17,593 million. Total borrowings amounted to HK\$33,277 million and the net gearing ratio was 40.8%. Drawdown of bank loans amounted to HK\$12,905 million, while committed but unutilised credit facilities amounted to HK\$26,407 million.

With the strong support of the controlling shareholder, the Group successfully completed a HK\$6,360 million rights issue in October 2017, substantially bolstering its capital strength and lowering its gearing ratio as a result while providing financial assurance for the further development of its infrastructure investment business in Mainland China. In November, the Group capitalised on a favourable timing and successfully issued US\$800 million senior unsecured notes, which were awarded a "Baa2" rating by Moody's and a "BBB+" rating by Fitch Ratings. The issue has further cemented the Group's advantage in financing cost and optimised the maturity profile of its debts.

## Chairman's Statement (continued)

During the year, the Group hosted a number of successful roadshow presentations. Visits to project sites were arranged to further showcase the Group's achievements in the investment and construction of infrastructure and affordable housing, technology regimes for prefabricated construction, as well as engineering applications. During the year, the Group also continued to enhance communication with southbound investors and Mainland securities dealers, in order to build a solid foundation for broadening its shareholders' base.

### Human Resources

The Group is committed to building a high-calibre and efficient professional management team with ongoing efforts to enhance its human resource management system. We exercise supervision over various regional platforms to procure the effective implementation of our general human resource management strategy, so that strong assurance in talent, system and service can be provided for the realisation of the Group's strategic objectives and the commencement of various business operations. The Group has enhanced talent recruitment and allocation in response to its business requirements. The Group's staff recruitment process conducted through different means, such as internal promotion and reallocation, staff recommendation and selective open-market recruitment, has improved in terms of effort, efficiency and relevance on the back of its internal synergies and advantages in external resources. The Group has also fully upgraded the "Son of the Sea" campus recruitment programme and developed a unified elite training model with the debut of "Son of the Sea — Management Trainee" campus recruitment.

### Technological Innovation

In persistent adherence to its philosophy of supporting corporate development with technological innovations, the Group has achieved important breakthroughs in technologies on the back of ongoing efforts to enhance its core competitiveness in areas such as prefabricated construction, green construction, tunneling and water treatment technologies. During the year, the Group received approvals from the PRC government for 6 invention patents and 15 utility model patents. Pillar Point Sewage Treatment Works, which has combined technological innovations for the design, construction and operation of large-scale sewage treatment plants with innovations in carbon audit management for green architecture, and Lot CN5a of Seac Pai Van Public Housing, a public welfare project of the Macau SAR Government, have been honoured with the "Lu Ban Award for Construction Works in China (Overseas Works) 2016–2017".

The innovative technology developed by the Group for the building of large-section tunnel crossings under complex urban geological conditions has been extensively applied in the management of its large-scale civil engineering projects, following certification by a research outcome assessment group formed by members of the Chinese Academy of Engineering and other reputed experts in the industry to be internationally advanced in general and world-leading in selected aspects.

Through systemic reviews of experience generated from construction works for projects such as Stonecutters Island Sewage Treatment Works, Pillar Point Sewage Treatment Works and Tai Po Water Treatment Works, the Group has developed a complete set of technologies for the design, construction and operation of large-scale sewage treatment plants. Such technological innovation has been accredited as internationally advanced in general, and its low-carbon green construction technology in particular has been accredited as a world-leading technology. Two of the Group's processes have been approved for inclusion in the list of China State Construction Group (Provincial Level) Construction Methodologies, while the Group has also garnered the China State Construction Group Outstanding Academic Research Paper First Class Award, Outstanding Project Management Award and China State Construction Group Science and Technology Award First Class Prize 2017. Such technology has filled the gap of China State Construction Group in this area and formed a standout product for the Group's overseas market expansion under the "Belt and Road" initiative.

The Group is committed to "standardisation", "digitalisation" and "mobile communication-based applications" in the management of work sites. During the year, we successfully constructed the "CIMS" cloud platform for work site management coordination, providing mobile equipment support with the assistance of "Internet+" and "mobile cloud" technologies to achieve efficient centralised management over quality, safety, work progress, processes and materials. The cloud platform has effectively resolved bottlenecks under traditional management modes, such as duplicated labour, excessive work volume and data lagging, fragmentation and untrackability, and enabled the involvement of all staff in work site management with well-defined duties, clear and systematic management procedures, full control over work details, standardised implementation of site works and end-to-end traceability of truthful records.

# 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 the first time, as a constituent of FTSE4Good Index. Elsewhere, the Group received for the second year in a row the “Excellence in Responding to Climate Change Enterprise Award” from Carbon Disclosure Project (“CDP”), an organisation committed to tackling climate change. At the HKCA Environmental Awards Presentation Ceremony hosted by the Hong Kong Construction Association, the Group was honoured with the “Environmental Award of Excellence 2017” in recognition of its sound environmental records, commitment of resources to environmental management, and excellent performance in the management of sustainable development.

As an enthusiastic supporter of the Construction Industry Sports and Volunteering Programme organised by the Construction Industry Council, the Group encouraged its staff to participate in activities under the programme, such as the “2017 Happy Run cum Carnival”, “2017 Construction Industry Sports and Charity Fun Day”, “2017 CIC Football League” and “Basketball Invitation Competition”, in a bid to promote a healthy lifestyle and caring culture. Funds raised from such activities have been donated in full to the Construction Charity Fund to help construction workers in need.

During the year, over 100 employees of the Group and their family members participated in the “2016/17 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 “Guided Tour of Kadoorie Farm & Botanic Garden”, during which employees learned about the bio-diversity in Southern China and local efforts in animal and plant conservation.

## Major Awards

In March 2017, the Group won a gold award in the Building Sites (Private Sector) category, a silver award and a bronze award in the Civil Engineering Sites category, and a silver award in the Safety Teams category in the Construction Industry Safety Award Scheme 2016/2017” organised by the Labour Department and the Occupational Safety and Health Council of Hong Kong. In the “Construction Sites Housekeeping Award Scheme (2016)” organised by the Drainage Services Department of Hong Kong, the Group's site for upgrading works at the sludge dewatering facilities of Stonecutters Island Sewage Treatment Works won the Best Construction Site Housekeeping Award and the Grand Award in the category of large-scale civil works contracts on the back of sound and safe site conditions and caring site management. In the same month, the Group went on to win the “Five Stars Residency of the Year 2016” at the “Building Inspectors Academy Awards” organised by the Hong Kong Professional Building Inspection Academy for its excellent overall performance in a wide range of areas in the construction of Mayfair By The Sea in Pak Shek Kok, Tai Po.

In June 2017, the Group was awarded the “China's Steel Structure Gold Award” at the national steel structure industry assembly 2017 hosted by China Construction Metal Structure Association for its construction of a mechanical processing centre (with an annual capacity of 250,000 sets of cylinder bodies, cylinder caps and crankshafts for car engines) in Binzhou, Shandong. The award represents the highest honour for construction quality in China's construction steel structure industry and marks the Group's leading position in the investment and construction of steel structure works.

In July 2017, the Group ranked among the top three in the industrial sector for all categories and ranked first in “Best CEO” and “Best IR Professionals” in Asia for the fifth year in a row in the annual poll of “The Best Listed Companies in Asia” organised by “Institutional Investor”, as the Group continued to enjoy strong recognition in the international capital market for its business operations and efforts in investor relations.



## Chairman's Statement (continued)

In September 2017, the Group's site for upgrading works at the sludge dewatering facilities of Stonecutters Island Sewage Treatment Works and site for the widening of Fanling Highway each received a bronze award under the Considerate Contractors Site Award category in the 23rd Considerate Contractors Site Award Scheme co-organised by the Development Bureau of Hong Kong and the Construction Industry Council. In the same month, the Group took part in the "9th Regional Safety Quiz" of Guangdong, Hong Kong and Macau hosted by the Labour Affairs Bureau of Macau SAR, the Administration of Work Safety of Guangdong Province and the Occupational Safety and Health Council of Hong Kong and emerged winners of the corporate group with the highest score.

In December 2017, the Group garnered several awards at the "Good Housekeeping Forum and Award Presentation 2017-18" co-hosted by the Occupational Safety and Health Council of Hong Kong, the Labour Department and the Construction Industry Council on the merits of the sound safety conditions and caring management measures of its sites. These included a gold award in the construction category and a merit prize in the best presentation award for Lohas Park Package Seven Contract A and B in Tseung Kwan O.

### Business Prospects

While the global economy is expected to sustain recovery on all fronts, potential downside risks, such as geopolitical tensions, emerging trade protectionism and global financial austerity, will persist. With tax reforms coinciding with the rate hike cycle in the United States, the US Dollar might turn stronger in the short to medium term, creating a spillover effect in favour of world economies and financial markets. In the longer term, the US Dollar will be driven back to the U.S. market, to the benefit of its investment and construction sectors. The Chinese economy will continue to enjoy stable growth and emerge as an important engine for global economic growth. The nation's macro-economic policy will be dominated by deleveraging and risk aversion concerns. The Group will monitor closely trends and developments in the macro-economy and sector markets, taking heed to enhance its sensitivity and perception of market developments 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. Investment sentiments in Hong Kong's private property market will remain cautiously optimistic, while a number of large-scale civil engineering projects are expected to be officially launched. The opening of the Hong Kong-Zhuhai-Macau Bridge should favour a gradual pick-up in Macau's property market, and the rebound of the construction market looks like a matter of time given the number of private as well as government projects in the pipeline. Meanwhile, the construction sector could yet again be constrained by a shortage in supply of personnel and sub-contracting resources as the private housing market continues to thrive, while the application of new construction technologies and the implementation of the policy of "job specialisation" could further aggravate the problem of insufficient resources.

Mainland China's economy will sustain a path of positive trending amidst stable development, and quality and efficiency will become primary objectives. Regulation over the infrastructure investment market and related financing activities will be further enhanced, as this sector enters a stage of healthy development underpinned by a somewhat slower but nevertheless steady pace of investment growth. Infrastructure investment will remain an effective means to drive stable economic growth. As the debt financing methods of local governments become more regulated and transparent, there will be greater assurance for the recouping of infrastructure investments. As stated in the latest Report on the Work of the Government, vigorous efforts have been made to ensure and improve people's livelihood and a new three-year renovation plan to Shanty Town Redevelopment has been launched, with the construction of 5.8 million units commenced during the year. Stable and orderly development can be expected for the future infrastructure investment market which has a main focus on PPP model as supplemented by such other models as Government Procurement Services.

### 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", the Group will strengthen its Hong Kong and Macau operations with the "investment-driven contracting" business, while procuring ongoing transformation, upgrade and innovation of its investment business in Mainland China. At the same time, the Group will pursue overseas business expansion in a systematic, measured and organised manner in active response to the nation's "Belt and Road" initiative.

## Chairman's Statement (continued)

In connection with its Hong Kong and Macau operations, the Group will seek to improve its success rate in project bidding by adopting flexible bidding strategies in response to market changes on the back of its inherent as well as external advantages and resources, in a bid to cement its position as the largest contractor in Hong Kong and Macau. China State Construction Engineering (Hong Kong) Limited will be actively involved in the bidding for large-scale public works, such as the desalination project, land reclamation in Tung Chung and the conversion of Hong Kong International Airport Terminal 2. Meanwhile, focused efforts will be made to track Mainland Chinese property developers investing in Hong Kong. We will procure a pragmatic and efficient management team and optimise the work flow of investment management, while introducing the new business model of "investment-driven contracting" to enable bidding for small- and medium-scale works where appropriate, so as to further cement our market shares. China Construction Engineering (Macau) Company Limited will be actively involved in bidding for government as well as private projects, with a strong focus on winning tenders for premium projects to ensure stable growth for its contracting business.

For our investment business in Mainland China, we will adopt a business strategy emphasising both aggressive marketing and the quality of project works in close tandem with the directions indicated in national policies. PPP and Government Procurement Services projects will be undertaken on a highly selective basis and facilitated through innovative investment and financing models. Proactive moves will be made to address escalating market competition, such as stronger efforts to nurture partnerships, exhaustive search to identify investment opportunities in various provinces and regions, and initiatives to nurture and develop the import of industries. We will develop our own expertise in industrial research, industrial planning and the design of industrial parks, with a view to enhancing our competitive strengths for differentiation in a homogenised market, so that we could secure a greater number of premium projects. Project management will be strengthened with solid actions in refining details, while constructive measures will be proactively adopted to ensure the smooth implementation and delivery of showcase projects that will enhance our reputation.

FEG will be focused on the development of a global industry chain on the back of its inherent strengths as an international operation, as it strives to become a leading provider of one-stop solutions for high-end curtain wall. In North America, a strong emphasis will be placed on the development of new investment businesses, on top of the expansion of its traditional curtain wall business. In the Australian market, it will be focused on the design and supply markets while enhancing process control, with a view to the steady increase in market shares. Moreover, FEG will actively investigate innovations in its business model and strengthen the collaborative use of internal resources to drive business transformation and upgrade.



## Chairman's Statement (continued)

### 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 will form functional departments for the management and control of overseas operations at the headquarters and the regional platforms to provide full support for its overseas business expansion under the "Belt and Road" initiative. With the establishment in Mainland China of a department for new industrial towns, the Group will commence relevant industry research to investigate management and control models for the business of new industrial towns, and will also direct regional companies to develop organisational setups.

### 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

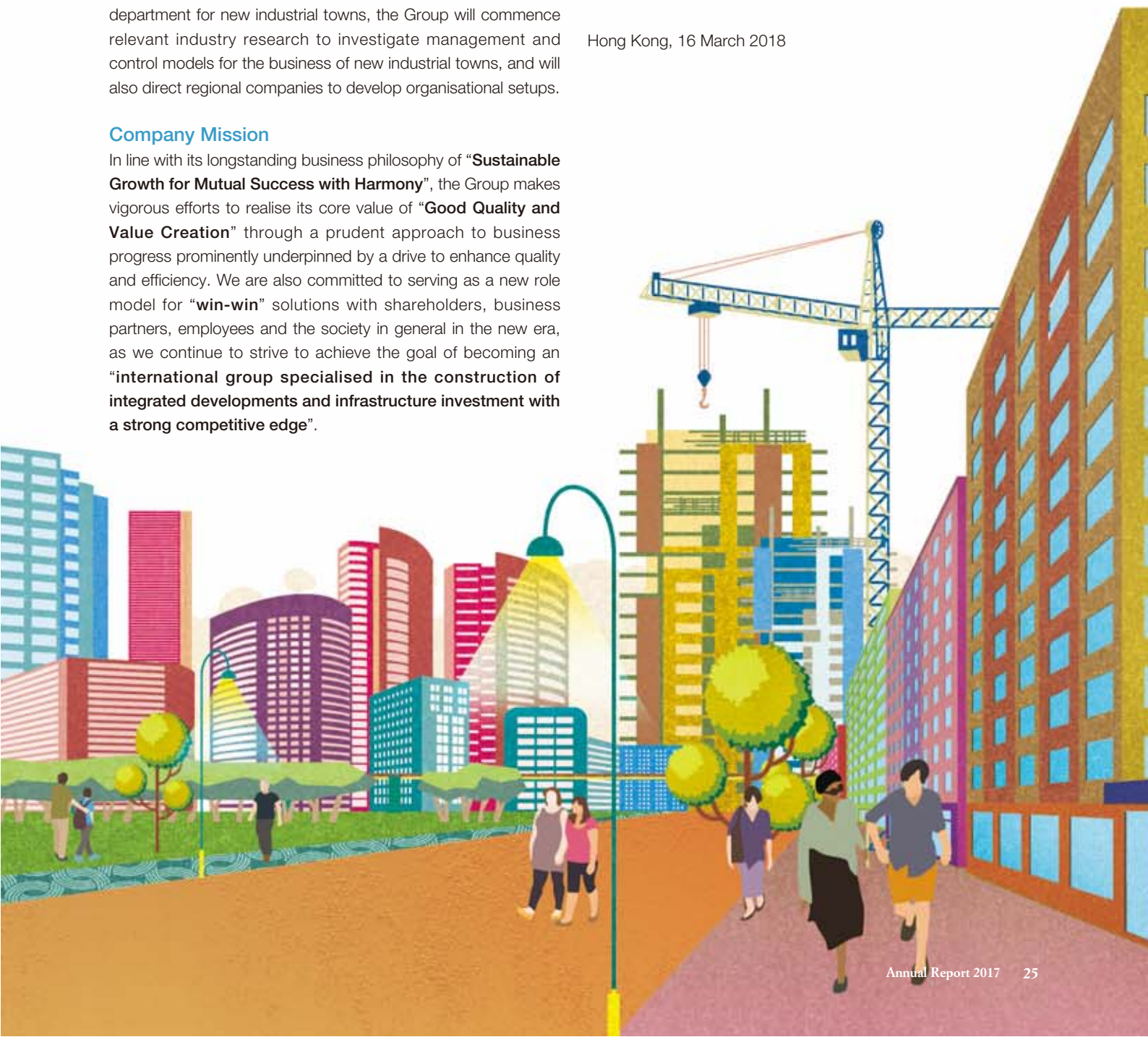
I would like to take this opportunity to express my profound gratitude to the Board for its brilliant leadership, to the shareholders for their strong support, to other members of the community for their generous assistance, and to our staff for their hard work and dedication.

By Order of the Board

**China State Construction International Holdings Limited**  
**Zhou Yong**

*Executive Director, Chairman and Chief Executive Officer*

Hong Kong, 16 March 2018



# Management Discussion & Analysis



Profit from core business\*  
attributable to owners  
of the Company was

5,073 HK\$  
million,

represents a year-on-year increase of 22.1%. Raised an approximately HK\$6,307 million, net of expenses, by way of rights issue of 561,017,407 rights shares.

**Overall performance**

Driven by the growth of Mainland China segment and increased contribution from joint ventures, the Group recorded revenue of HK\$50,153 million, and profit attributable to the owners of the Company amounted to HK\$5,490 million for the year ended, representing 8.5% and 7.0% growth respectively. Basic earnings per share was HK118.85 cents, representing a decrease of 0.6% as compared with last year. With a proposed final dividend per share of HK20.00 cents, an interim dividend per share of HK15.00 cents per share paid in the year, the total dividends for the year amount to HK35.00 cents per share, representing an increase of 6.1% as compared to last year.

During 2017, 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 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 gain 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

Hong Kong and Macau segment continued to provide stable cash flow to the Group. Along with the slowdown in growth of government works with the launch of fewer large-scale infrastructure projects, revenue derived from Hong Kong segment dropped 14.6% from HK\$17,585 million in 2016 to HK\$15,013 million in 2017. Despite this, Hong Kong segment reported gross profit and segment result amounted to HK\$946 million and HK\$849 million respectively, representing a growth of 5.8% and 4.3% year-on-year. In Macau, the construction market as a whole was diminishing, fewer projects were launched in both public and private sector. With the effective management and good resources allocation, Macau's performance remain stable, reported revenue, gross profit and result amounted to HK\$8,058 million, HK\$866 million and HK\$891 million respectively, compared with HK\$8,716 million, HK\$921 million and HK\$930 million for last year.

## Mainland China

### Infrastructure Investment Projects and Construction Related Business

In order to capture the growing investment in infrastructure project by PRC government, the Group actively increase its investment in Mainland China, in particular, the Public-Private-Partnership ("PPP") project. Following the growth momentum since last year, China segment recorded notable increase in both of revenue and result to HK\$24,850 million and HK\$4,827 million, representing a growth of 36.1% and 29.7% year-on-year. During the year, China segment received HK\$10,943 million buy-back payment for the year (including the attributable share of such payment received by our joint venture investments).

#### (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, such as affordable housing, hospital and college. We participated in these infrastructure projects by way of PPP models.

In addition to the government's vigorous promotion, the Group constantly innovates its business and investment model, deepens its strengths such as Residential Construction Industrialisation and project management. During the year, the Group have awarded a number of sizeable projects and its results are reflected in its performance for the year. This sector's revenue, gross profit and result were up 38.3%, 39.6% and 32.9% over last year to HK\$23,434 million, HK\$5,240 million and HK\$4,747 million respectively.

#### (2) Operation of 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\$792 million, which was close to the HK\$836 million in last year.

#### (3) Construction related business

The Group continued focus on infrastructure investment projects, less resources was allocated to other construction related business. But with the encouragement of construction industrialisation by the PRC government, the demand for pre-cast structural product is increased, which pushed up the revenue of construction related business from HK\$489 million in 2016 to HK\$624 million in 2017, representing a growth of 27.6% year-on-year.

# Management Discussion and Analysis (continued)

## Far East Global Group Limited (“FEG”)

FEG focused on the facade contracting business, general contracting business and new business expansion. FEG continues to improve its operating efficiency and enhance core competitiveness, it reported steady growth in performance for the year.

## Investment Income, Other Income and Other Gains, net

The Group recognised fair value gain of HK\$446 million on the revaluation of its investment properties, as the amount of revaluation is less than that of last corresponding period, the investment income, other income and other gains, net fell 40.7% to HK\$748 million.

## 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 have recorded notable growth to HK\$731 million, as more PPP project was operated in form of joint ventures.

## Finance Costs

During the year, the finance costs charged to profit for the year increased by 55.5% to HK\$1,070 million (2016: HK\$688 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

For the year ended 31 December 2017, basic earnings per share decreased by 0.6% to HK118.85 cents. The calculation of the basic earnings per share is based on the profit for the year attributable to owners of the Company of HK\$5,490 million and on the weighted average number of 4,619,529,000 ordinary shares in issue during year.

## Corporate Finance

### Financial Position of the Group

#### (a) Shareholder's Equity

During the year, the Company has raised an approximately HK\$6,307 million, net of expenses, by way of rights issue of 561,017,407 rights shares at the subscription price of HK\$11.33 (effective subscription price of HK\$11.24) per rights share on the basis of one rights share for every eight existing shares.

The Group dedicated to maintain a sound financial position with a strong capital base to support its stable expansion. Shareholders' equity reached HK\$38,463 million as at 31 December 2017 (2016: HK\$25,670 million). The increase was mainly attributable to the profit for the year of HK\$5,534 million, HK\$2,309 million decrease in translation reserve (loss) due to the appreciation of RMB and the 561,017,407 rights share issued during the year.

#### (b) Bank Balances and Cash

At 31 December 2017, the Group had bank balances and cash of HK\$17,593 million (2016: HK\$11,485 million), representing 14.8% of the total assets of the Group. The portfolio of the currencies of bank deposits is listed as follow:

	2017 %	2016 %
Hong Kong Dollars	21	26
Renminbi	40	51
Macao Patacas	10	21
United State Dollars	28	1
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\$5,148 million. In additions, the Group issued USD\$550 million 5-Year Guaranteed Notes with a coupon rate of 3.375% and USD\$250 million 10-Year Guaranteed Notes with a coupon rate of 3.875% in November 2017, the Notes are due in Nov 2022 and Nov 2027.

At 31 December 2017, the total borrowings of the Group (including the guaranteed notes denominated in US dollars issued by the Group in April 2013 and November 2017) were HK\$33,277 million of which, approximately 23%, 31% and 45% were denominated in Hong Kong dollars, US dollars and Renminbi respectively. Bank borrowings were 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 2017 and 2016:

	2017 HK\$' million	2016 HK\$' million
<b>Bank and other borrowings</b>		
On demand or within one year	2,581	1,456
More than one year but not exceeding two years	1,529	3,944
More than two years but not more than five years	13,555	9,968
More than five years	5,508	1,937
Total bank and other borrowings	23,173	17,305
Unsecured guaranteed notes payable	10,104	3,889
Total borrowings	33,277	21,194

At 31 December 2017, the Group had net borrowings of HK\$15,684 million (2016: HK\$9,709 million) and the Group's net gearing ratio was 40.8% (2016: 37.8%). 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 2017, committed but unutilised credit facilities and other banking facilities like construction performance bond facilities amounted to HK\$26,407 million.

### (d) 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\$4,846 million (2016: HK\$2,867 million cash inflow), included the net expenditure for infrastructure project amounting HK\$5,423 million (2016: HK\$31 million). The net cash outflow in investing activities was HK\$4,800 million (2016: HK\$5,691 million), and the net cash inflow from financing activities was HK\$15,253 million (2016: HK\$6,498 million).



# Management Discussion and Analysis (continued)

## 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, Integrated Underground Tunnels, Industrial Park and Technology City by way of PPP model in different regions, Hubei, Anhui and Shannxi Province. The aggregate attributable contract value of the Group amounts to HK\$10,660 million.
- (ii) The Group was awarded several investment and construction project of expressway, highway in Guizhou Province, Anhui Province and Hubei Province by way of joint venture with aggregate attributable contract value of the Group amounts to HK\$17,650 million.
- (iii) The Group was awarded several relocation housing, shanty town redevelopment, science city and infrastructure projects in different regions, Beijing, Hunan, Hubei, Zhejiang, Sichuan, Anhui, Shandong, Jiangsu and Guizhou Province with aggregate attributable contract value amounts to HK\$36,950 million.
- (iv) In June 2017, the Group was awarded an investment and construction project of commercial building, office building, hotel, apartment and parking lot in Guangdong Province with attributable contract value of the Group amounts to HK\$1,490 million.

## 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

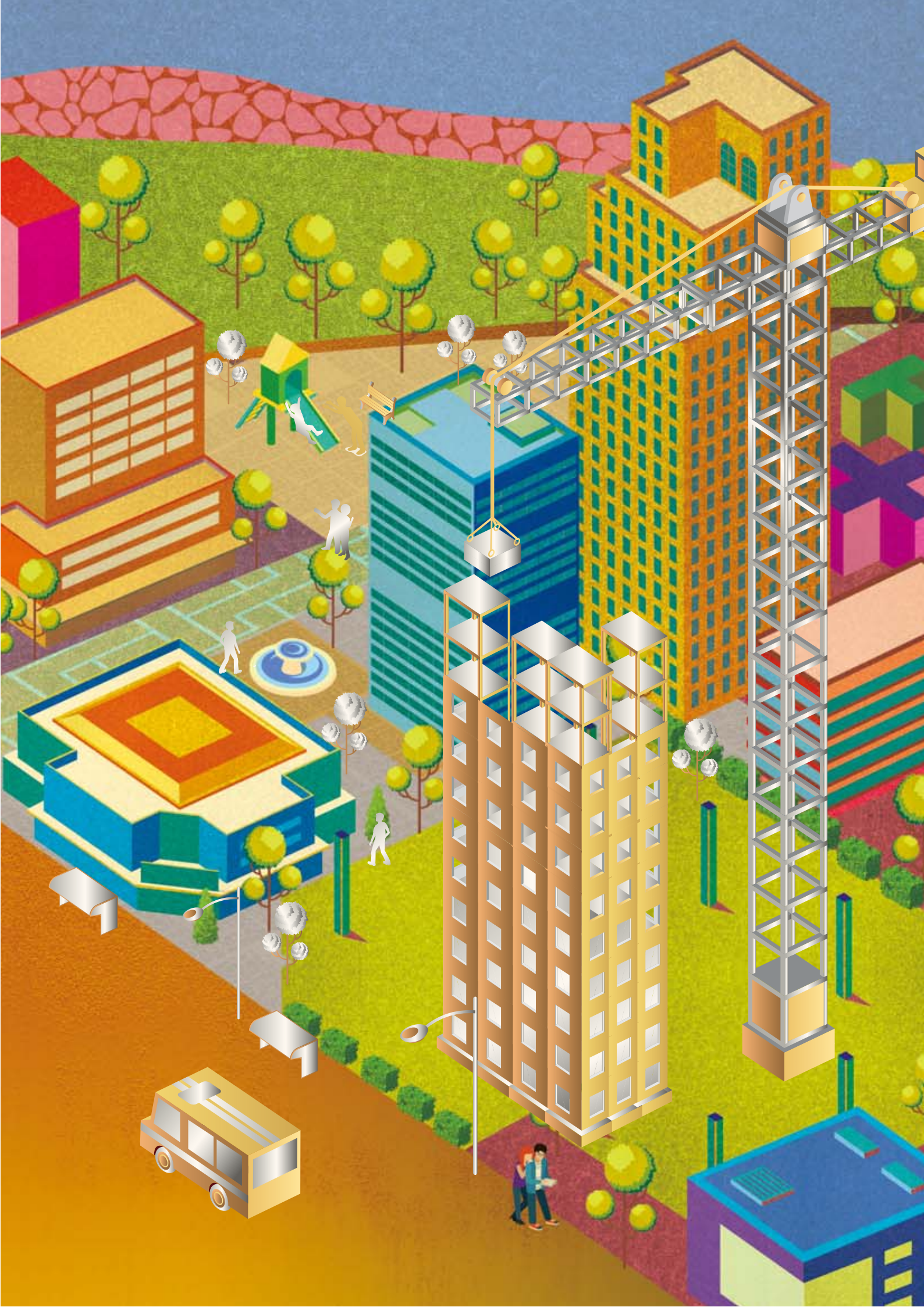
The Group undertakes certain transactions denominated in foreign currencies, primarily with respect to the Renminbi and United States dollar, hence exposures to exchange rate fluctuation risk. The management manages this risk by closely reviewing the movement of the foreign currency rate and adjust the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

# Business Review



At the end of 2017, the Group has 146 projects in progress with an aggregated attributable contract value of

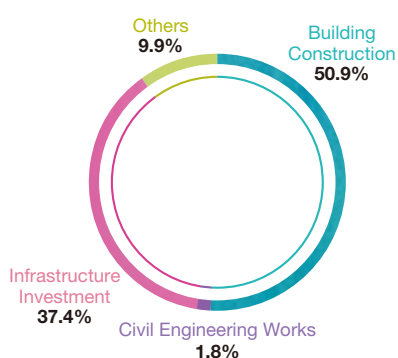
309.07 HK\$ billion.



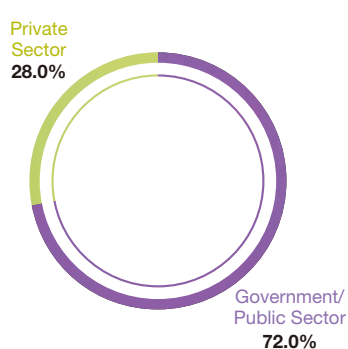
## Major Completed Projects in 2017

No.	Project Name	Government/ Public Sector	Private Sector
1	Design and Construction of Centre of Excellence in Paediatrics in Kai Tak Development, Kowloon, Hong Kong	●	
2	Residential Development Project at TMTL 423, Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun, Hong Kong		●
3	Main Contract Works for the Proposed Residential Development at Lot 6515 & 6517, Kai Tak, Hong Kong		●
4	Main Contract for Proposed Logistics Centre Development at Tsing Yi Town Lot No. 181, New Territories, Hong Kong		●
5	Home Ownership Scheme Project, Sha Tsui Road, Tsuen Wan, and Ching Hong Road, Tsing Yi, Hong Kong	●	
6	Public Housing Construction Project in Northeastern Road of Taipa, Macau	●	
7	Hotel Construction Project in Almeida Ribeiro Street (Phase 1), Macau		●
8	Harbour Area Treatment Scheme Stage 2A Upgrading Works at Stonecutters Island Sewage Treatment Works – Sludge Dewatering Facilities, Hong Kong	●	
9	Relocation Housing BT Project in New District of Zhenjiang, Jiangsu Province	●	
10	Two roads BT Projects in Zhengzhou, Henan Province	●	
11	Affordable Housing BT Project in Wuxing District of Huzhou, Zhejiang Province	●	
12	Phase 1 Affordable Housing and Infrastructure Projects, Hangzhou, Zhejiang Province	●	
13	Investment and Construction Project of Relocation Housing, Tianfu New Area, Sichuan Province	●	
14	Relocation Housing PPP Project, Pinghu of Jiaxing, Zhejiang Province	●	
15	Dayang Affordable Housing Project, Luyang District of Hefei, Anhui Province	●	

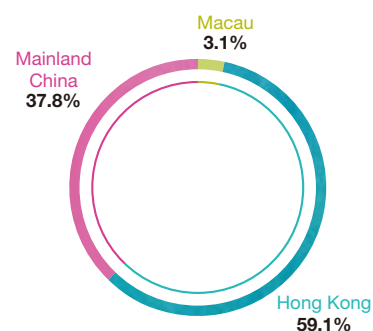
### By Categories



### By Customers



### By Market

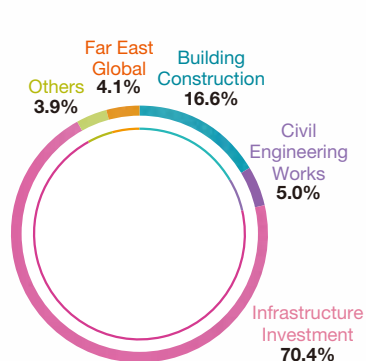


## New Projects Awarded in 2017

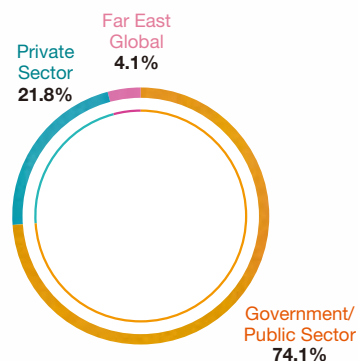
### Summary for the year

- 78 new projects awarded
- Attributable contract value for new projects awarded was HK\$103.14 billion

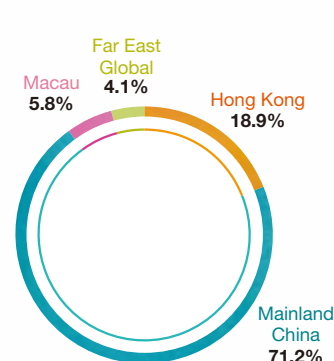
### By Project Categories



### By Customers



### By Market



### The first two months of 2018

- 25 new projects awarded a total attributable contract value of HK\$22,310 million

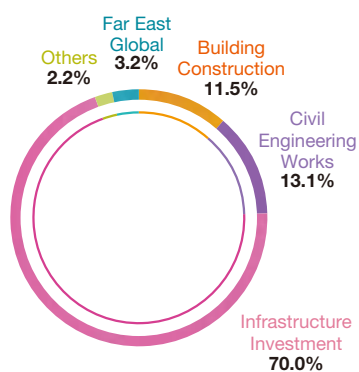


## Business Review (continued)

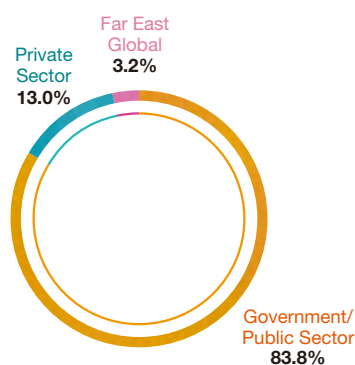
### Projects in Progress in 2017

	No.	As at 31 December 2017	
		Attributable contract value HK\$'million	Value of incompleted contract HK\$'million
<b>Hong Kong</b>	<b>40</b>	<b>51,194</b>	<b>23,304</b>
Building Construction	4	6,855	4,336
Civil Engineering Works	14	40,357	15,835
Others	22	3,982	3,133
<b>Mainland China</b>	<b>95</b>	<b>219,270</b>	<b>156,015</b>
Building Construction	2	2,925	2,248
Infrastructure Investment	93	216,345	153,767
<b>Macau</b>	<b>11</b>	<b>28,772</b>	<b>3,213</b>
<b>Far East Global</b>	<b>-</b>	<b>9,829</b>	<b>5,479</b>
<b>Total</b>	<b>146</b>	<b>309,065</b>	<b>188,011</b>
<b>Infrastructure Investment</b>	<b>93</b>	<b>216,345</b>	<b>153,767</b>
<b>Cash Construction &amp; related</b>	<b>53</b>	<b>82,891</b>	<b>28,765</b>
Hong Kong	40	51,194	23,304
Macau	11	28,772	3,213
Others	2	2,925	2,248
<b>Far East Global</b>	<b>-</b>	<b>9,829</b>	<b>5,479</b>
<b>Total</b>	<b>146</b>	<b>309,065</b>	<b>188,011</b>

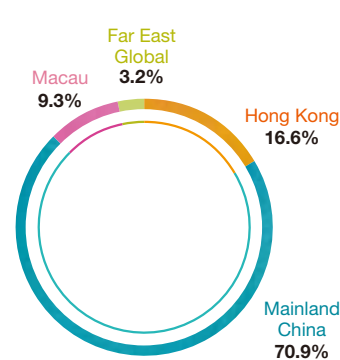
#### By Project Categories



#### By Customers



#### By Market



# Major Projects in Progress — Hong Kong & Macau



## Business Review (continued)

### Major Projects in Progress — Hong Kong

No.	Project Name	Attributable Contract Value HK\$'million
1	Hong Kong-Zhuhai-Macao Bridge Hong Kong Link Road — Section between Scenic Hill and Hong Kong Boundary Crossing Facilities	887,478
2	Central — Wan Chai Bypass Tunnel (Slip Road 8 Section)	479,197
3	Tseung Kwan O — Lam Tin Tunnel and Related Projects	427,823
4	The Chinese University of Hong Kong Medical Centre	404,479
5	Exhibition Station and Western Approach Tunnel Project of Shatin to Central Link	287,595
6	Widening of Fanling Highway — Tai Hang to Wo Hop Shek Interchange	251,000
7	APM and BHS Tunnels on Existing Airport Island	237,090
8	Phase Two of Infrastructure Project in the south of Hong Kong's Port of Hong Kong — Zhuhai-Macao Bridge	225,958
9	Construction Project of Cross Harbor Tunnel Railway(North South Corridor) of Shatin to Central Link	213,150
10	Advance Works of Northern Commercial District in Hong Kong Airport	209,600
11	Residential Project, TMTL 427, So Kwun Wat Road, Tuen Mun	168,732
12	Main Contract Works for Redevelopment of University Heights at No. 42-44 Kotewall Road	91,200



Project Name

Main Contract Works for Redevelopment of University Heights at No. 42-44 Kotewall Road



Project Name

Residential Development Project at TMTL 423, Area 48, Castle Peak Road, So Kwun Wat, Tuen Mun



## Business Review (continued)



Project Name

The Chinese University  
of Hong Kong Medical  
Centre



Project Name

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



Project Name

Central — Wan Chai  
Bypass Tunnel (Slip  
Road 8 Section)

# Business Review (continued)

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



Project Name  
Tseung Kwan O  
— Lam Tin Tunnel  
and Related Projects



Project Name  
Exhibition Station  
and Western  
Approach Tunnel  
Project of Shatin to  
Central Link



Project Name  
Widening of Fanling  
Highway — Tai Hang  
to Wo Hop Shek  
Interchange



Major Projects in Progress — Hong Kong (continued)



Project Name  
APM and BHS  
Tunnels on Existing  
Airport Island

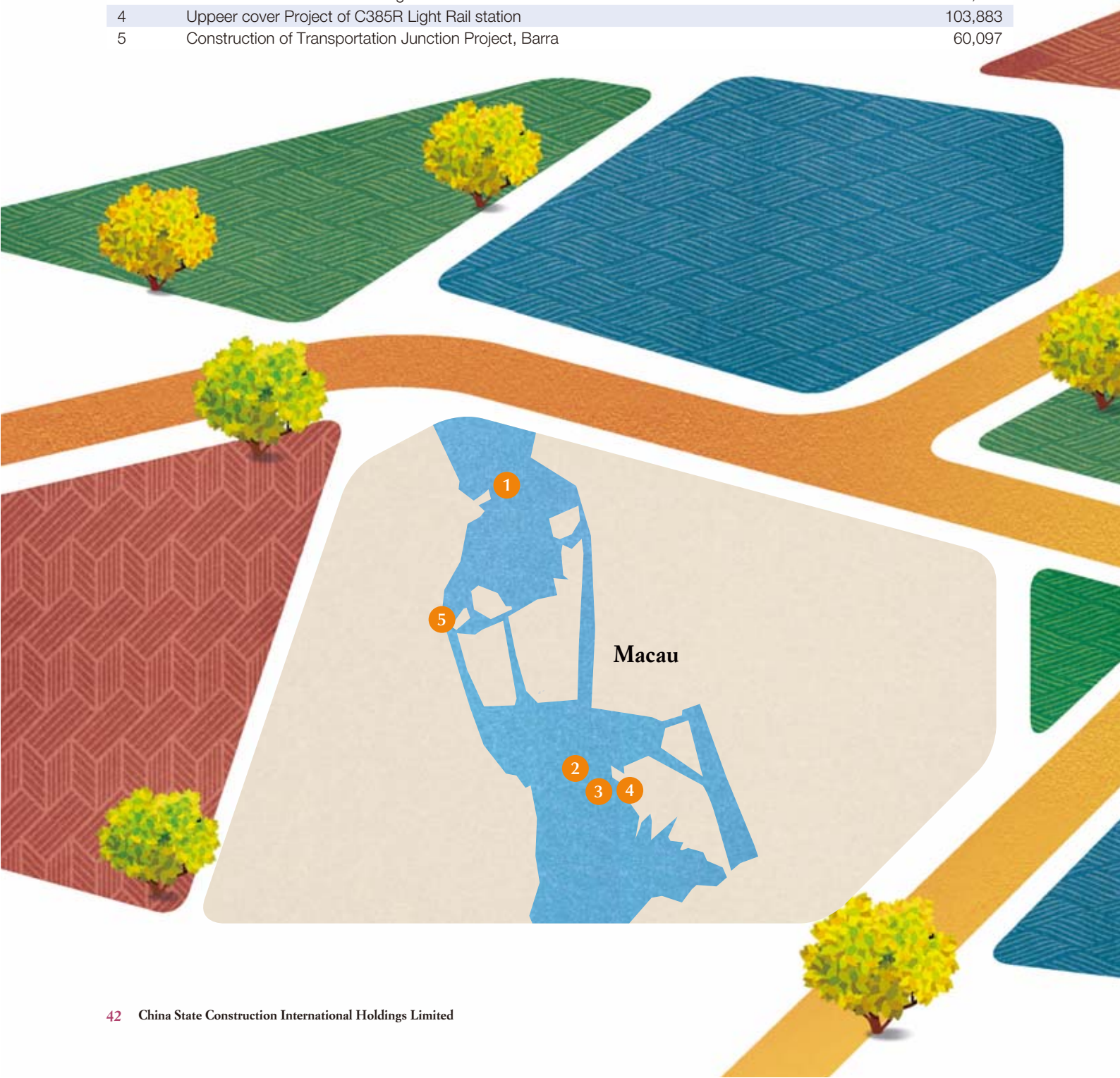


Project Name  
Phase Two of Infrastructure  
Project in the south of Hong  
Kong's Port of Hong Kong  
— Zhuhai-Macao Bridge

## Business Review (continued)

### Major Projects in Progress — Macau

No.	Project Name	Attributable Contract Value HK\$'million
1	MGM Cotai Project	1,281,095
2	The Construction of the Residential and Commercial Development Project of Nova City Phase 5	629,501
3	Section 1 & 2 of Public Housing in Ilha Verde	189,223
4	Upper cover Project of C385R Light Rail station	103,883
5	Construction of Transportation Junction Project, Barra	60,097



Project Name

Section 1 & 2 of Public  
Housing in Ilha Verde



Project Name

MGM Cotai Project

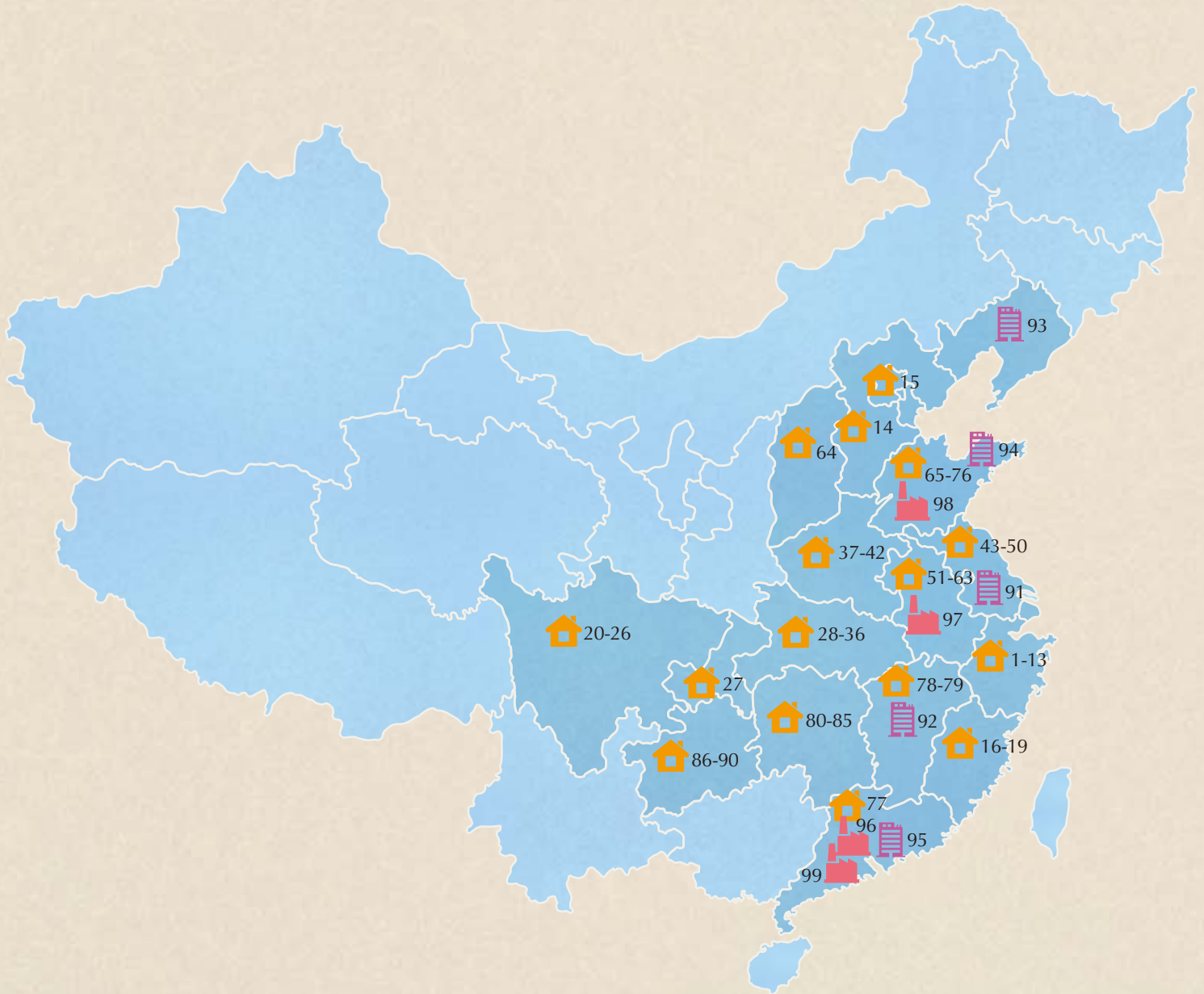





Project Name

The Construction of the  
Residential and Commercial  
Development Project of  
Nova City Phase 5



## Major Business - Mainland China



-  Prefabricated Construction Industrialization Base
-  Infrastructure Investment Project in progress
-  Operation and Management Project

Major Business — Mainland China

No.	Project Name
Major Infrastructure Investment Project in Progress	
1	Hangzhou Xiaoshan Beigan Relocation Housing Phase 2, Hangzhou, Zhejiang Province
2	Wuxing District People's Hospital and Infrastructure PPP Project, Huzhou, Zhejiang Province
3	Affordable Housing and Infrastructure Project, Jiaxing, Zhejiang Province
4	Affordable Housing and Infrastructure Project, Hangzhou, Zhejiang Province
5	Infrastructure and Industrial Park PPP Project, Haining, Zhejiang Province
6	Zhejiang West International Center PPP Project Phase 1, Hangzhou, Zhejiang Province
7	Affordable Housing BT Project, Huangyan District of Taizhou, Zhejiang Province
8	Jiande Meicheng Urbanization PPP Project Phase 1, Hangzhou, Zhejiang Province
9	Affordable Housing Construction BT Project, Lucheng District of Wenzhou, Zhejiang Province
10	Relocation Housing BT Project, Pingyang County of Wenzhou, Zhejiang Province
11	Investment and Construction Project of Relocation Housing, Wenzhou, Zhejiang Province
12	Internet Service Center PPP Project, Wenzhou, Zhejiang Province
13	Shanty Town Redevelopment Project, Ouhai District of Wenzhou, Zhejiang Province
14	Infrastructure PPP Project, Tangshan, Hebei Province
15	Shanty Town Redevelopment Project, Shunyi District, Beijing
16	Infrastructure BT Project, Longhai of Zhangzhou, Fujian Province



Project Name  
Internet Service Center PPP Project,  
Wenzhou, Zhejiang Province



Project Name  
Zhejiang West International  
Center PPP Project Phase 1,  
Hangzhou, Zhejiang Province

## Business Review (continued)

### Major Businesses — Mainland China (continued)

No.	Project Name
Major Infrastructure Investment Project in Progress	
17	BT Project for Rerouting Lianjiang-Jin'an section of National Highway G104 in Fuzhou, Fujian Province
18	Infrastructure PPP Project, Zhangzhou, Fujian Province
19	Infrastructure PPP Project, Quanzhou, Fujian Province
20	Relocation Housing Project in Modern Industry Project of Hyundai Motor, Ziyang, Sichuan Province
21	Investment and Construction Project of Relocation Housing, Longquanyi District of Chengdu, Sichuan Province
22	Investment and Construction Project of Industrial Park, Tianfu New District West of Chengdu, Sichuan Province
23	Medical City Investment + EPC Project, Chengdu, Sichuan Province
24	Cultural Tourism Infrastructure Investment + EPC Project, Mianyang, Sichuan Province
25	The Hongyong Garden Relocation Housing Project, Chengdu, Sichuan Province
26	Ring Road PPP Project Phase Two, Dazhou, Sichuan Province
27	Infrastructure Project, Hechuan District, Chongqing Province
28	Five Infrastructure Projects including Binjiang Avenue in Wuhan, Hubei Province
29	Express Rail Station PPP Project, Shiyan, Hubei Province
30	Science and Technology Park PPP Project Phase 1, High-tech District of Xiangyang, Hubei Province
31	Municipal Infrastructure Project, Huanggang, Hubei Province
32	Airport Highway PPP Project, Shiyan, Hubei Province
33	Wuchang & Hanyang Section of 2nd Circle Line, Wuhan, Hubei Province





Major Businesses — Mainland China (continued)

No.	Project Name
Major Infrastructure Investment Project in Progress	
34	Wuhan Yangtze River Avenue, Hubei Province
35	Construction of Underground Utility Tunnel, Central City of Optical Valley, Wuhan, Hubei Province
36	Redevelopment Project of Wu Xian Highway (Three Ring Line – Hongxia Village), Wuhan, Hubei Province
37	Relocation Housing Project in Residents Public Service Core District of Zhengzhou, Henan Province
38	Relocation Housing PPP Project, Zhengzhou, Henan Province
39	Infrastructure Investment Projects, Zhengzhou, Henan Province
40	Ping'an Avenue Project, Zhengzhou, Henan Province
41	Da'an to Pailu Main Line Redevelopment PPP Project, Luoyang, Henan Province
42	Shanty Town Redevelopment Project, Liangyuan District, Shangqiu, Henan Province
43	Relocation Housing PPP Project, Huaiyin District of Huaian, Jiangsu Province



Project Name

Ping'an Avenue Project,  
Zhengzhou, Henan Province



Project Name

Relocation Housing Project  
in Modern Industry Project  
of Hyundai Motor, Ziyang,  
Sichuan Province



## Business Review (continued)

### Major Businesses — Mainland China (continued)

No.	Project Name
Major Infrastructure Investment Project in Progress	
44	Relocation Housing and Hospital PPP Project, Zhenjiang, Jiangsu Province
45	Public Facilities and Relocation Housing PPP Project, Huaian, Jiangsu Province
46	Investment and Construction Project of Relocation Housing, New District Garden of Huaian, Jiangsu Province
47	Public Health Service Center Project, Huai'an, Jiangsu Province
48	Investment and Construction Project of Relocation Housing, Xuzhou, Jiangsu Province
49	Underground Utility Tunnel PPP Project, Xuzhou, Jiangsu Province
50	Binhe Garden PPP Project Phase 2, Xuzhou, Jiangsu Province
51	Highway Project, Bengbu, Anhui Province
52	Residential Industrialization Project, Hefei, Anhui Province
53	Building Industrialization Project of Digital Technology Industrial Park, Hefei, Anhui Province
54	Relocation Housing Project with Building Industrialization, Economic Development Area of Hefei, Anhui Province
55	Investment and Construction Project of Maternity and Child Healthcare Hospital, Hefei, Anhui Province
56	Construction Industrialization Project, Reservoir Water Conservation District, Hefei, Anhui Province
57	China State Construction Industrial Park Project (Zone A, B), Hefei, Anhui Province
58	CSCI Engineering Headquarter Project, Hefei, Anhui Province



Major Businesses — Mainland China (continued)

No.	Project Name
Major Infrastructure Investment Project in Progress	
59	Investment and Construction Project of Shanty Town Redevelopment, Hefei, Anhui Province
60	Shanty Town Redevelopment Project, Suzhou, Anhui Province
61	Huanglu Normal School Redevelopment Project, Hefei, Anhui Province
62	Highway PPP Project, Anhui Province
63	Green Home Industrial New Town Project, Lu'an, Anhui Province
64	Municipal Infrastructure PPP Project, Ankang, Shanxi Province
65	Affordable Housing Project, Chengyang District of Qingdao, Shandong Province
66	Infrastructure and Related Facilities Project, Binzhou, Shandong Province
67	Underground Utility Tunnel and Other Infrastructure Investment Project, Zibo, Shandong Province
68	Relocation Housing and Infrastructure PPP Project, Zibo, Shandong Province
69	Infrastructure PPP Project, Jining, Shandong Province
70	Investment and Construction Projects of Hospital, Relocation Housing and Infrastructure, Zibo, Shandong Province



Project Name  
Infrastructure and Related Facilities  
Project, Binzhou, Shandong Province



Project Name  
Infrastructure PPP Project, Jining,  
Shandong Province

# Business Review (continued)

## Major Businesses — Mainland China (continued)

No.	Project Name
Major Infrastructure Investment Project in Progress	
71	Investment and Construction Project of Shanty Town Redevelopment, Jining, Shandong Province
72	Investment and Construction Project of Relocation Housing and Infrastructure, Linyi, Shandong Province
73	Investment and Construction Project of Municipal Infrastructure, Zibo, Shandong Province
74	The Infrastructure of Transportation, Hengtai Country, Zibo, Shandong Province
75	Public Infrastructure Project, Zibo, Shandong Province
76	Education Group PPP Project, Jinan, Shandong Province
77	Urban Comprehensive Development PPP Project, Foshan, Guangdong Province
78	Infrastructure PPP Project, Wangcheng New District of Nanchang, Jiangxi Province
79	Cultural Tourism Character Town Construction PPP Project, Nanchang, Jiangxi Province
80	Infrastructure PPP Project, Bonded Area of Changsha, Hunan Province
81	Investment and Construction Project of Furong Road Renewal, Xiangtan, Hunan Province
82	Relocation Housing PPP Project, Yongzhou, Hunan Province
83	University and Science & Technology City PPP Project, Yuelu Mountain of Changsha, Hunan Province
84	Infrastructure PPP Project, Xiangxi Tujia and Miao Autonomous Prefecture, Hunan Province
85	Schools and Kindergartens PPP Project, Xiangxi Tujia and Miao Autonomous Prefecture, Hunan Province
86	Zheng'an-Xishui Expressway PPP Project, Zunyi, Guizhou Province



Project Name  
Infrastructure PPP Project, Wangcheng New District of Nanchang, Jiangxi Province



Project Name  
Infrastructure PPP Project, Bonded Area of Changsha, Hunan Province



Major Businesses — Mainland China (continued)

No.	Project Name
<b>Major Infrastructure Investment Project in Progress</b>	
87	Highway PPP Project from Yinjiang of Guizhou Province to Xiushan of Chongqing Province, Guizhou Province
88	Dapingzi to Dongdi Class 1 Highway Project, Liupanshui, Guizhou Province
89	Investment and Construction Project of Expressway, Tongren, Guizhou Province
90	Relocation Housing Project, Southeast Qian, Guizhou Province
<b>Operation and Management</b>	
91	Nanjing No.2 Yangtze River Bridge
92	Nan Chang Bridge and Nan Chang Zhong Hai Xin Ba Yi Bridge
93	Shenyang Huanggu Thermal Power Plant
94	Laizhou Port
95	China Overseas Logistics
<b>Prefabricated Construction Industrialization Base</b>	
96	Shenzhen Hailong Construction Products Plant
97	Anhui Hailong Construction Products Plant
98	Shandong Hailong Construction Products Plant
99	Zhuhai Hailong Construction Products Plant



Project Name  
China Overseas Logistics



Project Name  
Highway PPP Project from Yinjiang of Guizhou Province to Xiushan of Chongqing Province, Guizhou Province

# Awards and Accolades 2017



## Comprehensive strength, corporate governance, branding category

Award	Unit	Organisation
A constituent of the FTSE4Good Index Series	CSCI	FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company)
Constituent of Hang Seng Corporate Sustainability Benchmark Index	CSCI	Hang Seng Indexes Company Limited
2016–2017 Lun Ban Award of China Construction (Overseas Projects)	China State Construction Engineering (Hong Kong) Limited	China Construction Industry Association
2016–2017 Lun Ban Award of China Construction (Overseas Projects)	China Construction Engineering (Macau) Company Limited	China Construction Industry Association
First place of Most Honored Companies (The All-Asia Executive Team)	CSCI	Institutional Investor
All-Asia Executive Team: Best CEOs	CSCI	Institutional Investor
All-Asia Executive Team: Best CFOs	CSCI	Institutional Investor
All-Asia Executive Team: Best IR Professionals	CSCI	Institutional Investor
Excellence in Responding to Climate Change Enterprise Award	CSCI	CDP
31st International ARC Awards (Building & Construction) – Silver Winner	CSCI	International ARC Awards
Silver Industry Award	CSCI	League of American Communications Professionals LLC

## CSR category

Award	Unit	Organisation
Caring Company Logo 2008/17	CSCI	The Hong Kong Council of Social Service
Caring Company Logo 2013/17	Far East Global Group Ltd.	The Hong Kong Council of Social Service

## Awards and Accolades 2017 (continued)



### Environmental protection category

Award	Unit	Organisation
CarbonCare ESG Label 2017	CSCI	CarbonCare Innolab
CarbonCare ESG Label 2017	Far East Global Group Ltd.	CarbonCare Innolab
Construction Industry Safety Award Scheme 2016/2017 Building Sites — Private Sector (Gold)	Main Contract for Proposed Residential Development at TMTL 427, So Kwun Wat Road	Labour Department of Hong Kong, Occupational Safety & Health Council and other
Construction Sites Housekeeping Award Scheme 2016 The Grand Award	Upgrading Works at Stonecutters Island Sewage Treatment Works — Sludge Dewatering Facilities	Drainage Services Department of Hong Kong
the 9th Regional Safety Quiz — Champion (Macau Region only, Enterprise Category)	China Construction Engineering (Macau) Company Limited	Labour Affairs Bureau of Macau
Construction Industry Safety Award Scheme 2016/2017 Civil Engineering Sites (Silver)	Upgrading Works at Stonecutters Island Sewage Treatment Works — Sludge Dewatering Facilities	Labour Department of Hong Kong, Occupational Safety & Health Council and other
The 23th Considerate Contractors Site Award Scheme Considerate Contractors Site Award (Bronze)	Widening of Fanling Highway-Tai Hang to Wo Hop Shek Interchange	Development Bureau, Construction Industry Council and other

### Quality and technology category

Project/Award	Unit	Organisation
National High-tech Enterprises	遠東幕牆製品(深圳)有限公司	Shenzhen Science and Technology Innovation Committee, Shenzhen Finance Committee, Shenzhen State Tax Bureau, Shenzhen Local Taxation Bureau
Paper Presentation in 42nd OWICS Conference in Singapore	China State Construction Engineering (Hong Kong) Limited	42th Our World in Concrete & Structure Conference Academic Conference Committee
第七屆中建技術交流會優秀論文一等獎 — 《澳門美高梅景觀天幕H型鋼大跨度異型薄殼屋頂結構的設計生產與安裝》	China State Construction Engineering (Hong Kong) Limited, China Construction Engineering (Macau) Company Limited	China State Construction Engineering Corporation 中國建築集團有限公司

# 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 130 employees had been rotated worldwide over the last 3 years. As of end of 2017, the Group had a total of 11,349 employees (excluding staff of our joint venture projects), of which, 4,930 persons were in Hong Kong and Macau, 5,899 of them were in Mainland China, and 520 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 8,270 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.



# Corporate Citizenship (continued)

## 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.

## Relationship with Employees

The Group attaches great importance 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

The core business of China State Construction Engineering (Hong Kong) Limited is the design and construction of multi-disciplinary projects, including building, civil, foundation, mechanical & electrical projects, and other construction related business. 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 shall continuously review and improve the environmental management system in an attempt to improve its overall performance. It is mandatory that all employees shall fully conform to the policy and carry out their assigned duties and responsibilities.

## 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 will 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 remind 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. Based on date of offence, there is no environmental prosecution happened in 2017.

### 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 granted the ISO50001:2011 Energy Management Systems certification. There is no non-compliance or Area for Improvement (AFI) raised during the system re-certification audit in 2017.

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 ten of our staff members have obtained the qualification of BEAM Pro.

With the concerted efforts of the Group, the results were remarkable. Our Upgrading Works at Stonecutters Island Sewage Treatment Works — Sludge Dewatering Facilities project won the Outstanding Environmental Management and Performance Award (Merit Award) in the 23rd Considerate Contractors Site Award Scheme. Our design and build project the Expansion of Tai Po Water Treatment Works (Contract No. 15/WSD/10) won the Green Management Award — Project Management (Large Corporation)(Bronze) organized by Green Council. Besides, China State Construction Engineering (Hong Kong) Ltd won the 2017 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 “Kadoorie Farm and Botanic Garden Guided Tour” organized by

Kadoorie Farm and Botanic Garden. Through the guided tour, staff acquired the knowledge and appreciated local biodiversity and the works on native wildlife 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 and promote resources saving. 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 continual improvement and cost saving in the long run.

### 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” organised by the Construction Industry Council, with a view to aiding the underprivileged as well as encouraging its staff to care for the society.

China State Construction Engineering (Macau) Company Limited, a subsidiary of the Group, was actively involved in the preventive and rescue work in connection with the super typhoon on August 23rd, paving the way for post-disaster relief and rebuilding in Macau. The company was highly commended by the public, as it mended broken windows for damaged homes, while completing rescue tasks with remarkable efficiency.

## Corporate Citizenship (continued)

### “Hong Kong and Kowloon Walks for Millions” by the Community Chest of Hong Kong

On 8 January 2017, the staff of the Group and their families took part in “Hong Kong and Kowloon Walk for Millions 2017”, 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 Mr. Leung Chun-ying, Chief Executive of the HKSAR, and Mrs. Leung.

Led by members of our top management, our colleagues, all dressed in the smart-looking, light-blue China Overseas corporate jacket, started off from the Hong Kong Stadium in high spirits on a warm and sunny day, passing through Wong Nai Chung Gap Road, Black’s Link and Aberdeen Reservoir Road before finishing at Aberdeen Country Park. It was a fine example of China Overseas Group’s enthusiastic participation in charitable activities and diligent fulfilment of corporate social responsibilities.

“Walks for Millions” organised by the Community Chest is one of the largest fund raising events in Hong Kong. The Group has supporting and organising staff and their families to join the activity over the years. Fund raised from this event this year will 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 reinforce family values for the benefit of the society.





### 2017 Happy Run cum Carnival organised by Construction Industry Council

On the morning of 5 March 2017, “2017 Happy Run cum Carnival” was held by the Construction Industry Council at the Tai Po Training Ground. The “Construction Industry Volunteer Award Scheme” has been launched by the Construction Industry Council in October 2016 to encourage active participation in sports by construction workers, while also aiming to enhance interaction among members of the construction industry. In diligent performance of its corporate social responsibilities, the Group has rendered active support to the scheme and organised staff and their families to take part in various events. All enrolment fees received for the activity will be donated to the Construction Charity Fund for the benefit of construction workers in need.

### CSC excels in sports while helping charitable causes in the spirit of health and care

On 5 November 2017, the Association of the Group assembled some 40 staff members of the Company to take part in the “2017 Construction Industry Sports Day cum Charity Day” held by the Construction Industry Council at the Hong Kong Sports Institute. Our athletes were crowned overall champions in one of the events, while walking away with 2 gold, 1 silver and 3 bronze medals in others as they participated actively in the contests and games.



The sports day cum charity day event was organised by the Construction Industry Council with a view to promoting the healthy lifestyle and caring culture. The sports gala included various athletic events, feature games stalls, performances and a charity run which highlighted the unity, energy and caring spirit of the industry.

## Corporate Citizenship (continued)

### “Rugby For All” charity event organised by Far East Global Group Limited

To carry on its charity campaign for the benefit of the society in ongoing fulfillment of its corporate social responsibility, the company organised a charity workshop entitled “Rugby For All” (“運動零界限 — 欖球全接觸”) in Aberdeen, Hong Kong on 4 November 2017 in association with Treats, a charitable organisation focused social integration for children. Fifteen staff volunteers from Far East Global Group participated in the event with 15 students with impaired abilities from special schools.

The workshop aimed to help participants to enhance their communication skills through the rugby game and strengthen their confidence in getting along with other people in harmony. On the other hand, other participants came to know more about people with different abilities and backgrounds and developed a more understanding and accepting attitude towards people with impaired abilities, so that the goal of social inclusion can be attained.

Following warm-up and ice-breaking games, the Far East volunteers paired up with the students randomly and developed rapport by learning certain verbal commands. It was followed by a rugby fun challenge in which the teams competed against each other. The kids behaved cautiously at first, but as the game went on, they became more proactive in learning the rugby skills, interacting with their partners and sharing appreciation and encouragement. Finally, in a post-game reflection, everyone shared what he or she had learned from the game and left with a deeper understanding of communication, respect and inclusion.

Every individual should be entitled to equal status and rights in the society. However, some have been discriminated because of autism or intellectual disability. We firmly believe that, with more patience, appreciation, encouragement and approval, we will be able to feel the wonderful innocence of these people and help them to integrate with the society. Our genuine concern is always rewarded by the warm feeling of gratitude, and we will continue to devote our ceaseless effort in charity.







### Far East Global Group Limited received its first “18 Districts Caring Employers” commendation

In December 2017, Far East Global Group Limited received its first “18 Districts Caring Employers” commendation in the 10th “18 Districts Caring Employers Award Scheme” jointly organised by Hong Kong Joint Council for People with Disabilities, The Hong Kong Council of Social Service and the Rehabilitation Advisory Committee of the Labour and Welfare Bureau, in recognition of Far East Global Group’s vigorous effort in securing employment for disabled people and promoting greater public understanding for them.

The “18 Districts Caring Employers Award Scheme” has been receiving strong support from the 18 districts and employers in different sectors. In the current version of the Scheme, 196 institutions, including 127 commercial corporations, 38 non-governmental organisations and 31 social enterprises received commendation. The commended organisations employed disabled people in different categories, such as those who were physically, audibly, visually or intellectually impaired, persons recovering from mental rehabilitants, persons suffering from autism, ADHD and chronic illness, etc. Suitable job positions were arranged according to the abilities of these impaired employees. Ancillary facilities, training and guidance were also provided so that their potential can be realised to the fullest.

Far East Global Group conducted a file management campaign from June to August, requiring all departments to sort out their historical files and clear miscellaneous paper-based information. Important information was recorded electronically to facilitate more efficient file management, as well as to create a more comfortable and cleaner office environment. Two disabled persons with hearing, visual and reading/writing impairments were hired on a short term basis to assist in tasks such as paper shredding, document scanning and electronic file compilation. This initiative has not only helped us to complete our targets, but has also alleviated the pressure relating to labour force.

Every individual in the society is entitled to equal rights. Even a disabled person should have the right to choose his or her employment and demand recognition for his or her abilities. The Company will continue to care for the underprivileged as part of the effort to fulfill its corporate social responsibility. Hand in hand, let us work relentlessly to build a harmonious society marked by mutual respect, equality and inclusion.

### China Construction Engineering (Macau) Company Limited actively involved in preventive and rescue work in connection with the super typhoon on August 23rd

On 23 August 2017, Macau was swept by Super Typhoon Hato. China Construction Engineering (Macau) Company Limited organised 300 volunteers to help in post-disaster relief, clearing 30 streets and shipping away 225 trucks of garbage over an area of 50,000 square metres after 48 hours of tireless efforts, while mending 260 broken windows for damaged homes. They were highly commended by the public as they completed the rescue tasks with remarkable efficiency.

On 7 September, The Central People’s Government Liaison Office in Macau sent a letter of appreciation to China State Construction Engineering Corporation, commending China Construction Engineering (Macau) Company Limited for paving the way for Macau’s post-disaster relief and rebuilding and acting as the main force in the rescue effort rendered by Chinese companies. The Macau SAR Government and public also praised China Construction Engineering (Macau) Company Limited for its disaster relief efforts. The Liaison Office expressed sincere gratitude and respect for the dedication and contribution of China Construction Engineering (Macau) Company Limited.



# Corporate Citizenship (continued)

## Investor Relations

Investor relations have always been among the top priorities of the Group, who is committed to maintaining effective communication with shareholders and investors. The management firmly believes that proactive communication and interaction with the capital market will not only enhance the transparency of the Company's operations, but will also enable it to deliver greater value.

To address the Group's worldwide shareholders' base, our management and professional IR team 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 annual reports, interim reports, announcements via the Stock Exchange and the Company's website. Communication sessions with a total turnout of more than 1,200 were held during the year, during which investors were briefed on the Company's market and policy environment, operational strategies, business development, financial data and management approaches, while the Group also listened to the concerns and expectations of the shareholders and investors as important considerations to be taken into account in the formulation of its strategy for long-term sustainable development.



## Corporate Citizenship (continued)



In view of the increasing turnover of Stock Connect (Southbound) and the rising percentage accounted for by shareholders and investors trading via this channel, the Group has enhanced interaction with Mainland Chinese investors during the year through activities such as post-results roadshows in Shanghai and attendance of strategy meetings hosted by securities houses. In addition, a special reverse roadshow for investors in Stock Connect (Southbound) was organised for the first time, garnering positive response from attending investors.



## Corporate Citizenship (continued)

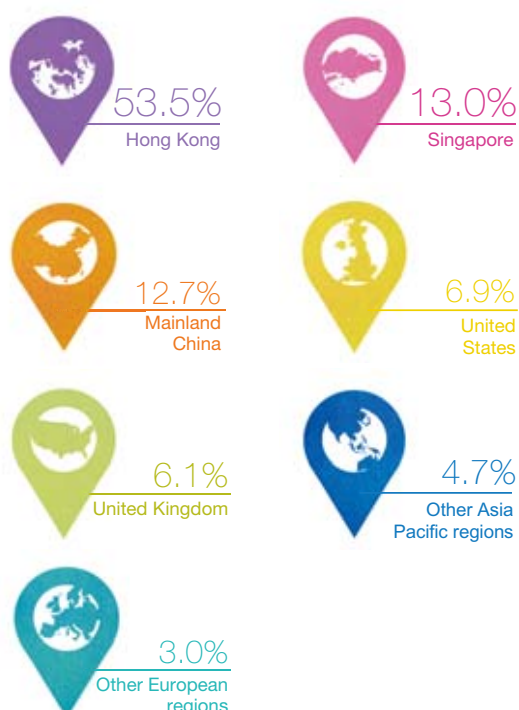
During the year, the Group once again earned the distinction of “Most Honored Company” in the annual poll of “Institutional Investor” and became one of the 15 companies that ranked among the top three in all sub-categories of the award. In a number of sub-categories, including the “Best CEO” award, the Group had ranked first among Asian industrial companies for 5 years in a row since 2013, indicating strong recognition in the international capital market for the company’s operations and efforts in investor relations.



### Investors' attendance of the Group's IR activities



### Geographic distribution of shareholders and investors covered by the Group's meetings



## Corporate Citizenship (continued)

### Major Investor Relations Activities in 2017

#### JANUARY

- The 17th UBS Greater China Seminar
- Citi China Top Pick Corporate Day
- Deutsche Bank China Conference

#### APRIL

- Post-annual results roadshow in the United States
- Post-annual results roadshow in Mainland China
- Macquarie Greater China conference

#### JUNE

- Bank of America Merrill Lynch Innovation China Forum
- The 13th JP Morgan Global China Summit
- Daiwa Industrial Conference

#### AUGUST

- Citi China Mid Cap Conference
- 2017 Interim Results Announcement
  - Press Conference
  - Investors and Analysts Briefing
- Post-interim results roadshows in Hong Kong, Singapore and Mainland China

#### OCTOBER

- Bank of America Merrill Lynch China Conference
- The 7th Jefferies Group Greater China Conference
- CICC Investment Conference

#### MARCH

- 2016 Annual Results Announcement
  - Press Conference
  - Investors and Analysts Briefing
- Post-annual results roadshows in Hong Kong and Singapore
- The 20th Credit Suisse Annual Asia Investment Conference

#### MAY

- CLSA China Forum
- BOCI Industrial Conference
- HSBC China Conference

#### JULY

- Citi China Top Pick Corporate Day

#### SEPTEMBER

- Post-interim results roadshow in the United Kingdom and Continental Europe
- CLSA investors' meeting

#### NOVEMBER

- USD bond roadshows in Hong Kong and Singapore
- Daiwa Securities investors' meeting
- CITIC Securities Capital Markets Annual Conference
- The 12th Citibank China Investors' Conference
- Reverse roadshow in Zhejiang Province

#### DECEMBER

- Citigroup Industrial Conference
- Stock Connect (Southbound) reverse roadshow in Anhui Province
- Gelonghui Hong Kong Stock Conference

# Directors and Organisation



1. Mr. Zhou Yong
2. Mr. Tian Shuchen
3. Mr. Zhou Hancheng
4. Mr. Pan Shujie
5. Mr. Hung Cheung Shew
6. Mr. Wu Mingqing
7. Mr. Zhang Haipeng

# Directors and Organisation (continued)

## Board of Directors

### Mr. ZHOU Yong

*Executive Director, Chairman and Chief Executive Officer*

Aged 47, was appointed as a Director of the Company on 21 April 2004 and was designated as an Executive Director on 1 June 2005. Mr. Zhou acted as Vice-chairman of the Company during the period from 9 June 2005 to 14 August 2013 and was appointed Chairman of the Company on 15 August 2013. Mr. Zhou graduated from Changsha Academy of Military Engineering and University of South Australia. He is Fellow of The Chartered Institute of Building (UK) and The Institution of Civil Engineers (UK). Mr. Zhou joined 中國建築集團有限公司 (China State Construction Group Limited\*) ("CSCGL", formerly known as "China State Construction Engineering Corporation") in 1994 and was seconded to the Group in 1996. He has been a director of certain subsidiaries of the Group since 2001. Currently, Mr. Zhou is a director of China Overseas Holdings Limited ("COHL") and the chairman and non-executive director of Far East Global Group Limited ("FEG", a subsidiary of the Company and listed in Hong Kong). He was awarded the "Director of the Year Award — Executive Director of Listed Companies (SEHK — Non Hang Seng Index Constituents)" by The Hong Kong Institute of Directors in 2009. Mr. Zhou was appointed as a member of the 13th National Committee of the Chinese People's Political Consultative Conference in January 2018. He has more than 25 years' construction, project and corporate management experience in Mainland China and Hong Kong, in particular, specialises in investment and development new business startup, formulating and executing business strategies for companies. He oversees the overall operation of the Group.

### Mr. TIAN Shuchen

*Executive Director, Vice President*

Aged 52, 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 CSCGL 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 30 years' experience in construction engineering and project management.

### Mr. ZHOU Hancheng

*Executive Director and Financial Controller*

Aged 48, 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 26 years' experience in corporate finance, financial accounting and investment management.

### Mr. PAN Shujie

*Executive Director, Vice President*

Aged 53, was appointed as an Executive Director of the Company on 22 August 2012. Mr. Pan graduated from the Southeast University (formerly known as Nanjing Institute of Technology) and the University of Warwick (UK). He is a member of the Hong Kong Institute of Engineers and a member of the Chartered Institute of Building (UK). Mr. Pan joined CSCGL in 1987 and was seconded to the Group in 1991. He has been a director of certain subsidiaries of the Group since 1999. Mr. Pan has been appointed member of Construction Industry Council by Development Bureau of the Government of the Hong Kong Special Administrative Region since 2016. Mr. Pan has over 31 years' experience in civil and construction project management.

### Mr. HUNG Cheung Shew

*Executive Director, Vice President*

Aged 59, 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 36 years' experience in construction management and planning.

\* English or Chinese translation, as the case may be, is for identification only.

## Directors and Organisation (continued)

### Mr. WU Mingqing

*Executive Director, Vice President*

Aged 53, was appointed as an Executive Director of the Company on 3 June 2014. Mr. Wu graduated from Shanxi University of Finance and Economics and obtained a degree of Executive Master of Business Administration from Nankai University and was awarded the title of Senior Accountant. Mr. Wu joined CSCGL in 1986 and was seconded to the Group in 2000. He has been a director of certain subsidiaries of the Group since 2002. Mr. Wu has over 32 years' experience in finance management, construction engineering, infrastructure investment and project management.

### Mr. ZHANG Haipeng

*Executive Director, Vice President*

Aged 42, was appointed as an Executive Director of the Company on 13 July 2017. 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 CSCGL in 2000 and was seconded to the Group in 2002. He has been a director of certain subsidiaries of the Group since 2008. Mr. Zhang has over 18 years' experience in construction engineering management.

### 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 79, 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 55 years' experience in the fields of civil, structural, energy, environmental and geotechnical engineering and direct project management of many mega size engineering projects including 45 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); 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; member of the Basic Law Consultative Committee; 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 (Engineering and Surveying). Dr. Ho is also a director of various private companies in Hong Kong; 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 44, 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 MPF Industry Schemes Committee of the MPFA, a Trustee of The University of Hong Kong's occupational retirement schemes, an Advisory Committee member of the Hong Kong Baptist University's School of Business and a Vice President of The Hong Kong Institute of Bankers' Council. Furthermore, he 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 and Shanghai Fosun Pharmaceutical (Group) Co., Ltd. (listed in Hong Kong and Shanghai), and an Alternate Independent Non-executive Director of San Miguel Brewery Hong Kong 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 63, 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 41 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.

### **Mr. LEE Shing See GBS, OBE, JP**

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

Aged 75, 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 52 years' experience in engineering and construction.

# Directors and Organisation (continued)

## Senior Management

### Mr. ZHAO Xiaoqi

*Vice President*

Aged 44, he graduated from Tsing Hua University and obtained a degree of Master of Business Administration from Renmin University of China. Mr. Zhao joined CSCGL 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 21 years' experience in human resources management and personnel administration.

### Mr. ZHOU Wenbin

*Vice President*

Aged 51, 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 29 years' experience in corporate finance, accounting and investment management.

### Mr. JIANG Shaojie

*Vice President*

Aged 54, 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 CSCGL 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 35 years' experience in construction engineering and project management.

### Mr. ZHOU Yuguang

*Assistant President*

Aged 53, 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 30 years' experience in information technology management and project management.

### Mr. WONG Wing Yuk

*Assistant President*

Aged 60, 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 31 years' experience in construction engineering and contract management.

## Directors and Organisation (continued)

### Mr. LAU Wing Shing

*Assistant President*

Aged 58, 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 36 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.

### Mr. HUANG Jiang

*Assistant President*

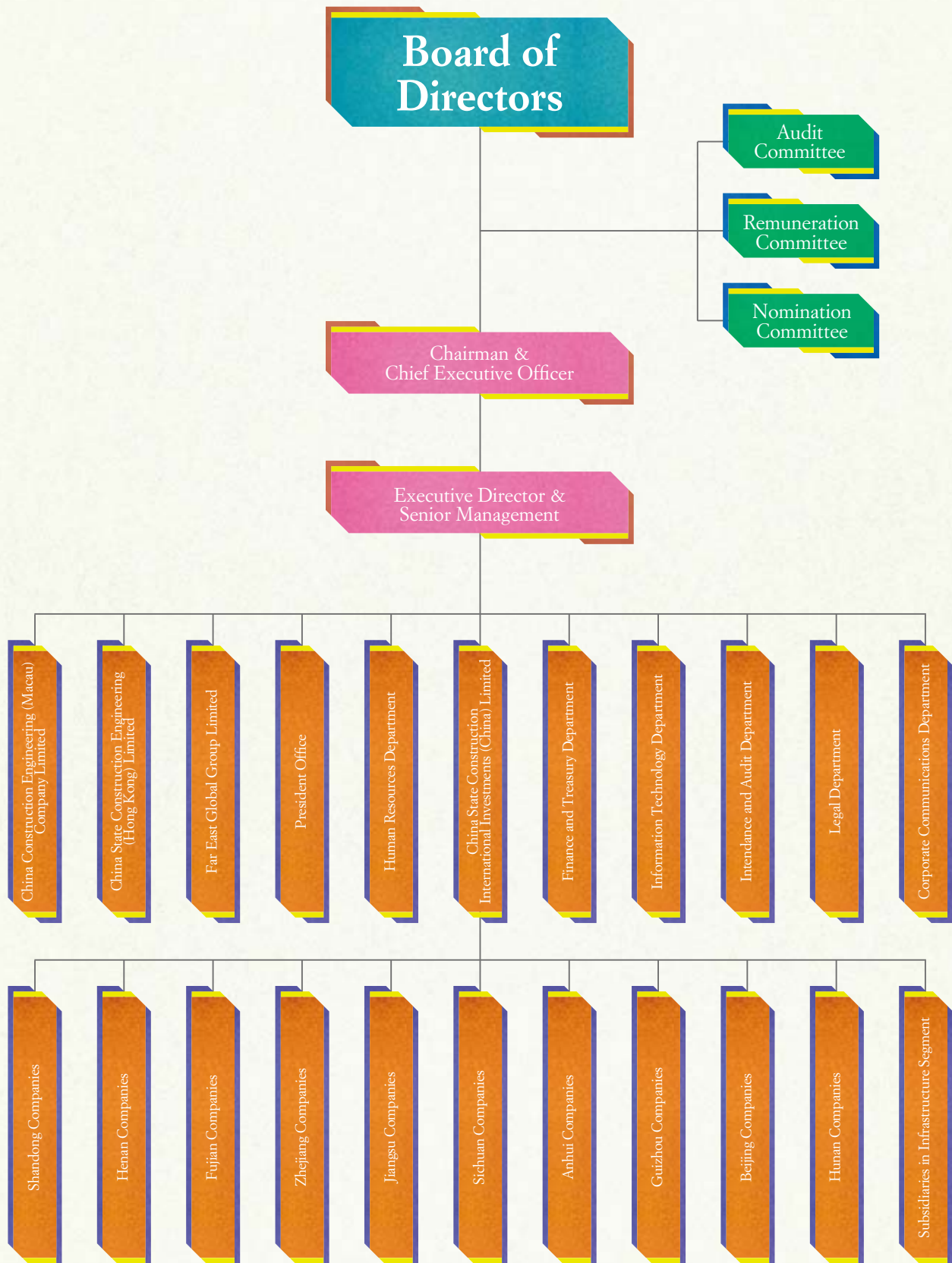
Aged 43, he graduated from Chongqing Jianzhu University and obtained a degree of Master in Project Management from Hong Kong Polytechnic University and a degree of Executive Master of Business Administration from Nankai University. Mr. Huang joined CSCGL in 1997 and was seconded to the Group in 2000. 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 21 years' experience in contract and project management.

### Mr. YANG Weidong

*Assistant President*

Aged 48, 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 28 years' experience in construction engineering and management.

## 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 2017, 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 the deviation as specified and explained below with considered reason for such deviation:

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 has acted as Executive Director, Chairman and Chief Executive Officer of the Company since August 2013. The Company considered that both positions of chairman and chief executive officer require persons with in-depth knowledge and experience of the Group’s business. If the positions occupied by unqualified persons, the Group’s performance may be affected. At this time, the Company believed that vesting both of the roles in the same person enable more effective and efficient overall strategic planning for the Group; and will not impair the balance of power and authority of the Board. The Company will review the structure from time to time and shall adjust the situation when suitable circumstance arises.

## 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.

The composition of the Board and the individual attendance (Board Meetings, 2017 AGM and EGM) of each director are set out below:

Name	Attended/Eligible to Attend			
	Board Meetings	2017 AGM	EGM	
<i>Executive Directors</i>				
Zhou Yong	(Chairman & Chief Executive Officer)	4/4	1/1	1/1
Tian Shuchen		4/4	1/1	1/1
Zhou Hancheng		4/4	1/1	0/1
Pan Shujie		3/4	1/1	1/1
Hung Cheung Shew		4/4	0/1	1/1
Wu Mingqing		4/4	1/1	0/1
Zhang Haipeng	(appointed on 13 July 2017)	2/2	–	1/1
<i>Independent Non-executive Directors</i>				
Raymond Ho Chung Tai		4/4	1/1	1/1
Adrian David Li Man Kiu		4/4	1/1	1/1
Raymond Leung Hai Ming		4/4	1/1	1/1
Lee Shing See		4/4	1/1	1/1

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.

## Corporate Governance Report (continued)

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 proposed final dividends and to approve the payment of interim dividends; to discuss and to approve the reports submitted; to discuss the significant transactions (including rights issue, issue of guaranteed notes and continuing connected 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. The Group has ceased to undertake new project and ceased to carry on construction and construction related business in Dubai market and India market. Currently, the Group focuses its business in Mainland China, Hong Kong and Macau. During the year, the Board resolved to cease operating, engaging and investing, directly or indirectly, in any construction or construction related business or company in Dubai and India. As a result, the Deed of Non-competition (the "Deed") made between China State Construction Group Limited and the Company in 2005 in relation to construction business in Dubai and India has been terminated pursuant to clause 5.1(b) of the Deed. 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, chairman and 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.

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.

## Corporate Governance Report (continued)

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. Tian Shuchen, Mr. Zhou Hancheng, Mr. Pan Shujie, Mr. Hung Cheung Shew, Mr. Wu Mingqing, Mr. Zhang Haipeng, 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 and participated the director training webcasts launched by HKEx. 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.

### 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 a balance of power.

During the year, Mr. Zhou Yong ("Mr. Zhou") is the Chairman and Chief Executive Officer of the Company. This constitutes a deviation from code provision A.2.1.

The Group divided into four major business segments. Each segment is managed by specified executive director directly. They are responsible for operating, monitoring, strategising and developing new business opportunities of their own segments. Mr. Zhou has been with the Group since 1994 and has plentiful experience in the Group's business and culture. He is capable of guiding the business segments to make discussion and decision in a timely manner on key issues and developments. Given that there is a clear organisation structure of the Group, so that the management of the board and the day-to-day management of the business is not concentrated in any one individual. The Company considered that it is in the interests of the Group that Mr. Zhou holds both the offices of the chairman and chief executive officer.

The Company also considered that both positions of chairman and chief executive officer require persons with in-depth knowledge and experience of the Group's business. If the positions occupied by unqualified persons, the Group's performance may be affected. At this time, the Company believed that vesting both of the roles in the same person enable more effective and efficient overall strategic planning for the Group; and will not impair the balance of power and authority of the Board. The Company will review the structure from time to time and shall adjust the situation when suitable circumstance arises.

Mr. Zhou 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 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.

# Corporate Governance Report (continued)

## 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.

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.



# Corporate Governance Report (continued)

## 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 renew the appointment letters of independent non-executive directors. The individual attendance of each director is set out below:

Name	Attended/ Eligible to Attend
Adrian David Li Man Kiu <i>(Chairman)</i>	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 2017 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, a Nomination Committee meeting was held and the individual attendance of each director is set out below:

Name	Attended/ Eligible to Attend
Lee Shing See (Chairman)	1/1
Raymond Ho Chung Tai	1/1
Adrian David Li Man Kiu	1/1
Raymond Leung Hai Ming	1/1

During the year, the Nomination Committee evaluated the composition and structure of the Board and reviewed the independence of the independent non-executive directors.

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. All Board appointments are based on meritocracy.

As at 31 December 2017, the Board comprises 11 directors. All of the directors are male. Four directors are under the age group of 40 to 50; four are under the age group of 51 to 60; and three are over 60. Two directors have served the Board below 5 years; three 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 2016; the Audit Committee Report for the year ended 31 December 2016; the connected transactions report; the internal control report; the Group's 2017 unaudited first quarter results; the Group's unaudited accounts for the six months ended 30 June 2017; and the Group's 2017 unaudited third quarter results. The external auditor was invited to attend 2016 final results meeting and 2017 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 2017 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 2017, 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\$8,266,000, including audit services fee of the Group of approximately HK\$7,822,000 and non-audit services fee of approximately HK\$444,000. 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 2017, 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 2017, Mr. Zhou Yong, Mr. Tian Shuchen, Mr. Zhou Hancheng, Mr. Pan Shujie, 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 respectively held 3,233,027; 4,000,000; 2,930,780; 300,904; 591,584; 913,569; 1,027,765; 813,569 and 1,027,765 shares of the Company, representing 0.064%; 0.079%; 0.058%; 0.006%; 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 2017, 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 being personal interest, in long positions and in the capacity of beneficial owner.

As at 31 December 2017, Mr. Pan Shujie and Mr. Zhang Haipeng held 400,000 shares (representing 0.019% shares in issue) and 3,078,000 shares (representing 0.143% shares in issue) in FEG respectively. 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 2017, Mr. Zhou Yong, Mr. Tian Shuchen, Mr. Zhou Hancheng, Mr. Pan Shujie, Mr. Wu Mingqing and Mr. Zhang Haipeng respectively held 255,000; 210,000; 210,000; 210,000; 210,000; and 210,000 shares in China State Construction Engineering Corporation Limited ("CSCECL", an intermediate holding company of the Company), representing 0.001%; 0.001%; 0.001%; 0.001%; 0.001%; and 0.001% of shares in issue in CSCECL. All the shares held by the directors are being personal interest, 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 (Phase II) (details were set out in the notes to the consolidated financial statement of 2017 annual report).

# Corporate Governance Report (continued)

Save as disclosed above, as at 31 December 2017, 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.

Save as disclosed above, at no time during the year ended 31 December 2017 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 2017, 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 2017, 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 2017 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 and chief executive officer, 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.

# Corporate Governance Report (continued)

## 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.

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, consults 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 chief executive officer 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 Intendance and Audit Department reviews the adequacy and effectiveness of the Company's risk management and internal control system. The Intendance and 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 Intendance and 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 Intendance 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.

# Corporate Governance Report (continued)

The Intendance and 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 Intendance and 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 Intendance and 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.

During the year, the Intendance and Audit Department deeply inspected, investigated and assessed four subsidiaries and one construction site of the Group. It reviewed and assessed their system on cost control and integrated management; operation flow; internal control; financial; contracting; investment; and especially the public-private-partnership project management. 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, two subsidiaries were conducted internal control testings during the year. The tests plan included 146 test items and focused in the areas of financial, reporting, funding management, costing, etc. The Intendance and Audit Department reviewed the Group's continuing connected transactions for the year ended 31 December 2017 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 Intendance and 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.

# Corporate Governance Report (continued)

## 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.

## 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 and an extraordinary general meeting during 2017. At the general meetings, 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 2017. 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.

An extraordinary general meeting was held on 27 November 2017. The notice of meeting and the circular containing information on the proposed resolutions were sent to shareholders more than 10 clear business days prior to the meeting. The chairman of the meeting and members of the independent board committee were available to answer questions from the shareholders at the meeting. At the meeting, separate resolution were proposed by the chairman of the meeting 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](http://www.csci.com.hk).

There are no change to the Company's Memorandum and Articles of Associations during the financial year 2017. 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 2017.

## 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 2017 are set out in the audited consolidated financial statements.

An interim dividend of HK15 cents per share amounting to HK\$673,221,000 was paid to the shareholders during the year. The Board recommended the payment of a final dividend of HK20 cents per share to the shareholders whose names appear on the register of members on 8 June 2018, amounting to approximately HK\$1,009,831,000.

## Business Review and Performance

The business review of the Group for the year ended 31 December 2017 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 2017 are set out in the Company's Sustainability Report 2017, which will be published in June 2018. The Company complied with all the provisions set out in the Environmental, Social and Governance Reporting Guide.

## 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.

# Directors' Report (continued)

## (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.

## Charitable Donations

Charitable Donations made by the Group during the year amounted to HK\$77,473 (2016: HK\$625,132).

## 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 2017 was 5,049,156,668 ordinary shares of HK\$0.025 each ("Shares").

On 12 October 2017, the Company completed a rights issue of one rights share for every eight existing shares at an issue price of HK\$11.33 per rights share, resulting in the issue of 561,017,407 ordinary shares of HK\$0.025 each. The Company raised approximately HK\$6,356 million before expenses. The new shares rank *pari passu* with the then existing shares in all respects.

Details of shares issued in the year ended 31 December 2017 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 2017 amounted to HK\$21,562,716,000 (2016: HK\$14,685,809,000).

## 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.

# Directors' Report (continued)

## 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

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

### Executive Directors

Mr. Zhou Yong (Chairman and Chief Executive Officer)  
Mr. Tian Shuchen  
Mr. Zhou Hancheng  
Mr. Pan Shujie  
Mr. Hung Cheung Shew  
Mr. Wu Mingqing  
Mr. Zhang Haipeng (appointed on 13 July 2017)

### 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. Hung Cheung Shew, Mr. Wu Mingqing, Dr. Raymond Leung Hai Ming and Mr. Lee Shing See, will retire by rotation at the forthcoming annual general meeting. All the retiring Directors, being eligible, offer themselves for re-election.

Pursuant to article 86(3) of the Company's Articles of Association, Mr. Zhang Haipeng 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 2018, the monthly salary of Mr. Hung Cheung Shew was changed from HK\$195,000 to HK\$201,800. 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.

## Directors' Report (continued)

### Substantial Shareholders

As at 31 December 2017, 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 positions of substantial shareholders in the shares of the Company

Name of shareholder	Capacity	Number of ordinary shares held	% of shares in issue <sup>1</sup>
China Overseas Holdings Limited <sup>2</sup> ("COHL")	Beneficial owner	3,261,796,136	64.60
China State Construction Engineering Corporation Limited <sup>3</sup> ("CSCECL")	Interest of a controlled corporation/ beneficial owner	3,261,796,136	64.60
中國建築集團有限公司(China State Construction Group Limited*) <sup>4</sup> ("CSCGL")	Interest of a controlled corporation/ beneficial owner	3,261,796,136	64.60

\* 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 2017 (i.e. 5,049,156,668 ordinary shares).
2. Amongst the total number of 3,261,796,136 Shares held by COHL, 3,146,188,492 Shares were held as beneficial owner while the balance of 115,607,644 Shares were interests of its controlled corporation.
3. COHL is a direct wholly-owned subsidiary of CSCECL, thus CSCECL is deemed by the SFO to be interested in 3,261,796,136 Shares directly and indirectly owned by COHL.
4. CSCECL is a subsidiary of CSCGL, thus CSCGL is deemed by the SFO to be interested in 3,261,796,136 Shares indirectly owned by CSCECL. CSCGL was formerly known as "China State Construction Engineering Corporation".

Save as disclosed above, as at 31 December 2017, 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.

# Directors' Report (continued)

## 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

In 2017, the Group's largest customer accounted for approximately 13.2% (2016: 13.1%) of the Group's revenue. The five largest customers of the Group accounted for approximately 30.4% (2016: 34.9%) of the Group's revenue and one of them is the Group's joint venture of which a fellow subsidiary was a joint venture partner. The Group's largest supplier accounted for approximately 10.43% (2016: 5.0%) of the Group's purchases. The five largest suppliers of the Group accounted for 26.4% (2016: 14.2%) of the Group's purchases for the year and all of them are the Group's fellow subsidiaries.

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 on pages 93 to 100. The related party transactions are disclosed in the audited consolidated financial statements.

## Disclosure Pursuant to Rule 13.22 of the Listing Rules

As at 31 December 2017, 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 2017 is set out below:

	HK\$'000
Non-current assets	2,067,140
Current assets	17,450,489
Non-current liabilities	(1,710,831)
Current liabilities	(11,235,395)
Net Assets	6,571,403
Reserves	(6,277,287)
Total Equity	(6,571,403)

As at 31 December 2017, the Group shared the retained profit of these affiliated companies amounted to HK\$183,300,000.

## 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' 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. Zhou Yong 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.

## 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.

# Directors' Report (continued)

## 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 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\$128 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**

**Zhou Yong**

*Executive Director, Chairman and Chief Executive Officer*

Hong Kong, 16 March 2018

# Connected Transactions

## A. Connected Transactions under the Listing Rules

### A.1 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 Tanzhou Exhibition Centre Project

On 21 March 2017, a cooperation agreement (“JV Agreement”) was entered into between 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), 中國建築第八工程局有限公司 (China Construction Eighth Engineering Division Corp. Ltd) (“CCEED”, a subsidiary of China State Construction Engineering Corporation Limited (“CSCECL”, an intermediate holding company of the Company)) and China State Grand Wealth Investments Limited (“CSGWI”, a subsidiary of the Company). Pursuant to which CSCIICL, CCEED and CSGWI agreed to form a joint venture (“Foshan JV”) with 佛山市新城開發建設有限公司 (Foshan City New City Development Construction Company, Limited\*) (“New City Development”) for the purpose of investing into the Tanzhou Exhibition Centre Project (a project in respect of construction, operation and management of the Guangdong Tanzhou international Exhibition Centre Phase II and its ancillary facilities in Shunde district, Foshan city, Guangdong province). CSCIICL, CCEED, CSGWI and New City Development shall hold 54%, 16%, 10% and 20% equity interest in Foshan JV.

Foshan JV shall have a tentative total investment (including the registered capital) of RMB2,471,100,000. The registered capital of Foshan JV shall be RMB494,220,000. CSCIICL and CSGWI shall contribute RMB266,878,800 and RMB49,422,000 respectively (being 54% and 10% of the registered capital) in Foshan JV. The amount of the registered capital of Foshan JV is determined after arm’s length negotiations between the parties with reference to the proposed capital requirements of the Tanzhou Exhibition Centre Project and the parties’ interest in Foshan JV. Any additional funding requirements of Foshan JV shall be arranged by Foshan 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 21 March 2017.

### A.2 Formation of Joint venture with 中國建築股份有限公司 (China State Construction Engineering Corporation Limited) in relation to Chengdu Project

On 5 April 2017, a cooperation agreement (“JV Agreement”) was entered into between CSCECL and CSCIICL. Pursuant to which CSCIICL and CSCECL agreed to form a joint venture (“Chengdu JV”) for the purpose of investing into the Chengdu Project (the project involving project financing investment, survey, design, construction management and transfer of road construction contracting project with respect to Xichuang Road and Science City West Road at Xinjin County, Chengdu, Sichuan Province). CSCIICL and CSCECL shall hold 60% and 40% equity interest in Chengdu JV.

The project capital of Chengdu JV (including the registered capital) shall be RMB505,390,000. The registered capital of Chengdu JV shall be RMB100,000,000. CSCIICL shall contribute RMB303,234,000 (being 60% of the project capital) in Chengdu JV. A performance bond of RMB176,518,030 is required to be provided to the local government institution after successful bidding. CSCIICL shall contribute RMB105,910,818 (being 60% of the bond sum). The amount of the registered capital and project capital of Chengdu JV is determined after arm’s length negotiations between the parties with reference to the proposed capital requirements of the Chengdu Project and the parties’ interest in Chengdu JV. Any additional funding requirements of Chengdu JV shall be arranged by Chengdu 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 5 April 2017.

### A.3 Formation of Joint venture with 中建方投資發展有限公司 (China Construction Fangcheng Investment & Development Co., Ltd.) in relation to Shunyi Project

On 21 July 2017, a cooperation agreement ("JV Agreement") was entered into between CSCIIICL and 中建方投資發展有限公司 (China Construction Fangcheng Investment & Development Co., Ltd.) ("China Fangcheng", a subsidiary of CSCECL). Pursuant to which CSCIIICL and China Fangcheng agreed to form a joint venture ("Shunyi JV") for the purpose of investing into the Shunyi Project (the shanty-town property redevelopment project involving investment, construction and operation in Yangzhen, Shunyi District, Beijing, the PRC). CSCIIICL and China Fangcheng shall hold 40% and 60% equity interest in Shunyi JV.

Shunyi JV shall have a project capital (inclusive of the registered capital) of RMB4,897,886,000. The registered capital of Shunyi JV shall be RMB500,000,000. CSCIIICL shall contribute RMB1,959,154,400 (being 40% of the project capital) in Shunyi JV. The amount of the project capital and registered capital of Shunyi JV is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Shunyi Project and the parties' interest in Shunyi JV. Any additional funding requirements of Shunyi JV shall be arranged by Shunyi 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 21 July 2017.

### A.4 Formation of Investment Consortium for Anhui Expressway Project

On 26 October 2017, a joint venture agreement ("JV Agreement") was entered into between CSCIIICL; CSCECL; and 中交交通建設集團有限公司 (China Construction Communications Engineering Group Corp. Ltd.) ("CCCEG", a wholly owned subsidiary of CSCECL). Pursuant to which CSCIIICL, CSCECL and CCCEG agreed to form an Investment Consortium for the purposes of investing into the Anhui Expressway Project (the Public-Private-Partnership (PPP) project in respect of two expressways in Anhui Province of the PRC, comprising (a) an expressway connecting Liyang to Ningde (Huangshan to Qiando Lake section); and (b) an expressway connecting Shanghai to Wuhan (Wuwei to Yuexi section)). CSCIIICL and CCCEG shall hold 70% and 30% equity interest in Investment Consortium.

A Project Company will be established by CSCECL (as the representative of the Investment Consortium), 中國鐵建股份有限公司 (China Railway Construction Corporation Limited) ("China Railway Construction") and 安徽省交通控股集團有限公司 (Anhui Transportation Holding Group Co., Ltd.) ("Anhui Transportation") on a 24.5%: 24.5%: 51% basis.

The registered capital in the Project Company shall be RMB4,579,000,000. CSCIIICL shall contribute RMB785,298,500 (being 70% interests in Investment Consortium). The respective capital commitments is determined after arm's length negotiations between the parties with reference to the proposed capital requirements of the Anhui Expressway Project and the parties' interest in the Investment Consortium and Project Company. Any additional funding requirements (other than the registered capital) of the Project Company shall be arranged by the Project Company 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 26 October 2017.

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



## Connected Transactions (continued)

### B. Continuing Connected Transactions under the Listing Rules

#### B.1 CSCECL Sub-construction Engagement Agreement

(dated 28 October 2014)

#### Supplemental Agreement

(dated 6 October 2017)

(1 January 2015 to 31 December 2017)

On 28 October 2014, 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 2015 and ending on 31 December 2017. 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 2017 shall not exceed RMB15,000 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 2015 and ending on 31 December 2017. 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 2017 shall not exceed RMB3,000 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. 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 18 November 2014 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 16 December 2014.

On 6 October 2017, the Company and CSCECL entered into the Supplemental Agreement to revise the annual cap for each of the CSCECL Sub-construction Engagement Transactions and CSC Sub-construction Engagement Transactions. The revised maximum total contract sum that may be awarded by the Group to the CSCECL Group for the year ending 31 December 2017 shall not exceed RMB55,000 million (i.e. the Revised 2017 CSCECL Cap); and the revised maximum total contract sum that may be awarded by the CSCECL Group to the Group for the year ending 31 December 2017 shall not exceed RMB25,000 million (i.e. the Revised 2017 CSC Cap).

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

The CSCECL Sub-construction Engagement Agreement expired on 31 December 2017, the Company and CSCECL renewed the CSCECL Sub-construction Engagement Agreement for a further term of three years (from 1 January 2018 to 31 December 2020). Details were disclosed in the announcement dated 6 October 2017.

For the year ended 31 December 2017, the total contract sum awarded by the Group to the CSCECL Group under the Supplemental Agreement (i.e. the Revised 2017 CSCECL Cap) was RMB44,180,780,963.19. The total contract sum awarded by the CSCECL Group to the Group under the Supplemental Agreement (i.e. the Revised 2017 CSC Cap) was RMB14,217,828,271.

## Connected Transactions (continued)

### **B.2 COHL Build-Transfer Construction Agreement (dated 28 October 2014)**

*(1 January 2015 to 31 December 2017)*

The Directors expect that the China Overseas Holdings Limited (“COHL”, the holding company of the Company) Group will continue to invite the Group to undertake projects for the financing, design and construction of housing and infrastructure on the basis of “Build-Transfer” mode for the COHL Group in relation to urban-rural coordination projects in the PRC (the “BT Projects”) from time to time.

On 28 October 2014, the Company and COHL entered into the COHL Build-Transfer Construction Agreement for a term of three years commencing from 1 January 2015 and ending on 31 December 2017. Upon successful tender, the maximum total contract sum of BT Projects that may be awarded by the COHL Group to the Group for each of the three financial years ending 31 December 2017 shall not exceed RMB1,000 million (i.e. the COHL Build-Transfer Construction 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 Group for each year under the COHL Build-Transfer Construction Agreement (i.e. the COHL Build-Transfer Construction Cap) is less than 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the COHL Build-Transfer Construction 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 COHL Build-Transfer Construction Agreement was made on 28 October 2014.

For the year ended 31 December 2017, there was no contract awarded by the COHL Group to the Group under the COHL Build-Transfer Construction Agreement (i.e. the COHL Build-Transfer Construction Cap).

### **B.3 FE-CSCECL Sub-construction Engagement Agreement (dated 28 October 2014)**

*(1 January 2015 to 31 December 2017)*

On 28 October 2014, CSCECL and Far East Global Group Limited (“FEG”, a non-wholly owned subsidiary of the Company) entered into the FE-CSCECL Sub-construction Engagement Agreement, whereby the CSCECL Group may engage the FEG Group as its subcontractor for provision of contracting service, supply, project consultancy service and project management service in relation to exterior facade works to the CSCECL Group’s construction works for a term of three years commencing from 1 January 2015 and ending on 31 December 2017. 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 2017 shall not exceed HK\$800 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 28 October 2014.

The FE-CSCECL Sub-construction Engagement Agreement expired on 31 December 2017, FEG and CSCECL renewed the FE-CSCECL Sub-construction Engagement Agreement for a further term of three years (from 1 January 2018 to 31 December 2020). Details were disclosed in the announcement dated 11 October 2017.

## Connected Transactions (continued)

For the year ended 31 December 2017, 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\$64,740,000.

### **B.4 CSC Group Engagement Agreement (dated 31 October 2014)**

*(1 January 2015 to 31 December 2017)*

The Directors expect that the China Overseas Land & Investment Limited ("COLI", an associate of the Company) Group will continue to invite the Group to participate in competitive tender for the COLI Group's construction works in the PRC, Hong Kong and Macau from time to time. On 31 October 2014, COLI and the Company entered into a CSC Group Engagement Agreement for a term of three years commencing from 1 January 2015 and ending on 31 December 2017. 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 2017 shall not exceed HK\$3,000 million (i.e. the COLI 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 Group for each year under the CSC Group Engagement Agreement (i.e. the COLI Works Cap) exceed 5% of the applicable percentage ratios calculated pursuant to the Listing Rules. As such the CSC Group Engagement Agreement is subject to the annual review, reporting, announcement and independent shareholders' approval requirements.

A circular dated 18 November 2014 containing details of the CSC Group Engagement Agreement was despatched to the shareholders of the Company. The CSC Group Engagement Agreement was duly approved by the independent shareholders of the Company at an extraordinary general meeting held on 16 December 2014.

The CSC Group Engagement Agreement expired on 31 December 2017, the Company and COLI renewed the CSC Group Engagement Agreement for a further term of three years (from 1 January 2018 to 31 December 2020). Details were disclosed in the announcement dated 6 October 2017.

For the year ended 31 December 2017, the total contract sum awarded to the Group under the CSC Group Engagement Agreement was HK\$2,912,987,505.23.

### **B.5 Master Security Services Agreement (dated 26 June 2015)**

*(1 July 2015 to 31 December 2017)*

The directors of the Company expected that the Group will continue to require security services provider which holds the relevant licenses to provide security services in Hong Kong. On 26 June 2015, the Company and China Overseas Property Holdings Limited ("COPL", direct wholly owned subsidiary of COLI as at the date of the announcement) entered into a master security services agreement ("Master Security Services Agreement") for a term of three years commencing from 1 July 2015 and ending on 30 June 2018 subject to a security services cap. As further announced by the Company on 18 September 2015 and a supplemental agreement entered into between the Company and COPL on 9 October 2015 regarding the downward adjustment of the security services cap. Upon successful tender, the final agreed security services cap was adjusted to not exceed HK\$10 million for the period between 1 July 2015 and 31 December 2015; not exceed HK\$20 million for each of the two years ending 31 December 2017; and not exceed HK\$10 million for the period between 1 January 2018 and 30 June 2018 (i.e. the Security Services Cap).

The services fee will be determined through a tendering/quotation procedure or on the basis of commercial negotiation and by reference to other similar transactions in the market. In determining the pricing terms, the Group will take into account the market rate and condition, the number of services providers and the number of security guards.

## Connected Transactions (continued)

The maximum total contract sum for the provision of the security services by the COPL Group for each year/period under the Master Security Services Agreement (i.e. the Security Services Cap) is less than 0.1% of all the applicable percentage ratios calculated pursuant to the Listing Rules. The disclosure regarding the Master Security Services Agreement is on a voluntary basis. The transactions contemplated under the Master Security Services Agreement are exempt from annual review, reporting, announcement and independent shareholders' approval requirements.

For the year ended 31 December 2017, the total contract sum awarded to the COPL Group under the Master Security Services Agreement was HK\$5,604,400. The Master Security Services Agreement was terminated on 30 September 2017.

### **B.6 Master Connection Services Agreement (dated 26 June 2015)**

*(1 January 2016 to 31 December 2018)*

It is expected that the COLI Group will continue to 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.

On 26 June 2015, COLI and the Company entered into a new master connection services agreement ("Master Connection Services Agreement") for a term of three years commencing from 1 January 2016 and ending on 31 December 2018. 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.

For the year ended 31 December 2017, the total contract sum awarded to the Group under the Master Connection Services Agreement was HK\$47,433,508.15.

### **B.7 Construction Supervision Service Framework Agreement (dated 24 March 2016)**

*(1 April 2016 to 31 March 2019)*

On 24 March 2016, China Overseas Grand Oceans Group Ltd. ("COGO", an associate of the Company) 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%.

## Connected Transactions (continued)

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.

For the year ended 31 December 2017, the total contract sum awarded to the Group under the Construction Supervision Services Framework Agreement was RMB35,507,601.7.

### **B.8 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.

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 2017, the total contract sum awarded by CSCECL Group to FEG Group under the Urban Planning Management and Consultation Service Agreement (i.e. CSCFB Service Cap) was HK\$99,011,627.91.

## Connected Transactions (continued)

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.

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 2017; 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

## Independent Auditor's Report

To the shareholders of China State Construction International Holdings Limited

(incorporated in 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 107 to 193, which comprise:

- the consolidated statement of financial position as at 31 December 2017;
- 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 2017, 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
- Impairment of trade receivables
- Impairment of concession operating rights

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Revenue recognition from construction works</b></p> <p>Refer to notes 2.15, 2.28 (a), 4.1, 4.2 and 5 to the consolidated financial statements</p> <p>For the year ended 31 December 2017, the Group recognised revenue from construction works of HK\$48,679 million. 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 percentage of completion 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.</p>	<p>We understood, evaluated and validated on a sample basis the internal controls relating to the contract budgeting and management process.</p> <p>The measurement of revenue recognition requires management's estimates in respect of revenue, budgeted costs as well as the percentage of completion for construction works. In our testing of the revenue recognition for the reporting period, we selected construction works on a sample basis and:</p> <ul style="list-style-type: none"><li>• discussed with management and the respective project teams about the progress of the projects;</li><li>• 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;</li><li>• tested on a sample basis the actual costs incurred on construction works during the reporting period;</li><li>• recalculated the revised percentage of completion based on the latest budgeted final costs and the total actual costs incurred; and</li><li>• recalculated the revenue recognised based on the revised percentage of completion.</li></ul>



# Independent Auditor's Report (continued)

## Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment of trade receivables</b></p> <p>Refer to notes 2.11(a), 2.16, 4.3 and 27 to the consolidated financial statements</p> <p>As at 31 December 2017, the Group recognised trade receivables of HK\$44,729 million, which was the most significant asset of the Group as of the year end, representing 38% 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 and aging analysis, 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.</p>	<p>We consider management's estimates used to determine the revenue and budgeted costs and the percentage of completion for construction works for the reporting period as well as the revenue recognised to be supportable based on the evidence available.</p> <p>We performed the following procedures to assess the recoverability of trade receivables:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• tested on a sample basis the aging of trade receivables at year end;</li> <li>• tested on a sample basis subsequent settlements and the latest amounts certified by quantity surveyors appointed by customers to identify if there were any indicators of impairment of trade receivables;</li> <li>• in respect of material trade receivables balances, inspected relevant contracts and correspondence with the customers, and assessed their creditworthiness with reference to publicly available informations, where applicable;</li> <li>• 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 informations, where applicable;</li> <li>• compared, if applicable, the fair value of collateral provided by customers to available market information; and</li> <li>• evaluated the level of provisions made by management for trade receivables.</li> </ul> <p>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.</p>

# Independent Auditor's Report (continued)

## Key Audit Matters (continued)

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Impairment of concession operating rights</b></p> <p>Refer to notes 2.9(c), 2.12, 4.5 and 21 to the consolidated financial statements</p> <p>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 carrying amount of approximately HK\$5,414 million as at 31 December 2017.</p> <p>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, toll fee levels, length of operating rights, maintenance costs and discount rates.</p> <p>Provision for impairment is required if the recoverable amount of concession operating rights is lower than its carrying amount. A change in the assumptions used in the valuations may have a significant impact on this impairment assessment.</p>	<p>We performed the following procedures to assess the impairment of concession operating rights:</p> <ul style="list-style-type: none"><li>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;</li><li>assessed the key assumptions adopted by management in the calculation of value-in-use and fair value less costs of disposal, 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</li><li>assessed management's sensitivity analysis of the impact on the impairment assessment of concession operating rights through reasonably possible deviations around the assumptions applied by management, such as changes in expected future traffic volumes, toll fee level projections and discount rates.</li></ul> <p>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.</p>

# 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.
- 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.

# Independent Auditor's Report (continued)

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

- 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, 16 March 2018

# Consolidated Income Statement

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
Revenue	5	<b>50,152,524</b>	46,207,508
Costs of sales		<b>(42,537,494)</b>	(40,224,630)
Gross profit		<b>7,615,030</b>	5,982,878
Investment income, other income and other gains, net	7	<b>747,678</b>	1,260,120
Administrative, selling and other operating expenses		<b>(1,394,668)</b>	(1,106,084)
Share of profits of			
Joint ventures		<b>731,380</b>	420,295
Associates		<b>160,300</b>	142,670
Finance costs	8	<b>(1,069,754)</b>	(688,159)
Profit before tax		<b>6,789,966</b>	6,011,720
Income tax expenses, net	11	<b>(1,255,662)</b>	(1,004,504)
Profit for the year	12	<b>5,534,304</b>	5,007,216
Profit/(loss) for the year attributable to:			
Owners of the Company		<b>5,490,091</b>	5,130,066
Non-controlling interests		<b>44,213</b>	(122,850)
		<b>5,534,304</b>	5,007,216
Earnings per share (HK cents)	14		
Basic		<b>118.85</b>	119.51
Diluted		<b>118.85</b>	119.51

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Profit for the year	<b>5,534,304</b>	5,007,216
Other comprehensive income/(loss)		
<i>Items that may be reclassified to profit or loss</i>		
Release of investment revaluation reserve to income statement upon disposal of available-for-sale investments	–	(1,123)
Gain on fair value changes of available-for-sale investments, net of tax	<b>4,171</b>	5,216
Exchange differences on translation of the Company and its subsidiaries	<b>1,798,074</b>	(1,832,912)
Exchange differences on translation of joint ventures	<b>466,340</b>	(277,346)
Exchange differences on translation of associates	<b>42,016</b>	(28,314)
Other comprehensive income/(loss) for the year, net of tax	<b>2,310,601</b>	(2,134,479)
Total comprehensive income for the year, net of tax	<b>7,844,905</b>	2,872,737
Total comprehensive income/(loss) for the year attributable to:		
Owners of the Company	<b>7,803,426</b>	2,999,079
Non-controlling interests	<b>41,479</b>	(126,342)
	<b>7,844,905</b>	2,872,737

# Consolidated Statement of Financial Position

As at 31 December 2017

	Note	At 31 December	
		2017 HK\$'000	2016 HK\$'000
<b>Non-current Assets</b>			
Property, plant and equipment	15	3,818,806	2,493,761
Investment properties	16	4,750,265	4,249,520
Interests in infrastructure project investments	17	3,294,041	1,495,041
Prepaid lease payments	18	391,306	315,097
Interests in joint ventures	19	9,956,111	4,949,241
Interests in associates	20	4,570,740	4,070,378
Concession operating rights	21	5,414,282	5,234,340
Deferred tax assets	37	222,580	225,006
Trademark, project backlogs and licences	22	334,686	175,190
Goodwill	22	577,664	577,664
Available-for-sale investments	23	411,234	228,370
Amounts due from investee companies	24	204,061	196,818
Trade and other receivables	27	29,094,860	21,820,299
		<b>63,040,636</b>	<b>46,030,725</b>
<b>Current Assets</b>			
Interests in infrastructure project investments	17	44,346	37,041
Inventories	25	214,039	131,365
Properties held for sale		414,367	414,209
Amounts due from customers for contract work	26	10,979,356	6,485,536
Trade and other receivables	27	22,136,148	17,643,865
Deposits and prepayments		298,577	428,612
Loans to joint ventures	29	–	628,816
Available-for-sale investments	23	38,996	–
Amounts due from joint ventures	29	3,728,290	2,847,361
Tax recoverable		30,315	42,263
Bank balances and cash	30	17,593,203	11,484,652
		<b>55,477,637</b>	<b>40,143,720</b>

# Consolidated Statement of Financial Position (continued)

As at 31 December 2017

	Note	At 31 December	
		2017 HK\$'000	2016 HK\$'000
<b>Current Liabilities</b>			
Amounts due to customers for contract work	26	5,438,063	5,304,671
Trade payables, other payables and accruals	31	33,193,966	29,000,144
Deposits received and advances from customers		1,330,600	827,167
Amounts due to joint ventures	29	2,231,753	735,030
Amount due to an associate	28	76,703	–
Current tax payables		3,247,384	2,392,708
Borrowings	32	2,580,590	1,455,620
Obligations under finance leases		865	774
Guaranteed notes payables	35	3,898,357	–
		<b>51,998,281</b>	39,716,114
<b>Net current assets</b>		<b>3,479,356</b>	427,606
<b>Total assets less current liabilities</b>		<b>66,519,992</b>	46,458,331
<b>Capital and Reserves</b>			
Share capital	33	126,229	112,203
Share premium and reserves	34	37,961,400	25,335,755
Equity attributable to owners of the Company		<b>38,087,629</b>	25,447,958
Non-controlling interests		375,282	222,360
		<b>38,462,911</b>	25,670,318
<b>Non-current Liabilities</b>			
Borrowings	32	20,592,443	15,849,056
Guaranteed notes payables	35	6,206,053	3,888,839
Deferred income	36	809,431	699,088
Deferred tax liabilities	37	446,655	348,891
Obligations under finance leases		2,499	2,139
		<b>28,057,081</b>	20,788,013
		<b>66,519,992</b>	46,458,331

On behalf of the Board

**Zhou Yong**  
Director

**Zhou Hancheng**  
Director



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Attributable to owners of the Company			Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000 (Note 33)	Share premium and reserves HK\$'000 (Note 34)	Total HK\$'000		
At 1 January 2016	101,408	23,083,146	23,184,554	100,262	23,284,816
Profit/(loss) for the year	–	5,130,066	5,130,066	(122,850)	5,007,216
Release of investment revaluation reserve to income statement upon disposal of available-for-sale investments	–	(941)	(941)	(182)	(1,123)
Gain on fair value changes of available-for-sale investments, net of tax	–	5,102	5,102	114	5,216
Exchange differences on translation of the Company and its subsidiaries	–	(1,829,488)	(1,829,488)	(3,424)	(1,832,912)
Exchange differences on translation of joint ventures	–	(277,346)	(277,346)	–	(277,346)
Exchange differences on translation of associates	–	(28,314)	(28,314)	–	(28,314)
Total comprehensive income/(loss) for the year	–	2,999,079	2,999,079	(126,342)	2,872,737
Issue of ordinary shares	10,795	4,799,164	4,809,959	–	4,809,959
Contribution from non-controlling interests of a subsidiary	–	–	–	31,733	31,733
Acquisition of subsidiaries under merger accounting	–	(3,908,554)	(3,908,554)	–	(3,908,554)
Dividend paid to non-controlling shareholders	–	–	–	(7,828)	(7,828)
Acquisition of additional interest of subsidiaries	–	(233,722)	(233,722)	224,535	(9,187)
2015 final dividend paid	–	(730,137)	(730,137)	–	(730,137)
2016 interim dividend paid	–	(673,221)	(673,221)	–	(673,221)
Total transactions with owners, recognised directly in equity	10,795	(746,470)	(735,675)	248,440	(487,235)
At 31 December 2016	112,203	25,335,755	25,447,958	222,360	25,670,318

## Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2017

	Attributable to owners of the Company				
	Share capital HK\$'000 (Note 33)	Share premium and reserves HK\$'000 (Note 34)	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 the Company and its 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 39)	–	10,033	10,033	–	10,033
Contribution from non-controlling interests of a subsidiary	–	–	–	108,379	108,379
Dividend paid to non-controlling shareholders	–	–	–	(10,065)	(10,065)
Disposal of a subsidiary (Note 41)	–	–	–	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 Cash Flows

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
<b>Operating activities</b>		
Profit before tax	6,789,966	6,011,720
Adjustments for:		
Finance costs	1,069,754	688,159
Interest income	(198,518)	(146,328)
Dividend income	(29,464)	(38,928)
Gain on disposal of available-for-sale investments	–	(1,123)
Gain on disposal of properties held for sale	–	(7,816)
Gain on fair value changes of investment properties	(445,640)	(1,202,437)
Loss/(gain) on disposal of property, plant and equipment	2,001	(19,966)
Gain on disposal of investment properties	(3,752)	–
Loss on disposal of a subsidiary	28,070	–
Impairment loss on concession operation rights	–	225,917
Share of profits of joint ventures	(731,380)	(420,295)
Share of profits of associates	(160,300)	(142,670)
Exchange (gain)/loss, net	(47,849)	43,623
Depreciation of property, plant and equipment	131,786	132,653
Amortisation of concession operating rights	206,951	210,625
Amortisation of trademark project backlogs and licences	17,685	10,835
Amortisation of prepaid lease payments	7,162	7,240
Allowance for doubtful debts on trade and other receivables	3,931	4,060
Operating cash flows before working capital changes	6,640,403	5,355,269
(Increase)/decrease in income receivables from infrastructure project investments	(98,451)	23,366
Increase in inventories	(83,878)	(22,530)
Changes in net balances with customers for contract work	(3,357,947)	(3,531,437)
Increase in trade and other receivables	(9,720,182)	(6,934,882)
Decrease in deposits and prepayments	270,462	83,536
Increase in trade payables, other payables and accruals	2,079,333	8,225,524
(Decrease)/increase in deposits received and advances from customers	(42,366)	151,542
Increase/(decrease) in deferred income	110,343	(13,997)
Net cash (used in)/generated from operations	(4,202,283)	3,336,391
Income taxes paid	(698,832)	(476,427)
Income taxes refunded	55,409	7,375
Net cash (used in)/generated from operating activities (Note)	(4,845,706)	2,867,339

## Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
<b>Investing activities</b>			
Interest received		170,227	219,012
Purchases of property, plant and equipment		(1,410,112)	(177,743)
Payments for prepaid leases		(56,592)	(69,936)
Proceeds from disposal of property, plant and equipment		36,615	37,538
Proceeds from disposal of investment properties		7,265	–
Proceeds from properties held for sale		–	12,375
Increase in interests in infrastructure project investments		–	(90,942)
Advances from joint ventures		1,983,996	146,111
Advances to joint ventures		(1,040,394)	(181,454)
Loan to a joint venture		–	(94,675)
Repayment of loans to joint ventures		563,342	434,166
Capital investments in joint ventures		(4,794,670)	(1,371,424)
Dividends received from joint ventures		270,997	246,838
Advance from an associate		76,703	–
Dividends received from associates		137,280	143,172
Dividends received from available-for-sale investments		29,464	38,928
Increase in interests in associates		(406,994)	(265,205)
Repayment from investee company		–	91,814
Acquisition of available-for-sale investments		(217,415)	(3,407)
Acquisition of investment properties		(18,512)	–
Proceeds from disposal of available-for-sale investments		–	19,500
Proceeds from disposal of a subsidiary	41	29,288	–
Acquisition of subsidiaries	40	(138,800)	(4,825,055)
Increase in pledged bank deposits		(21,877)	(139)
Increase in deposits with financial institutions		–	(5)
<b>Net cash used in investing activities</b>		<b>(4,800,189)</b>	<b>(5,690,531)</b>

## Consolidated Statement of Cash Flows (continued)

For the year ended 31 December 2017

	Note	2017 HK\$'000	2016 HK\$'000
<b>Financing activities</b>			
Finance costs paid		(1,045,063)	(672,991)
Dividends paid to owners of the Company		(1,481,086)	(1,403,358)
Dividends paid to non-controlling interests		(10,065)	(7,828)
Contribution from non-controlling interests		108,379	31,733
New bank loans raised	42	12,905,177	5,539,363
Repayment of bank loans	42	(7,757,249)	(1,797,945)
Repayment of finance leases	42	(29)	(1,266)
Proceeds from issue of ordinary share, net		6,307,337	4,809,959
Issue of guaranteed notes payables	42	6,225,515	–
Net cash from financing activities		15,252,916	6,497,667
<b>Increase in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		11,484,194	8,025,910
Effect of foreign exchange rate changes		479,653	(216,191)
<b>Cash and cash equivalents at the end of the year</b>		<b>17,570,868</b>	<b>11,484,194</b>
<b>Analysis of the balances of cash and cash equivalents</b>			
Bank balances and cash		17,593,203	11,484,652
Less: Pledged bank deposits and deposits with financial institutions		(22,335)	(458)
		17,570,868	11,484,194

Note:

During the year, the Group has undertaken a number of infrastructure investment projects. The net expenditure for infrastructure investment projects (i.e. the difference between the cash generated from and used in the construction of infrastructure projects) have been increased from HK\$0.03 billion in 2016 to HK\$5 billion in 2017.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

## 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 中國建築集團有限公司 (“CSCGL”), previously known as China State Construction Engineering Corporation, 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 47, 19 and 20, respectively.

The consolidated financial statements are presented in Hong Kong thousand dollars (“HK\$’000”), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 16 March 2018.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 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 available-for-sale investments 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 4.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

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 referred to as the “new HKFRSs”) issued by the HKICPA.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Annual Improvements 2014–2016 Cycle	Amendments to HKAS 12

The application of the above amendments and improvements in the current year has had no material impact on the Group’s results and financial position.

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

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

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
HKFRS 9	Financial Instruments <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
Amendments to HKFRS 15	Clarifications to HKFRS 15, Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKAS 40	Transfers of Investment Property <sup>1</sup>
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>2</sup>
Annual Improvements 2014–2016 Cycle	Amendments to HKFRS 1 and HKAS 28 <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> No mandatory effective date yet determined but available for adoption

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

The Group will adopt the above standards, amendments and improvements to existing standards 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 9 “Financial Instruments”*

HKFRS 9, “Financial Instruments” replaces the whole of HKAS 39 “Financial Instruments: Recognition and Measurement”. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through profit or loss. Classification is driven by the entity’s business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) model rather than 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 “Revenue from Contracts with Customers”.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

The Group will apply the new rules from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

##### *HKFRS 15 “Revenue from Contracts with Customers”*

HKFRS 15 replaces HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations. HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach:

- Step 1: Identify the contract(s) with customer;
- Step 2: Identify separate performance obligations in a contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate transaction price to performance obligations; and
- Step 5: Recognise revenue when performance obligations is satisfied.

The core principle is that a company should recognise revenue when control of a good or service transfers to a customer. Under HKFRS 15, an entity normally recognises revenue when a performance obligation is satisfied. Incremental costs incurred to obtain a contract, if recoverable, are capitalised as contract assets and subsequently amortised when the related revenue is recognised.

The adoption of HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt HKFRS 15 using the modified retrospective approach, of which the cumulative impact of the adoption, if any, will be recognised in retained profits as of 1 January 2018 and comparatives will not be restated.



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

##### *HKFRS 16 “Leases”*

HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on the statements of financial position for lessees. 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.

The Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of less than twelve months and leases of low-value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straight-line depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

### 2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December 2017.

#### (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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.2 Consolidation (continued)

#### (a) Subsidiaries (continued)

##### *Business combinations — common control combinations (continued)*

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.

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 with 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.2 Consolidation (continued)

#### (a) Subsidiaries (continued)

##### *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 other comprehensive income 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 other comprehensive income 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.

#### (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 other comprehensive income 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 other comprehensive income is recognised in other comprehensive income 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.2 Consolidation (continued)

#### (b) Associates (continued)

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.

#### (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 other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (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.

### 2.3 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.4 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.

#### (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 other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss 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 other comprehensive income.

#### (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 rate 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 other comprehensive income.

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 other comprehensive income.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.4 Foreign currency translation (continued)

#### (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.

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.

### 2.5 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 2017

## 2 Summary of significant accounting policies (continued)

### 2.6 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.

### 2.7 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 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.

### 2.8 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 in accordance with HKAS 39 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 2017

## 2 Summary of significant accounting policies (continued)

### 2.9 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 acquiree 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. Licence 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 licence 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 2017

## 2 Summary of significant accounting policies (continued)

### 2.10 Financial assets

#### 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.

#### 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 recognised in other comprehensive income.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.10 Financial assets (continued)

#### Recognition and measurement (continued)

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised 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.

#### Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when 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.

### 2.11 Impairment of financial assets

#### (a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.11 Impairment of financial assets (continued)

#### (b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, if any such evidence exists the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to the event occurred after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement. In the case of equity investment classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated income statement — is removed from equity and recognised in consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

### 2.12 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (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.

### 2.13 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.

### 2.14 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.15 Construction contracts

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.

### 2.16 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.

### 2.17 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.18 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.

### 2.19 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.

### 2.20 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 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.

### 2.21 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.22 Deferred income

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

### 2.23 Current and deferred income tax

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

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 application 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.24 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 grantor, 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.

### 2.25 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 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.26 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.

#### (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.

### 2.27 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.



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.28 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

#### (a) Construction contracts

When the outcome of a fixed price construction contract can be estimated reliably, revenue is recognised by the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract, after making due allowances for contingencies. Provisions are made for any foreseeable losses when they are identified. 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.

When the outcome of a cost-plus construction contract including construction services of the infrastructure under service concession arrangements can be estimated reliably, revenue is recognised by reference to the recoverable costs incurred during the year plus the fee earned, measured by the proportion that costs incurred to date bear to the estimated total costs of the contract.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only 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.

#### (b) Project consultancy contracts

Income from project consultancy contracts is recognised on an accrual basis when project consultancy services are provided.

#### (c) 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 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 upon the completion of services provided for the relevant connection works and the corresponding costs incurred can be measured reliably. 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.

#### (d) 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.28 Revenue recognition (continued)

**(e) Toll revenue**

Toll revenue from the operation of toll expressways is recognised at the time of usage.

**(f) Sales of goods**

Revenue from sales of goods are recognised when goods are delivered and title has been passed.

**(g) Lease of machinery**

Income from lease of machinery is recognised on a straight-line basis over the terms of the relevant leases.

**(h) Insurance income**

Revenue from insurance service is recognised proportionally over the period of coverage.

**(i) Interest income**

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

**(j) Dividend income**

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount or revenue can be measured reliably).

**(k) Services income**

Revenue from services income, including consultancy service income, commission income, technical service income, logistics service income and management service income, is recognised when the corresponding services are rendered.

**(l) Interest income generated from Public-Private-Partnership ("PPP") projects**

Income from PPP projects is accrued on a time basis, by making reference to the carrying amount and at the interest rate specified under contract terms.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 2 Summary of significant accounting policies (continued)

### 2.29 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.

### 2.30 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 income statement. These estimates are recognised only when the outflow is probable and the estimates can be reliably measured.

### 2.31 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 2017

## 3 Financial risk management

### 3.1 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 2017, 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\$692,000 lower/higher (2016: HK\$28,000 lower/higher), the equity would have been approximately 4% lower/higher (2016: 6% lower/higher as a result of a change of exchange reserves), respectively.

##### (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 has 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 rates fluctuate 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 23, 27 and 32 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 and guaranteed notes payables is considered immaterial. Management will also consider hedging significant interest rate exposures should the need arise.

The sensitivity analysis below has 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 (2016: 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 (2016: 50) basis points higher/lower with all other variables held constant, the consolidated profit before tax for the year ended 31 December 2017 would decrease/increase by HK\$74,108,000 (2016: decrease/increase by HK\$42,029,000).

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 3 Financial risk management (continued)

### 3.1 Financial risk factors (continued)

#### (b) Credit risk

As at 31 December 2017, 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 is limited because the counterparties, which are engaged in property development and investment in the Mainland China and Macau, have strong financial positions.

The credit risk on interests in infrastructure project investments and trade receivables is limited because the counterparties are PRC government-related entities and are covered by collateral, where applicable.

Other than concentration of credit risk on liquid funds, interests in infrastructure project investments, amounts due from investee companies 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, amounts due from investee companies, associates, joint ventures, subsidiaries and immediate holding company of the Group and the Company consist of a large number of parties, spread across diverse industries and geographical areas.

The Group provided a corporate guarantee in respect of a bank loan drawn by a previously owned subsidiary and the Group is in the process of obtaining the approval from syndicated banks to release the corporate guarantee. No financial exposure is expected as the bank loan was secured by adequate collateral provided by the new owner of the previously owned subsidiary.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 3 Financial risk management (continued)

### 3.1 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
<b>The Group</b>						
At 31 December 2017						
Trade payables, other payables and accruals, excluding deferred income	29,667,907	592,938	1,820,619	1,048,085	4,437	33,133,986
Amounts due to joint ventures	2,231,753	-	-	-	-	2,231,753
Amount due to an associate	76,703	-	-	-	-	76,703
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
	<b>37,322,895</b>	<b>2,855,200</b>	<b>4,349,419</b>	<b>20,746,832</b>	<b>8,352,794</b>	<b>73,627,140</b>
At 31 December 2016						
Trade payables, other payables and accruals, excluding deferred income	26,067,823	408,837	1,965,689	503,595	587	28,946,531
Amounts due to joint ventures	735,030	-	-	-	-	735,030
Borrowings	780,715	1,131,443	4,339,305	10,899,217	2,750,343	19,901,023
Guaranteed notes payables	60,938	60,938	3,919,559	-	-	4,041,435
Obligations under finance leases	370	427	644	1,717	263	3,421
	<b>27,644,876</b>	<b>1,601,645</b>	<b>10,225,197</b>	<b>11,404,529</b>	<b>2,751,193</b>	<b>53,627,440</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 3 Financial risk management (continued)

### 3.2 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, 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 and non-controlling interests.

The Group's overall strategy remains unchanged from the prior year. The net gearing ratio is 40.8% As at 31 December 2017 (2016: 37.8%). The increase was mainly caused by the new guaranteed notes issued and new drawdown of bank borrowings, netting off with new shares issued.

### 3.3 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 2017 and 2016.

	31 December 2017			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Available-for-sale investments</b>				
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 2017

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

	31 December 2016			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
<b>Available-for-sale investments</b>				
Listed debt securities	112,588	–	–	112,588
Unlisted equity securities	–	–	115,782	115,782
	112,588	–	115,782	228,370

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 2017 and 2016:

	Available- for-sale investments HK\$'000
At 1 January 2016	131,692
Exchange adjustments	(256)
Additions	3,407
Disposal	(19,500)
Change in fair value	439
At 31 December 2016	115,782
Exchange adjustments	274
At 31 December 2017	116,056

The changes in fair value of the above financial instruments in level 3 were recognised in other comprehensive income.

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.



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 3 Financial risk management (continued)

### 3.3 Fair value estimation (continued)

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.
- Comparable market rent and sales price as available in the relevant market.
- 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 the fair values recognised significantly.

The fair values 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
- Trade payables, other payables and accruals, deposits received and advances from customers
- Borrowings

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 4 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.

### 4.1 Percentage of completion of construction works

The Group recognises revenue according to the percentage of completion of the individual contract of construction works. The percentage of completion is determined by the aggregated cost for the individual contract incurred at the end of the reporting period compared with the estimated budgeted cost. 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 percentage of completion 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.

### 4.2 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. 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.

### 4.3 Impairment of receivables and amounts due from related parties

The policy for allowance for bad and doubtful debt of the Group is determined by the management based on the evaluation of collectability and aging analysis of accounts and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and borrower. If the financial positions of customers and borrowers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### 4.4 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 4 Critical accounting estimates and judgements *(continued)*

### 4.5 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 volume, expected future toll fee level, length of operating rights, maintenance costs and discount rate (the "Relevant Factors").

In arriving at the recoverable amount of the concession operating rights, the management exercised their judgement with reference to the Relevant Factors in estimating the recoverable amounts of the toll road operating rights. The management considered that the recoverable amounts are above their carrying amounts and no impairment was made accordingly.

### 4.6 Estimate of fair value of financial assets and investment properties

The fair value of financial instruments 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 available-for-sale investments that are not traded in active markets.

The fair values of investment properties were based on a valuation on these properties conducted by an independent firm of professional valuers using property valuation techniques which involve certain assumptions of market conditions. 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.

### 4.7 Income and deferred tax

The Group is subjected 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 its future financial performance. 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 2017

## 5 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.

	2017 HK\$'000	2016 HK\$'000
Revenue from construction contracts	23,013,812	26,271,940
Revenue from infrastructure investment projects (Note (a))	23,433,638	16,939,096
Revenue from facade contracting business	2,231,189	1,641,583
Revenue from infrastructure operation (Note (b))	792,449	836,842
Others (Note (c))	681,436	518,047
	<b>50,152,524</b>	46,207,508

Note:

- (a) Revenue from infrastructure investment projects mainly comprises 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 comprises 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.

## 6 Segment information

### 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).

Far East Global Group Limited, a limited liability company incorporated in the Cayman Islands and listed on the Main Board of the Stock Exchange of Hong Kong Limited, and its subsidiaries (together, 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 6 Segment information (continued)

### Segment information (continued)

Segment revenue and results for the years ended 31 December 2017 and 2016 are as follows:

	Segment revenue		Gross profit/(loss)		Segment result	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Reportable segment						
Mainland China	<b>24,849,853</b>	18,264,588	<b>5,362,285</b>	4,027,989	<b>4,827,066</b>	3,721,635
Hong Kong and Macau	<b>23,071,482</b>	26,301,337	<b>1,812,390</b>	1,815,557	<b>1,739,863</b>	1,744,088
Hong Kong	<b>15,013,238</b>	17,585,358	<b>946,253</b>	894,137	<b>849,002</b>	814,091
Macau	<b>8,058,244</b>	8,715,979	<b>866,137</b>	921,420	<b>890,861</b>	929,997
Overseas	–	–	<b>3,855</b>	(19,110)	<b>(4,003)</b>	(35,228)
FEG Group	<b>2,231,189</b>	1,641,583	<b>436,500</b>	158,442	<b>252,466</b>	6,096
	<b>50,152,524</b>	46,207,508	<b>7,615,030</b>	5,982,878	<b>6,815,392</b>	5,436,591
Share of revenue/results of joint ventures	<b>4,674,940</b>	2,878,125			<b>731,380</b>	420,295
Total	<b>54,827,464</b>	49,085,633			<b>7,546,772</b>	5,856,886
Unallocated corporate expenses					<b>(292,992)</b>	(276,196)
Unallocated corporate income					<b>445,640</b>	976,519
Share of profits of associates					<b>160,300</b>	142,670
Finance costs					<b>(1,069,754)</b>	(688,159)
Profit before tax					<b>6,789,966</b>	6,011,720

### 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, construction income and interest income generated from infrastructure investment projects, project consultancy services, thermoelectricity business, operating infrastructure projects, sales of building materials and logistics services.

Segment revenue of the FEG Group represents revenue from facade contracting business and general contracting business derived from Hong Kong, Macau, Mainland China and overseas operations.

The revenue, gross profit/(loss) and results of the Group are allocated based on operations of the segments. Taxation is not allocated to reportable segments.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 6 Segment information (continued)

### Measurement (continued)

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	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Allowance for doubtful debts on trade and other receivables	-	-	3,489	2,735	-	-	-	-	442	1,325	3,931	4,060
Depreciation and amortisation	17,759	4,525	326,692	335,109	1,478	3,442	-	-	17,655	18,277	363,584	361,353
Net (loss)/gain on disposal of property, plant and equipment	(2,386)	18,415	221	1,625	-	-	-	-	164	(74)	(2,001)	19,966

### Other geographical information

	Non-current assets		Additions to property, plant and equipment	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong	5,975,339	4,884,578	740,155	62,889
Mainland China	8,697,238	7,559,255	664,384	103,210
Macau	386,723	344,937	2,908	9,022
Overseas	227,709	256,802	2,665	6,744
	15,287,009	13,045,572	1,410,112	181,865

Non-current assets exclude financial instruments, available-for-sale investments, deferred tax assets and interests in joint ventures and associates.

The information of the FEG Group was allocated to the Hong Kong, Mainland China and Overseas segments (including North America) in accordance with the locations that the FEG Group operated in.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 6 Segment information (continued)

### 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

Revenue from one customer in the Hong Kong reportable segment amounted to approximately HK\$6,626,429,000 (2016: one customer in the Hong Kong reportable segment amounted to approximately HK\$6,522,580,000), which individually represents more than 10 percent of the Group's total revenue.

## 7 Investment income, other income and other gains, net

	2017 HK\$'000	2016 HK\$'000
Interest income on:		
Bank deposits	83,527	69,140
Debt securities	9,598	5,541
Imputed interest on amounts due from investee companies	7,243	12,383
Loan to a joint venture	27,674	59,264
Loans to associates	70,476	–
Dividend income from:		
Unlisted available-for-sale investments	29,464	38,928
Gain on disposal of:		
Available-for-sale investments	–	1,123
Property, plant and equipment, net	–	19,966
Properties held for sale	–	7,816
Investment properties	3,752	–
Fair value gain on investment properties	445,640	1,202,437
Loss on disposal of a subsidiary (Note 41)	(28,070)	–
Impairment loss on concession operating rights	–	(225,917)
Service income	32,685	4,537
Others	65,689	64,902
	<b>747,678</b>	<b>1,260,120</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 8 Finance costs

	2017 HK\$'000	2016 HK\$'000
Interest on bank loans	873,160	501,072
Interest on guaranteed notes payables	151,326	131,393
Interest on amounts due to fellow subsidiaries	–	11,799
Finance lease charges	174	257
Others	45,094	47,760
<b>Total finance costs</b>	<b>1,069,754</b>	692,281
Less: Amounts capitalised in construction in progress	–	(4,122)
	<b>1,069,754</b>	688,159

During the year, no borrowing costs were capitalised. Borrowing costs were capitalised at a weighted average rate of its general borrowings of 3.7% for the year ended 31 December 2016.

## 9 Benefits and interests of directors

### (a) Directors' and chief executive's emoluments

The emoluments paid or payable to each of the eleven (2016: ten) directors were as follows:

For the year ended 31 December 2017

	Zhou	Tian	Zhou	Pan	Hung		Zhang	Raymond	Adrian	Raymond	Lee	Total
	Yong	Shuchen	Hancheng	Shujie	Cheung	Wu	Haipeng	Ho Chung	David Li	Leung Hai	Shing See	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Note (a))						(Note (b))					
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 (c))	–	3,176	2,887	2,310	2,252	2,310	2,510	–	–	–	–	15,445
<b>Total emoluments</b>	<b>2,778</b>	<b>4,805</b>	<b>4,516</b>	<b>3,939</b>	<b>5,494</b>	<b>3,939</b>	<b>3,296</b>	<b>360</b>	<b>360</b>	<b>250</b>	<b>360</b>	<b>30,097</b>



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 9 Benefits and interests of directors (continued)

### (a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2016

	Zhou Yong	Tian Shuchen	Zhou Hancheng	Pan Shujie	Hung Cheung Shew	Wu Mingqing	Raymond Ho Chung Tai	Adrian David Li Man Kiu	Raymond Leung Hai Ming	Lee Shing See	Total 2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	800	-	-	-	-	-	360	360	250	360	2,130
Other emoluments:											
Salaries and allowances	2,760	1,611	1,611	1,611	2,250	1,611	-	-	-	-	11,454
Contributions to retirement benefit schemes	18	18	18	18	18	18	-	-	-	-	108
Performance related incentive payments (Note (c))	3,002	3,609	3,356	2,887	2,326	2,887	-	-	-	-	18,067
<b>Total emoluments</b>	<b>6,580</b>	<b>5,238</b>	<b>4,985</b>	<b>4,516</b>	<b>4,594</b>	<b>4,516</b>	<b>360</b>	<b>360</b>	<b>250</b>	<b>360</b>	<b>31,759</b>

Notes:

- (a) Mr. Zhou acts as Executive Director, Chairman and Chief Executive Officer of the Company.
- (b) Mr. Zhang Haipeng was appointed as an executive director of the Company with effect from 13 July 2017.
- (c) The performance related incentive payment is determined primarily based on the performance of each director and the profitability of the Group.

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 emoluments during the year (2016: Nil).

The four (2016: five) individuals with the highest emolument were 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:

	2017 HK\$'000	2016 HK\$'000
Salaries and allowances	1,360	-
Contributions to retirement benefit schemes	18	-
Performance related incentive payments	2,743	-
	<b>4,121</b>	<b>-</b>

### (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 (2016: Nil).

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 10 Senior management emoluments

The emoluments of the senior management for the years ended 31 December 2017 and 2016 were as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other benefits	27,809	31,010
Contributions to retirement benefit schemes	144	180
	<b>27,953</b>	<b>31,190</b>

The emoluments of the senior management for 2017 and 2016 were within the following bands:

	2017 No. of employees	2016 No. of employees
HK\$2,000,001 to HK\$2,500,000	–	3
HK\$2,500,001 to HK\$3,000,000	3	2
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	3	3
HK\$4,000,001 to HK\$4,500,000	1	1
	<b>8</b>	<b>10</b>

## 11 Income tax expenses, net

	2017 HK\$'000	2016 HK\$'000
Current tax:		
Hong Kong	156,174	123,193
Other jurisdictions	1,053,519	823,898
PRC withholding tax	–	70,232
	<b>1,209,693</b>	<b>1,017,323</b>
Under/(over)provision in prior years:		
Hong Kong	5,827	(12,637)
Other jurisdictions	(1,858)	(1,107)
	<b>3,969</b>	<b>(13,744)</b>
Deferred tax, net (Note 37)	1,213,662	1,003,579
	42,000	925
Income tax expenses for the year	<b>1,255,662</b>	<b>1,004,504</b>

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 11 Income tax expenses, net (continued)

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:

	2017 HK\$'000	2016 HK\$'000
Profit before tax	6,789,966	6,011,720
Share of profits of		
Joint ventures	(731,380)	(420,295)
Associates	(160,300)	(142,670)
	5,898,286	5,448,755
Tax at domestic income tax rate of 16.5% (2016: 16.5%)	973,217	899,045
Effect of different tax rates of profit arising from other jurisdictions	151,746	109,612
Tax effect of expenses not deductible for tax purpose	95,617	74,837
Tax effect of income not taxable for tax purpose	(176,371)	(314,871)
Tax effect of tax losses not recognised	153,111	178,515
Remeasurement of deferred tax-change in tax rate	54,600	–
Tax effect of utilisation of previously unrecognised tax losses	(4,123)	(3,236)
Deferred taxation on undistributed earnings of Mainland China subsidiaries and joint ventures (Note 37)	4,158	4,796
Withholding tax	–	70,232
Under/(over) provision in prior years	3,969	(13,744)
Others	(262)	(682)
Tax charge for the year	1,255,662	1,004,504

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 12 Profit for the year

	2017 HK\$'000	2016 HK\$'000
Profit for the year has been arrived at after charging/(crediting):		
Auditors' remuneration	9,672	9,807
Depreciation of property, plant and equipment	282,435	317,340
Less: Amounts capitalised in contracts in progress	(150,649)	(184,687)
	131,786	132,653
Employee benefits expense including directors' emoluments:		
Staff costs	3,708,019	3,488,173
Contributions to retirement benefit plans	127,557	127,147
Less: Amounts capitalised in contracts in progress	(2,536,251)	(2,519,883)
	1,299,325	1,095,437
Operating lease rentals in respect of:		
Plant and machinery	291,291	415,140
Land and buildings	69,016	50,586
	360,307	465,726
Less: Amounts included in contracts in progress costs	(308,033)	(426,735)
	52,274	38,991
Rental income from investment properties, net of direct outgoings	(110,520)	(102,192)
Amortisation of concession operating rights (included in Costs of sales)	206,951	210,625
Amortisation of trademark, project backlogs and licences (included in Administrative, selling and other operating expenses)	17,685	10,835
Amortisation of prepaid lease payments	7,162	7,240
Contracts in progress costs recognised as expense	43,578,158	39,298,755
Raw materials and consumables used	543,838	356,607
Exchange (gain)/loss, net	(47,849)	43,623
Allowance for doubtful debts on trade and other receivables	3,931	4,060
Loss on disposal of property, plant and equipment, net	2,001	–

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 13 Dividends

	2017 HK\$'000	2016 HK\$'000
Dividends recognised as distributions during the year:		
2016 Final, paid — HK18.00 cents (2016: 2015 Final, paid — HK18.00 cents) per share	807,865	730,137
2017 Interim, paid — HK15.00 cents (2016: 2016 Interim, paid — HK15.00 cents) per share	673,221	673,221
	<b>1,481,086</b>	1,403,358

The final dividend of HK20.00 cents (2016: HK18.00 cents) per share amounting to approximately HK\$1,009,831,000 (2016: HK\$807,865,000) on aggregate, has been proposed by the directors and is subject to approval by the shareholders in the forthcoming general meeting.

## 14 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:

	2017 HK\$'000	2016 HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	5,490,091	5,130,066

	2017 '000	2016 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	4,619,529	4,292,580

No diluted earnings per share are presented as the Company did not have any diluted potential ordinary shares during the year ended 31 December 2017 and 31 December 2016.

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. The basic and diluted earnings per share for the corresponding year of 2016 have been retrospectively adjusted to reflect the bonus element of the rights issue.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 15 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
<b>Cost</b>							
At 1 January 2016	1,341,646	1,756,584	1,105,830	180,945	106,965	232,250	4,724,220
Exchange adjustments	(67,971)	(127,159)	(9,054)	(5,120)	(3,719)	(3,213)	(216,236)
Additions	6,144	16,331	67,299	23,660	21,185	47,246	181,865
Reclassification upon the completion of construction	16,163	190,230	13,674	351	–	(220,418)	–
Disposals	(2,615)	(5)	(106,026)	(9,266)	(14,872)	–	(132,784)
At 31 December 2016	1,293,367	1,835,981	1,071,723	190,570	109,559	55,865	4,557,065
At 1 January 2017	<b>1,293,367</b>	<b>1,835,981</b>	<b>1,071,723</b>	<b>190,570</b>	<b>109,559</b>	<b>55,865</b>	<b>4,557,065</b>
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 (Note 40)	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 (Note 41)	(16,763)	–	(7,778)	(1,059)	(1,681)	–	(27,281)
At 31 December 2017	<b>2,334,812</b>	<b>2,005,251</b>	<b>1,132,978</b>	<b>243,149</b>	<b>124,686</b>	<b>387,041</b>	<b>6,227,917</b>
<b>Depreciation</b>							
At 1 January 2016	316,191	656,597	765,643	125,332	73,541	–	1,937,304
Exchange adjustments	(19,050)	(48,042)	(3,859)	(2,847)	(2,330)	–	(76,128)
Charge for the year	50,417	86,240	137,155	23,271	20,257	–	317,340
Disposals	(850)	(5)	(93,888)	(6,746)	(13,723)	–	(115,212)
At 31 December 2016	346,708	694,790	805,051	139,010	77,745	–	2,063,304
At 1 January 2017	<b>346,708</b>	<b>694,790</b>	<b>805,051</b>	<b>139,010</b>	<b>77,745</b>	<b>–</b>	<b>2,063,304</b>
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 (Note 41)	(1,458)	–	(4,667)	(143)	(1,597)	–	(7,865)
At 31 December 2017	<b>419,897</b>	<b>828,634</b>	<b>913,543</b>	<b>157,975</b>	<b>89,062</b>	<b>–</b>	<b>2,409,111</b>
<b>Carrying values</b>							
At 31 December 2017	<b>1,914,915</b>	<b>1,176,617</b>	<b>219,435</b>	<b>85,174</b>	<b>35,624</b>	<b>387,041</b>	<b>3,818,806</b>
At 31 December 2016	946,659	1,141,191	266,672	51,560	31,814	55,865	2,493,761

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 15 Property, plant and equipment (continued)

The carrying values of land and buildings shown above are situated on:

	2017 HK\$'000	2016 HK\$'000
Land and buildings in Hong Kong under medium-term leases	831,710	111,906
Heat and electricity plants in Mainland China under medium-term leases	303,761	299,661
Other premises in Mainland China under medium-term leases	648,382	384,999
Freehold land in Macau	72,342	74,055
Freehold land in Canada	22,189	19,611
Freehold land in the United States of America	36,531	56,427
	<b>1,914,915</b>	946,659

At 31 December 2017, the carrying amount of the Group's land and buildings pledged as security for the Group's banking facilities amounting to approximately HK\$19,103,000 (2016: HK\$18,383,000).

At 31 December 2017, the carrying amount of the Group's property and motor vehicles held under finance lease is approximately HK\$34,406,000 (2016: HK\$34,092,000).

## 16 Investment properties

	2017 HK\$'000	2016 HK\$'000
At 1 January	4,249,520	3,050,468
Additions	18,512	–
Acquisition of subsidiaries (Note 40)	83,674	–
Transfer between property, plant and equipment and investment properties	(50,398)	–
Disposal	(3,513)	–
Exchange adjustments	6,830	(3,385)
Change in fair value	445,640	1,202,437
At 31 December	<b>4,750,265</b>	4,249,520

### Valuation process of the Group

The fair value of the investment properties has been arrived at based on an open market valuation performed by Greater China Appraisal Limited, Jones Lang LaSalle Limited, 珠海立信資產評估事務所 and 安徽安和資產評估有限責任公司. 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 comparables 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 2017

## 16 Investment properties (continued)

### Fair value measurements using significant unobservable inputs

The valuation for completed investment properties was arrived at by considering the capitalised 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.

As at 31 December 2017 and 2016, all investment properties are included in level 3 in the fair value hierarchy.

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 2017 HK\$'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Property in Hong Kong	<b>4,334,000</b>	Income Capitalisation Approach	(1) capitalisation rate (2) market rent per square foot per month for retail portion (3) market rent per square foot per month for office portion	2%–4% HK\$59–HK\$180 HK\$20,700– HK\$25,600
Properties in Macau	<b>220,000</b>	Income Capitalisation Approach	(1) capitalisation rate (2) market rent per square foot per month	2%–3.5% HK\$10–HK\$20
Properties in Mainland China	<b>196,265</b>	Direct Comparison Approach	(1) market price per square foot	RMB1,115–RMB3,845

Description	Fair value at 31 December 2016 HK\$'000	Valuation techniques	Unobservable inputs	Range of unobservable inputs
Property in Hong Kong	3,999,000	Income Capitalisation Approach	(1) capitalisation rate (2) market rent per square foot per month	2.4%–3.3% HK\$35–HK\$50
Properties in Macau	202,600	Income Capitalisation Approach	(1) capitalisation rate (2) market rent per square foot per month	2.7%–3.5% MOP13–MOP16
Properties in Mainland China	47,920	Direct Comparison Approach	(1) price per square foot	RMB2,241–RMB3,527

Prevailing market rents are estimated based on the independent valuers' view of recent letting 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 the independent valuers 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 2017

## 17 Interests in infrastructure project investments

	2017 HK\$'000	2016 HK\$'000
Interests in infrastructure project investments	<b>3,338,387</b>	1,532,082
Less: Portion due within one year included in current assets	<b>(44,346)</b>	(37,041)
Portion due after one year	<b>3,294,041</b>	1,495,041

Interests in infrastructure project investments represent fundings denominated in RMB advanced to joint ventures for PPP infrastructure projects located in Mainland China. The Group is responsible for financing 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 8.00% to 22.18% (2016: 10.34% to 22.60%) per annum. The interests in infrastructure project investments were not past due as at 31 December 2017 and 2016.

The Directors reviewed the infrastructure projects' operations and financial positions as at 31 December 2017 and 2016 based on the present values of estimated future cash flows from those investments, discounted at their respective original effective interest rates individually.

## 18 Prepaid lease payments

As at 31 December 2017 and 2016, the Group's prepaid lease payments comprise leasehold land located in Mainland China under medium-term leases.

## 19 Interests in joint arrangements

### Joint ventures

	2017 HK\$'000	2016 HK\$'000
Cost of investments, unlisted	<b>8,129,969</b>	4,049,822
Share of post-acquisition profits and other comprehensive income, net of dividends	<b>1,826,142</b>	899,419
	<b>9,956,111</b>	4,949,241

There is no joint venture that is individually material to the Group. Set out below is the aggregate financial information of the Group's joint ventures:

	2017 HK\$'000	2016 HK\$'000
Aggregate carrying value	<b>9,956,111</b>	4,949,241
Aggregate amounts of the Group's share:		
Post-tax profit from continuing operations	<b>731,380</b>	420,295
Other comprehensive income	<b>466,340</b>	(277,346)
Total comprehensive income	<b>1,197,720</b>	142,949

There are no contingent liabilities relating to the Group's interests in joint ventures as at 31 December 2017 and 2016. As at 31 December 2017, there are HK\$5,395,000,000 (2016: HK\$3,210,000,000) unpaid committed investments relating to the Group's interests in joint ventures.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 19 Interests in joint arrangements (continued)

### 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 2017 and 2016 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
			2017 %	2016 %	
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	56.4	56.4	Civil engineering works
China State – Atal Joint Venture	Unincorporated	Hong Kong	51	51	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
Leighton – China State Joint Venture	Unincorporated	Hong Kong	49	49	Civil engineering works

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 20 Interests in associates

	2017 HK\$'000	2016 HK\$'000
Unlisted companies		
Cost of investments in associates	3,488,449	3,124,775
Share of post-acquisition profits and other comprehensive income, net of dividends	113,175	48,139
	<b>3,601,624</b>	3,172,914
Amounts due from associates	280,283	897,464
Loans to associates	688,833	–
	<b>4,570,740</b>	4,070,378

Included in the cost of investments in associates is goodwill of approximately HK\$494,000 (2016: 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 and is not expected to be repaid within twelve months after the end of reporting period. The balance is denominated in HK\$.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 20 Interests in associates (continued)

Set out below are the associates of the Group as at 31 December 2017 and 2016:

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		Principal activities
				2017 %	2016 %	
Hong Kong Concrete Company Limited	Incorporated	Hong Kong	Ordinary	31.5	31.5	Manufacture and sale of ready-mixed concrete
Ou 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 <sup>#</sup>	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	-	Infrastructure investment
六盤水董大公路投資開發有限責任公司*	Incorporated	PRC	Ordinary	15.0	-	Infrastructure investment
包頭市中海宏洋地產有限公司*	Incorporated	PRC	Ordinary	20.0	-	Property development
安徽省岳黃高速公路有限責任公司*	Incorporated	PRC	Ordinary	17.2	-	Infrastructure investment

\* Incorporated in 2017

<sup>#</sup> Holder of non-voting class B shares of Fast Shift, through Fast Shift's interest in Nova Taipa — Urbanizacoes, 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.

There is no associate that is individually material to the Group. Set out below is the aggregate financial information of the Group's associates:

	2017 HK\$'000	2016 HK\$'000
Aggregate carrying value	3,601,624	3,172,914
Aggregate amounts of the Group's share:		
Post-tax profit from continuing operations	160,300	142,670
Other comprehensive income/(loss)	42,016	(28,314)
Total comprehensive income	202,316	114,356

There are no commitments or contingent liabilities relating to the Group's interests in associates as at 31 December 2017 and 2016.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 21 Concession operating rights

	HK\$'000
<b>Cost</b>	
At 1 January 2016	6,711,781
Exchange adjustments	(428,748)
At 31 December 2016	6,283,033
Exchange adjustments	<b>473,051</b>
At 31 December 2017	<b>6,756,084</b>
<b>Amortisation and impairment</b>	
At 1 January 2016	667,579
Exchange adjustments	(55,428)
Charge for the year	210,625
Impairment (included in Investment income, other income, and other gains, net)	225,917
At 31 December 2016	1,048,693
Exchange adjustments	<b>86,158</b>
Charge for the year	<b>206,951</b>
At 31 December 2017	<b>1,341,802</b>
<b>Carrying values</b>	
At 31 December 2017	<b>5,414,282</b>
At 31 December 2016	5,234,340

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 carrying amounts of approximately HK\$2,947,512,000 (2016: HK\$2,856,978,000) and HK\$2,466,770,000 (2016: HK\$2,377,361,000), respectively, both of which are located in 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 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.

At 31 December 2017 and 2016, the concession operating rights related to Shanxi Yangquan Yangwu Expressway (Yangquan to Yuxian section) with carrying amount of approximately HK\$2,947,512,000 (2016: HK\$2,856,978,000) had been pledged to secure the bank loan with a carrying amount of approximately HK\$2,072,289,000 (2016: HK\$2,049,272,000) (Note 32).

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

### 22 Trademark, project backlogs, licences and goodwill

	Trademark HK\$'000	Project backlogs HK\$'000	Licences HK\$'000	Goodwill HK\$'000	Total HK\$'000
<b>Cost</b>					
At 1 January 2016, 31 December 2016 and 1 January 2017	216,708	45,359	9,950	577,664	849,681
Acquisition of subsidiaries (Note 40)	–	–	<b>164,911</b>	–	<b>164,911</b>
Exchange adjustments	–	–	<b>12,517</b>	–	<b>12,517</b>
At 31 December 2017	<b>216,708</b>	<b>45,359</b>	<b>187,378</b>	<b>577,664</b>	<b>1,027,109</b>
<b>Amortisation</b>					
At 1 January 2016	40,633	45,359	–	–	85,992
Charge for the year	10,835	–	–	–	10,835
At 31 December 2016	51,468	45,359	–	–	96,827
Charge for the year	<b>10,835</b>	–	<b>6,850</b>	–	<b>17,685</b>
Exchange adjustments	–	–	<b>247</b>	–	<b>247</b>
At 31 December 2017	<b>62,303</b>	<b>45,359</b>	<b>7,097</b>	–	<b>114,759</b>
<b>Carrying values</b>					
At 31 December 2017	<b>154,405</b>	–	<b>180,281</b>	<b>577,664</b>	<b>912,350</b>
At 31 December 2016	165,240	–	9,950	577,664	752,854

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 are 20 and 3 years respectively which 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 construction licence in Mainland China 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 basis over its estimated useful life of 25 years.

For impairment assessment of licences that have indefinite useful lives, 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.

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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 23 Available-for-sale investments

Available-for-sale investments comprise:

	2017 HK\$'000	2016 HK\$'000
<b>Non-current assets</b>		
Listed securities:		
— Debt securities listed in Hong Kong with fixed interest of 4.75% and maturity date in 2018	—	39,347
— Debt securities listed in Hong Kong with fixed interest of 3.88%–6.45% and maturity date in 2022–2042 (Note (a))	140,621	73,241
— Debt securities listed in overseas with fixed interest of 3.5% and maturity date in 2022–2027	154,557	—
	295,178	112,588
Unlisted securities:		
— Equity securities (Note (b))	116,056	115,782
	411,234	228,370
<b>Current assets</b>		
Listed securities:		
— Debt securities listed in Hong Kong with fixed interest of 4.75% and maturity date in 2018	38,996	—

Notes:

- (a) At 31 December 2017, an amount of HK\$59,822,000 (2016: HK\$53,355,000) included in the carrying amount of debt securities listed in Hong Kong, is debentures issued by a subsidiary of China Overseas Land & Investment Limited ("COLI"), a fellow subsidiary of the Group.
- (b) At 31 December 2017, an amount of HK\$65,636,000 (2016: 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 payments have occurred in the past.

Available-for-sale investments are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
HK\$	60,700	60,700
RMB	3,876	3,602
US\$	334,174	112,588
Macao Pataca ("MOP")	51,480	51,480
	450,230	228,370

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 24 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 rates ranging from 5.94% to 7.83% per annum (2016: 5.94% to 7.83 % per annum) and the balances are denominated in RMB (2016: RMB).

At 31 December 2017, amounts due from investee companies include approximately HK\$184,433,000 (2016: HK\$177,190,000) to subsidiaries of COLI, a fellow subsidiary of the Group.

## 25 Inventories

	2017 HK\$'000	2016 HK\$'000
Raw materials and consumables	166,885	89,405
Work in progress	1,466	655
Finished goods	45,688	41,305
	<b>214,039</b>	131,365

## 26 Amounts due from/(to) customers for contract work

	2017 HK\$'000	2016 HK\$'000
Contract costs incurred plus recognised profit less foreseeable losses	152,252,144	115,675,761
Less: progress billings	(146,710,851)	(114,494,896)
	<b>5,541,293</b>	1,180,865
Analysed for reporting purposes as:		
Amounts due from contract customers	10,979,356	6,485,536
Amounts due to contract customers	(5,438,063)	(5,304,671)
	<b>5,541,293</b>	1,180,865

At 31 December 2017, retentions held by customers for contract work amounted to approximately HK\$3,894,448,000 (2016: HK\$3,372,108,000) and have been included in trade and other receivables under current assets. The advances received from customers for contract work not yet commenced at 31 December 2017 and 2016 have been included in deposits received and advances from customers under current liabilities.



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 27 Trade and other receivables

	2017 HK\$'000	2016 HK\$'000
Trade receivables and retention receivables	48,652,236	38,092,487
Less: allowance for doubtful debts	(28,326)	(24,175)
	48,623,910	38,068,312
Other receivables	2,608,797	1,396,917
Less: allowance for doubtful debts	(1,699)	(1,065)
	2,607,098	1,395,852
Trade and other receivables (Note (a))	51,231,008	39,464,164
Current portion	(22,136,148)	(17,643,865)
Non-current portion (Note (b))	29,094,860	21,820,299

Notes:

- (a) Trade receivables and retention receivables include balances with related companies amounting to approximately HK\$51,295,000 (2016: HK\$61,753,000), which are unsecured, interest-free and repayable in accordance with the terms of relevant agreements. Other receivables include balances with related companies amounting to approximately HK\$642,718,000 (2016: HK\$326,646,000), 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 amounts are expected to be gradually and fully recovered from 2019 to 2023, with approximately HK\$13,870,779,000 in 2019, HK\$10,666,953,000 in 2020, HK\$4,557,128,000 in 2021 to 2023. 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:

	2017 HK\$'000	2016 HK\$'000
Trade receivables, net of allowance for doubtful debts, aged:		
0–30 days	5,989,786	7,575,653
31–90 days	4,103,596	2,946,561
Over 90 days	34,636,080	24,173,990
	44,729,462	34,696,204
Retention receivables	3,894,448	3,372,108
Other receivables	2,607,098	1,395,852
Trade and other receivables	51,231,008	39,464,164
Portion classified as current assets	(22,136,148)	(17,643,865)
Non-current portion	29,094,860	21,820,299

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 27 Trade and other receivables (continued)

Included in the receivables aged over 90 days are receivables attributable to the infrastructure investment projects amounting to approximately HK\$33,606,541,000 (2016: HK\$23,778,470,000).

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 2017, the amount of retention receivables expected to be recovered after more than one year was approximately HK\$2,092,077,000 (2016: HK\$1,779,561,000).

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 (2016: 90 days) to its trade customers and the retention receivables are recoverable upon the expiry of the defect liability period of construction.

As at 31 December 2017, trade receivables of approximately HK\$1,264,049,000 (2016: HK\$210,173,000) were past due but not impaired, of which (presented based on the invoice date) approximately HK\$46,019,000 (2016: HK\$140,178,000) aged 91 days to 180 days; approximately HK\$45,403,000 (2016: HK\$2,161,000) aged 181 days to 365 days; and approximately HK\$1,172,627,000 (2016: HK\$67,834,000) aged over one year. The balances remain unsettled as of year end was largely due to the longer-than-expected administrative settlement procedures taken by the respective debtors, including auditing and negotiating the final account. Except for the amount of approximately HK\$30,025,000 (2016: HK\$25,240,000) which was provided for doubtful debts as at 31 December 2017, no allowance for doubtful debts is considered to be necessary for past due trade receivables based on management's evaluation of creditworthiness and the past collection history of those receivables.

At 31 December 2017, trade receivables of approximately HK\$3,949,553,000 (2016: HK\$400,943,000) had been pledged to secure the bank loans with carrying amount of approximately HK\$1,813,678,000 (2016: HK\$121,462,000) (Note 32).

### Movement in the allowance for doubtful debts

	2017 HK\$'000	2016 HK\$'000
1 January	25,240	22,696
Exchange adjustments	854	(1,516)
Impairment losses recognised on receivables	3,931	4,060
31 December	30,025	25,240

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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 27 Trade and other receivables (continued)

### Movement in the allowance for doubtful debts (continued)

Trade and other receivables are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
HK\$	5,860,105	2,804,156
RMB	42,586,944	33,995,440
MOP	2,263,645	2,104,951
US\$	126,997	129,587
Others	393,317	430,030
	<b>51,231,008</b>	39,464,164

## 28 Amount due to an associate

Amount due to an associate is unsecured, interest-free and repayable on demand. The balance is denominated in RMB.

## 29 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. The balances are expected to be repaid within twelve months after the end of the reporting period.

The loans to joint ventures are unsecured, interest bearing at 6% to 12% per annum (2016: 6% to 12% per annum). The balances are denominated in RMB. The balances were repaid during the year.

## 30 Bank balances and cash

	2017 HK\$'000	2016 HK\$'000
Pledged bank deposits	22,307	430
Deposits with financial institutions	28	28
Bank balances and cash	17,570,868	11,484,194
	<b>17,593,203</b>	11,484,652

### Pledged bank deposits

At 31 December 2017, bank deposits amounting to approximately HK\$22,307,000 (2016: HK\$430,000) are pledged and earn interest at fixed rates of 0.6% per annum (2016: 0.29% to 2.79% per annum).

### Deposits with financial institutions

Deposits with financial institutions comprise deposits with original maturity dates ranging from 1 to 6 months (2016: 1 to 6 months) earning interest at fixed rates ranging from 0.001% to 0.022% per annum (2016: 0.004% to 4.4% per annum).

### Bank balances and cash

Bank balances, excluding bank current accounts, earn interest at market rates ranging from 0.001% to 10% per annum (2016: 0.001% to 9% per annum). Bank balances comprise fixed deposits held by the Group with an original maturity of three months or less.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 30 Bank balances and cash (continued)

Pledged bank deposits, deposits with financial institutions, bank balances and cash are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
HK\$	3,814,130	3,015,390
RMB	7,088,850	5,844,798
MOP	1,759,683	2,457,299
US\$	4,862,123	146,843
Others	68,417	20,322
	<b>17,593,203</b>	11,484,652

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.

## 31 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:

	2017 HK\$'000	2016 HK\$'000
Trade payables, aged:		
0–30 days	10,837,606	10,822,619
31–90 days	2,981,808	5,113,422
Over 90 days	4,898,971	3,467,700
	<b>18,718,385</b>	19,403,741
Retention payables	11,163,334	7,181,098
Other payables and accruals	3,312,247	2,415,305
	<b>33,193,966</b>	29,000,144

Other payables included in other payables and accruals amounting to approximately HK\$3,252,267,000 (2016: HK\$2,361,694,000), which comprise primarily staff costs, other tax and other operating expenses payables.

Trade payables and retention payables include balances with related companies amounting to approximately HK\$5,141,448,000 (2016: HK\$2,638,223,000), which are unsecured, interest-free and repayable in accordance with the terms of relevant agreements.

Other payables include balances with related companies amounting to approximately HK\$403,293,000 (2016: HK\$241,048,000), which are unsecured, interest-free and repayable on demand.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 31 Trade payables, other payables and accruals (continued)

The average credit period on trade and construction cost payables is 60 days (2016: 60 days). At 31 December 2017, the amount of retention payables expected to be due after more than one year is approximately HK\$2,873,143,000 (2016: HK\$2,469,872,000).

Trade payables, other payables and accruals are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
HK\$	7,658,921	7,941,139
RMB	23,095,367	18,107,652
MOP	2,145,190	2,640,708
US\$	41,870	79,247
Others	252,618	231,398
	<b>33,193,966</b>	29,000,144

## 32 Borrowings

	2017 HK\$'000	2016 HK\$'000
Bank loans, secured	3,938,939	2,062,425
Bank loans, unsecured	19,234,094	15,242,251
	<b>23,173,033</b>	17,304,676
Less: Amount due within one year shown under current liabilities	(2,580,590)	(1,455,620)
Amount due after one year	<b>20,592,443</b>	15,849,056
Carrying amount repayable:		
Within one year	2,580,590	1,455,620
More than one year but not exceeding two years	1,529,003	3,943,354
More than two years but not more than five years	13,554,679	9,968,412
More than five years	5,508,761	1,937,290
	<b>23,173,033</b>	17,304,676

The fair values of borrowings approximate their carrying amounts as the impact of discounting is not significant.

## Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

### 32 Borrowings (continued)

Borrowings are denominated in the following currencies:

	2017 HK\$'000	2016 HK\$'000
HK\$	7,665,053	11,902,550
RMB	15,093,102	5,079,283
Canadian Dollar ("CAD")	28,852	56,936
US\$	386,026	265,907
	<b>23,173,033</b>	17,304,676

The effective interest rates of borrowings are as follows:

	2017				2016			
	HK\$ %	RMB %	CAD %	US\$ %	HK\$ %	RMB %	CAD %	US\$ %
Bank loans, secured	–	4.80	4.24	–	–	4.41	6.26	–
Bank loans, unsecured	2.40	4.66	3.95	4.11	2.33	4.61	3.45	3.64

### 33 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 2016	4,056,314,622	101,408
Issue of ordinary shares	431,824,639	10,795
Balance at 31 December 2016	4,488,139,261	112,203
Issue of ordinary shares on rights issue (Note)	<b>561,017,407</b>	<b>14,026</b>
Balance at 31 December 2017	<b>5,049,156,668</b>	<b>126,229</b>

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 approximately HK\$6,356,327,000. The new shares rank pari passu with the then existing shares in all respects.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 34 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 2016	9,447,984	(2,460,221)	337	46,197	(548,194)	263,484	16,333,559	23,083,146
Profit for the year	-	-	-	-	-	-	5,130,066	5,130,066
Release of investment revaluation reserve to income statement upon disposed of available-for-sale investments	-	-	-	(941)	-	-	-	(941)
Gain on fair value changes of available-for-sale investments, net of tax	-	-	-	5,102	-	-	-	5,102
Exchange differences on translation of the Company and its subsidiaries	-	-	-	-	(1,829,488)	-	-	(1,829,488)
Exchange differences on translation of joint ventures	-	-	-	-	(277,346)	-	-	(277,346)
Exchange differences on translation of associates	-	-	-	-	(28,314)	-	-	(28,314)
Total comprehensive income for the year	-	-	-	4,161	(2,135,148)	-	5,130,066	2,999,079
Issue of ordinary shares	4,799,164	-	-	-	-	-	-	4,799,164
Acquisition of subsidiaries under merger accounting	-	(3,908,554)	-	-	-	-	-	(3,908,554)
Acquisition of additional interest of subsidiaries	-	(233,722)	-	-	-	-	-	(233,722)
2015 final dividend paid	-	-	-	-	-	-	(730,137)	(730,137)
2016 interim dividend paid	-	-	-	-	-	-	(673,221)	(673,221)
Transfer to statutory reserve	-	-	-	-	-	20,329	(20,329)	-
Total transactions with owners, recognised directly in equity	4,799,164	(4,142,276)	-	-	-	20,329	(1,423,687)	(746,470)
At 31 December 2016	14,247,148	(6,602,497)	337	50,358	(2,683,342)	283,813	20,039,938	25,335,755

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 34 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 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 the Company and 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 issuance expenses	(48,990)	-	-	-	-	-	-	(48,990)
Capital contribution relating to share-based payment borne by an intermediate holding company (Note 39)	-	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:

(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 (Macao) 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, China Overseas Technology Holdings Limited and its subsidiaries ("COTHL") and China Overseas Ports Investment Company and its subsidiaries 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.

(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 reserves 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 2017 is the proposed 2017 final dividend of approximately HK\$1,009,831,000 (2016: HK\$807,865,000).



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 35 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 include, inter alia, the negative pledge given by the Company and the said subsidiary. The Notes I will mature on 2 April 2018 at the principal amount. The fair value of the Notes I at 31 December 2017 was estimated at approximately HK\$3,902 million (2016: HK\$3,925 million), which was determined based on the closing market price of the Notes I at that date and is within level 1 of the fair value hierarchy.

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% respectively. The Notes II, which bear fixed interest at the rate of 3.375% and 3.875% per annum respectively 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 include, 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 respectively at the principal amount. The fair value of the Notes II at 31 December 2017 was estimated at approximately HK\$4,260 million and 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.

## 36 Deferred income

	2017 HK\$'000	2016 HK\$'000
Deferred income arose from the following:		
Connection services	869,411	752,699

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	2016 HK\$'000
Deferred income due within one year included in trade payables, other payables and accruals under current liabilities	59,980	53,611
Deferred income due after one year	809,431	699,088
	869,411	752,699

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 37 Deferred taxation

The analysis of the Group's deferred tax assets and deferred tax liabilities is as follows:

	2017 HK\$'000	2016 HK\$'000
Deferred tax assets:		
To be recovered after more than twelve months	154,419	176,642
To be recovered within twelve months	68,161	48,364
	<b>222,580</b>	225,006
Deferred tax liabilities:		
To be recovered after more than twelve months	438,827	341,615
To be recovered within twelve months	7,828	7,276
	<b>446,655</b>	348,891

	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 2016	39,023	17,603	244,673	5,090	71,443	27,343	5,158	(282,276)	(2,743)	125,314
Exchange adjustments	-	-	(10,089)	(318)	-	-	-	8,053	-	(2,354)
Charged/(credited) to consolidated income statement (Note 11)	854	(5,024)	(17,531)	(7,092)	4,796	(7,056)	-	31,978	-	925
At 31 December 2016	39,877	12,579	217,053	(2,320)	76,239	20,287	5,158	(242,245)	(2,743)	123,885
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 11)	766	(3,770)	(7,216)	(7,627)	4,158	(8,914)	-	64,603	-	42,000
Acquisition of subsidiaries (Note 40)	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

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 HK\$'000	2016 HK\$'000
Deferred tax assets	222,580	225,006
Deferred tax liabilities	(446,655)	(348,891)
	<b>(224,075)</b>	(123,885)

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 37 Deferred taxation (continued)

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:

	2017 HK\$'000	2016 HK\$'000
Unused tax losses (Note (a))	2,851,026	1,617,163
Excess of depreciation charged in the consolidated financial statements over tax depreciation allowances (Note (b))	9	3
	<b>2,851,035</b>	<b>1,617,166</b>

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\$1,246,869,000 (2016: HK\$977,765,000) 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.

## 38 Major non-cash transaction

During the year ended 31 December 2016, the FEG Group acquired additional interest in a subsidiary through conversion of shareholder's loans into equity, resulting in a reduction of non-controlling interests of approximately HK\$229,666,000.

## 39 Share-based payments

Pursuant to the A-shares Restricted Stock 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 (the "Employees", including five directors and certain senior management) on 29 December 2016 (the "Grant Date") with an exercise price of RMB4.866 per share (the "Exercise Price"), subject to a lock-up period of two years' service from the Grant Date (the "Lock-Up Period"). During the Lock-up Period, 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. 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 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, 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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 40 Business combination

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 15)	36,319
Investment property (Note 16)	83,674
Prepaid lease payment	3,842
Licences (Note 22)	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 inflow 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 2017

## 41 Disposal of a subsidiary

In July 2017, the Group disposed all of its equity interest in 泰興市浩通七圩汽渡運輸有限公司 (“七圩汽渡”) at a consideration of RMB24,309,000 (equivalent to approximately HK\$29,288,000) to an independent third party. The principal activity of 七圩汽渡 is operating a ferry pier in Mainland China.

	HK\$'000
Net assets disposed of:	
Property, plant and equipment (Note 15)	19,416
Prepaid lease payment	956
Trade and other receivables	33,437
Inventories	1,204
Trade and other payables	(10,784)
Non-controlling interests	13,129
	57,358
Loss on disposal of a subsidiary (Note 7)	(28,070)
	29,288
	HK\$'000
Satisfied by:	
Cash	29,288

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

	HK\$'000
Cash consideration	29,288

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 42 Cash flow information

### Reconciliation of liabilities arising from financing activities

	Guaranteed notes payables due within 1 year HK\$'000	Guaranteed notes payables 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
<b>At 1 January 2017</b>	–	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)
<b>At 31 December 2017</b>	<b>3,898,357</b>	<b>6,206,053</b>	<b>865</b>	<b>2,499</b>	<b>2,580,590</b>	<b>20,592,443</b>	<b>33,280,807</b>

## 43 Operating lease arrangements

### The Group as lessee

At 31 December 2017 and 2016, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due:

	2017 HK\$'000	2016 HK\$'000
Within one year	<b>53,910</b>	51,965
In the second to fifth year inclusive	<b>99,204</b>	75,272
	<b>153,114</b>	127,237

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.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 43 Operating lease arrangements (continued)

### The Group as lessor

At the end of the reporting period, investment properties with carrying amounts of approximately HK\$4,572,348,000 (2016: HK\$4,249,241,000) were let out under operating leases.

Property rental income earned, net of direct outgoings, during the year was approximately HK\$110,520,000 (2016: HK\$102,192,000) 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 2017 and 2016, the Group had contracted with tenants for the following future minimum lease payments:

	2017 HK\$'000	2016 HK\$'000
Within one year	84,864	89,466
In the second to fifth year inclusive	92,467	97,013
Over five years	8,605	13,760
	<b>185,936</b>	200,239

## 44 Commitments

At 31 December 2017 and 2016, the Group had the following commitments contracted but not provided for in the consolidated financial statements.

	2017 HK\$'000	2016 HK\$'000
Contracted but not provided for — construction in progress for property, plant and equipment	<b>115,156</b>	31,636

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 45 Related party transactions

Apart from the balances due from or to related parties set out in Notes 23, 24, 27, 28, 29 and 31, the Group had the following transactions with related parties during the year:

The Group had the following transactions with an intermediate holding company, fellow subsidiaries, associates and joint ventures during the year:

### Transactions

	2017 HK\$'000	2016 HK\$'000
Fellow subsidiaries		
Rental income	3,573	7,126
Security service payment	10,822	10,547
Revenue from construction contracts	2,263,253	1,398,585
Project consultancy services income	57,473	17,234
Construction costs	14,069,811	5,254,776
Insurance premium income	931	954
Revenue from connection service	19,729	24,913
Management fee paid	–	10,978
Interest expenses	–	11,799
Associates		
Purchase of construction materials	279,971	505,125
Revenue from construction contracts	2,415,601	1,058,625
Interest income	70,476	–
Joint ventures		
Revenue from construction contracts	3,630,724	3,804,567
Rental income from lease of machinery	3,455	6,073
Purchase of materials	75,594	102,177
Sales of building materials	40,287	63,466
Insurance premium income	14,551	10,351
Construction costs	299,663	766,629
Consultancy income	–	86
Management fee income	21,336	18,565
Interest income	27,674	59,264
Intermediate holding company		
Revenue from construction contracts	91,304	32,627



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 45 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 intermediate holding company, fellow subsidiaries, associates 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:

	2017 HK\$'000	2016 HK\$'000
Short-term benefits	57,798	62,661
Post-employment benefits	252	288
	58,050	62,949

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 46 Company Statement of Financial Position and Reserve Movement

	2017 HK\$'000	2016 HK\$'000
<b>Non-current Asset</b>		
Interests in subsidiaries	18,591,549	18,444,885
<b>Current Assets</b>		
Deposits, prepayments and other receivables	7,657	–
Amounts due from subsidiaries	5,130,783	5,269,225
Bank balances and cash	4,696,126	4,784
	9,834,566	5,274,009
<b>Current Liabilities</b>		
Other payables	12,840	20,371
Borrowings	984,038	–
Current tax payables	2,025	934
	998,903	21,305
<b>Net Current Assets</b>	8,835,663	5,252,704
<b>Total Assets less Current Liabilities</b>	27,427,212	23,697,589
<b>Capital and Reserves</b>		
Share capital	126,229	112,203
Share premium and reserves (Note)	21,572,783	14,686,146
	21,699,012	14,798,349
<b>Non-current Liability</b>		
Borrowings	5,728,200	8,899,240
	27,427,212	23,697,589

On behalf of the Board

Zhou Yong  
Director

Zhou Hancheng  
Director

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 46 Company Statement of Financial Position and Reserve Movement (continued)

Note:

	Share Premium HK\$'000	Capital redemption reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2016	9,447,984	337	–	823,664	10,271,985
Profit and total comprehensive income for the year	–	–	–	1,018,355	1,018,355
Issue of ordinary shares	4,799,164	–	–	–	4,799,164
2015 final dividend paid	–	–	–	(730,137)	(730,137)
2016 interim dividend paid	–	–	–	(673,221)	(673,221)
At 31 December 2016	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 issuance 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

## 47 Particulars of principal subsidiaries

Particulars of the Company's principal subsidiaries at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid up share/registered capital	Attributable equity interest held		Principal activities
			2017 %	2016 %	
<b>Directly held by the Company:</b>					
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 science and technology 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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 47 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
			2017 %	2016 %	
<b>Directly held by the Company: (continued)</b>					
CS International Holdings Limited	Hong Kong	1 ordinary share of HK\$1	100	100	Investment holding
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	–	Issuance of guaranteed notes
<b>Indirectly held by the Company:</b>					
China Overseas Building Construction Limited	Hong Kong	19,999,900 ordinary shares of HK\$199,999,000 and 100 non-voting deferred shares of HK\$1,000	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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 47 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
			2017 %	2016 %	
<b>Indirectly held by the Company: (continued)</b>					
Far East Aluminium Works Company Limited	Hong Kong	900,000 ordinary shares of \$90,000,000	<b>74.06</b>	74.06	Design, manufacture and installation of curtain walls, aluminium windows and other products
Speedclass Development Limited	Hong Kong	100 ordinary shares of HK\$100	<b>100</b>	100	Project management
Treasure Construction Engineering Limited	Hong Kong	2 ordinary shares of HK\$2	<b>74.06</b>	74.06	Building construction
Transcendence Company Limited	Hong Kong	1 ordinary share of HK\$1	<b>100</b>	100	Sales and distribution of construction materials
Barkgate Enterprises Limited	BVI/Hong Kong	200 ordinary shares of US\$1 each	<b>100</b>	100	Investment holding
China Overseas Public Utility Investment Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	100	Investment holding
China Overseas Ports Investment Company Limited	BVI	US\$64,100,000	<b>100</b>	100	Investment holding
China Overseas Technology Holdings Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	100	Investment holding
Citycharm Investments Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	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	<b>100</b>	100	Manufacturing and sales of precast structures
Fuller Sky Enterprises Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	100	Investment holding
Perfect Castle Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	100	Investment holding
Oceanic Empire Holdings Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	100	Investment holding
Value Idea Investments Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	100	Investment holding
Weedon International Limited	BVI/Hong Kong	1 ordinary share of US\$1	<b>100</b>	100	Investment holding
Gamma Windows and Walls International, Inc. (v)	Canada	100 common shares of CAD53,362.36 each	<b>69.34</b>	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 2017

## 47 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
			2017 %	2016 %	
<b>Indirectly held by the Company: (continued)</b>					
Far East Global Group Limited (iii)	Cayman Islands/ Hong Kong	2,155,545,000 ordinary shares of HK\$0.01 each	<b>74.06</b>	74.06	Investment holding
Alchmex International Construction Limited	United Kingdom/ Hong Kong	4,000,000 ordinary shares of GBP1 each	<b>100</b>	100	Building construction, civil and marine engineering works, project and construction management
Far East Facade (UK) Limited	United Kingdom	1 ordinary share of GBP1	<b>74.06</b>	74.06	Installation of curtain walls, aluminium windows and other related products
China Construction Engineering (Macau) Company Limited	Macau	MOP300,000,000	<b>100</b>	100	Building construction and civil engineering works, properties holding and investment holding
COHL (Macao) Commercial and Industrial Company Limited	Macau	MOP200,000	<b>100</b>	100	Investment holding
CSFE (Macau) Limited	Macau	MOP200,000	<b>100</b>	100	Foundation engineering works
CSME (Macau) Limited	Macau	MOP200,000	<b>100</b>	100	Mechanical and electrical engineering works and investment holding
Netfortune Engineering (FEA) Macau Limited	Macau	MOP25,000	<b>74.06</b>	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	<b>100</b>	100	Building construction and road contracting
Gamma North Corporation (v)	United States of America	1 share of US\$1	<b>69.34</b>	69.34	Manufacture of curtain walls, aluminium windows and other related products
Gamma USA, Inc. (v)	United States of America	1,000 shares of US\$0.001 each	<b>69.34</b>	69.34	Design, manufacture and installation of curtain walls, aluminium windows and other related products
Precious Deluxe Global Limited	BVI	1 ordinary share of US\$1	<b>100</b>	100	Investment Holding
On Success Development Limited	Hong Kong	10,000 shares of HK\$1 each	<b>100</b>	100	Property investment
Advocate Properties Limited	Hong Kong	10,000,000 share of HK\$1 each	<b>100</b>	100	Investment Holding

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 47 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
			2017 %	2016 %	
<b>Indirectly held by the Company: (continued)</b>					
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	100	100	Provision of project consultancy services
深圳海龍建築科技有限公司 (i)	PRC	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\$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	RMB310,000,000	100	100	Infrastructure investment
杭州海嘉建設有限公司 (ii)	PRC	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
溫州海嘉建設有限公司 (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

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 47 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
			2017 %	2016 %	
<b>Indirectly held by the Company: (continued)</b>					
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
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	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	RMB96,000,000	100	100	Infrastructure investment
中建國際投資(向容)有限公司 (ii)	PRC	RMB150,000,000	90	90	Infrastructure investment
嘉興海悅建設有限公司 (ii)	PRC	RMB100,000,000	100	100	Infrastructure investment
資陽海悅建設有限公司 (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	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



# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 47 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
			2017 %	2016 %	
<b>Indirectly held by the Company: (continued)</b>					
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
淄博海悅建設有限公司 (ii)	PRC	RMB100,000,000	100	100	Infrastructure investment
淮安海悅建設有限公司 (ii)	PRC	RMB120,000,000	100	100	Infrastructure investment
嘉興海悅建設有限公司 (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
杭州海悅建設有限公司 (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	RMB200,001,000	90	90	Infrastructure investment
句容海嘉建設有限公司 (ii)	PRC	RMB120,000,000	90	90	Infrastructure investment
平和海嘉建設有限公司 (ii)(iv)	PRC	RMB50,000,000	80	–	Infrastructure investment
濟寧海嘉建設有限公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
安康中建建設發展有限公司 (ii)(iv)	PRC	RMB150,000,000	89	–	Infrastructure investment
淄博海榮建設有限公司 (ii)(iv)	PRC	RMB200,000,000	99	–	Infrastructure investment
溫州海耀建設有限公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
句容海悅建設有限公司 (ii)(iv)	PRC	RMB150,000,000	90	–	Infrastructure investment
南昌海博建設有限公司 (ii)(iv)	PRC	RMB100,000,000	94	–	Infrastructure investment
南昌海悅建設有限公司 (ii)(iv)	PRC	RMB167,000,000	94	–	Infrastructure investment
龍山海嘉建設有限公司 (ii)(iv)	PRC	RMB98,251,100	79	–	Infrastructure investment
成都海旭建設有限公司 (ii)(iv)	PRC	RMB50,000,000	100	–	Infrastructure investment

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 47 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
			2017 %	2016 %	
<b>Indirectly held by the Company: (continued)</b>					
臨沂海嘉建設有限公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
汝陽縣海耀建設工程有限公司(ii)(iv)	PRC	RMB58,000,000	80	–	Infrastructure investment
杭州海騰建設有限公司 (ii)(iv)	PRC	RMB200,000,000	100	–	Infrastructure investment
徐州海嘉建設有限公司 (ii)(iv)	PRC	RMB120,000,000	100	–	Infrastructure investment
濟寧海耀建設有限公司 (ii)(iv)	PRC	RMB100,000,000	99	–	Infrastructure investment
貴州海投建設有限公司 (ii)(iv)	PRC	RMB250,000,000	100	–	Infrastructure investment
淄博海新建設有限公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
商丘海嘉建築工程有限公司 (ii)(iv)	PRC	RMB200,000,000	100	–	Infrastructure investment
宿州海龍建築科技有限公司 (ii)(iv)	PRC	RMB10,000,000	100	–	Manufacturing and sales of precast structures
商丘海河建築工程有限公司 (ii)(iv)	PRC	RMB200,000,000	100	–	Infrastructure investment
武穴海嘉建設有限公司 (ii)(iv)	PRC	RMB100,000,000	90	–	Infrastructure investment
溫州海騰建設有限公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
六安中建國際投資發展有限 公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
濱州中建國際建設有限公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
長葛海嘉建設工程有限公司 (ii)(iv)	PRC	RMB100,000,000	100	–	Infrastructure investment
中建國際投資(徐州)有限公司 (ii)(iv)	PRC	RMB361,500,000	90	–	Infrastructure investment
濟南海嘉建設有限公司 (ii)(iv)	PRC	RMB70,000,000	100	–	Infrastructure investment
湖州海榮建設有限公司 (ii)(iv)	PRC	RMB100,000,000	80	–	Infrastructure investment
杭州海旭建設有限公司 (ii)(iv)	PRC	RMB60,000,000	100	–	Infrastructure investment
中建國際工程有限公司 (ii)	PRC	RMB137,000,000	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	–	Property development

# Notes to the Consolidated Financial Statements (continued)

For the year ended 31 December 2017

## 47 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
			2017 %	2016 %	
<b>Indirectly held by the Company: (continued)</b>					
中建興業投資(湖南)有限公司 (ii)(iv)	PRC	RMB200,000,000	74.06	–	Infrastructure investment
湖南遠東力進建築工程 有限公司 (ii)(iv)	PRC	RMB50,000,000	74.06	–	Construction and related engineering services

Notes:

- (i) Registered as foreign owned enterprise
- (ii) Limited liability company registered in the PRC
- (iii) Listed company
- (iv) Incorporated/registered in 2017, where applicable
- (v) The attributable equity interest held increased from 40.73% to 69.34% followed by a further acquisition in 2016

None of the subsidiaries had any debt securities in issue at the end of the year except for China State Construction Finance (Cayman) I Limited and China State Construction Finance (Cayman) II Limited, which have issued US\$500 million and US\$800 million guaranteed notes payables (Note 35) respectively.

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				2017 HK\$'000
	2013 HK\$'000 (restated)	2014 HK\$'000 (restated)	2015 HK\$'000 (restated)	2016 HK\$'000	
Revenue	27,365,719	34,522,262	38,001,876	46,207,508	<b>50,152,524</b>
Operating profit	3,414,762	4,331,373	5,265,160	6,136,914	<b>6,968,040</b>
Share of profits of					
Joint ventures	430,228	294,345	423,728	420,295	<b>731,380</b>
Associates	21,941	23,787	72,462	142,670	<b>160,300</b>
Finance costs	(436,088)	(475,569)	(629,105)	(688,159)	<b>(1,069,754)</b>
Profit before tax	3,430,843	4,173,936	5,132,245	6,011,720	<b>6,789,966</b>
Income tax expenses, net	(512,991)	(668,137)	(659,562)	(1,004,504)	<b>(1,255,662)</b>
Profit for the year	2,917,852	3,505,799	4,472,683	5,007,216	<b>5,534,304</b>
Profit/(loss) for the year attributable to:					
Owners of the Company	2,996,716	3,575,331	4,524,126	5,130,066	<b>5,490,091</b>
Non-controlling interests	(78,864)	(69,532)	(51,443)	(122,850)	<b>44,213</b>
	2,917,852	3,505,799	4,472,683	5,007,216	<b>5,534,304</b>

Note: The consolidated results for the years ended 31 December 2013, 2014 and 2015 have been restated for the application of merger accounting for common control combination, acquisition of Precious Deluxe Global Limited and changes of measurement of investment properties.

## Five Year Financial Summary (continued)

### Consolidated Net Assets

	As at 31 December				2017 HK\$'000
	2013 HK\$'000 (restated)	2014 HK\$'000 (restated)	2015 HK\$'000 (restated)	2016 HK\$'000	
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	2,692,022	2,844,595	2,786,916	2,493,761	<b>3,818,806</b>
Investment properties	2,650,331	2,726,676	3,050,468	4,249,520	<b>4,750,265</b>
Interests in infrastructure project investments	1,186,012	1,489,188	1,536,372	1,495,041	<b>3,294,041</b>
Prepaid lease payments	280,063	273,022	269,816	315,097	<b>391,306</b>
Interests in joint ventures	2,149,893	3,449,034	3,573,662	4,949,241	<b>9,956,111</b>
Interests in associates	48,757	2,104,943	3,800,193	4,070,378	<b>4,570,740</b>
Concession operating rights	6,353,833	6,530,992	6,044,202	5,234,340	<b>5,414,282</b>
Deferred tax assets	151,027	187,320	280,951	225,006	<b>222,580</b>
Trademark, project backlogs and licences	226,596	200,640	186,025	175,190	<b>334,686</b>
Goodwill	577,664	577,664	577,664	577,664	<b>577,664</b>
Available-for-sale investments	543,642	453,286	239,503	228,370	<b>411,234</b>
Amounts due from investee companies	399,645	411,838	281,858	196,818	<b>204,061</b>
Trade and other receivables	8,141,167	12,901,282	17,949,961	21,820,299	<b>29,094,860</b>
Deposit paid for an investment	500,000	–	108,043	–	<b>–</b>
Loan to a joint venture	127,550	804,918	–	–	<b>–</b>
	26,028,202	34,955,398	40,685,634	46,030,725	<b>63,040,636</b>
<b>CURRENT ASSETS</b>	29,078,139	34,342,389	32,418,461	40,143,720	<b>55,477,637</b>
<b>TOTAL ASSETS</b>	55,106,341	69,297,787	73,104,095	86,174,445	<b>118,518,273</b>
<b>NON-CURRENT LIABILITIES</b>					
Borrowings	(8,600,258)	(10,361,804)	(13,085,694)	(15,849,056)	<b>(20,592,443)</b>
Guaranteed notes payables	(3,860,286)	(3,869,804)	(3,879,322)	(3,888,839)	<b>(6,206,053)</b>
Deferred income	(638,802)	(735,808)	(738,610)	(699,088)	<b>(809,431)</b>
Deferred tax liabilities	(439,143)	(431,059)	(406,265)	(348,891)	<b>(446,655)</b>
Obligations under finance leases	(4,280)	(3,480)	(2,719)	(2,139)	<b>(2,499)</b>
	(13,542,769)	(15,401,955)	(18,112,610)	(20,788,013)	<b>(28,057,081)</b>
<b>CURRENT LIABILITIES</b>	(23,834,817)	(32,238,529)	(31,706,669)	(39,716,114)	<b>(51,998,281)</b>
<b>TOTAL LIABILITIES</b>	(37,377,586)	(47,640,484)	(49,819,279)	(60,504,127)	<b>(80,055,362)</b>
<b>NET ASSETS</b>	17,728,755	21,657,303	23,284,816	25,670,318	<b>38,462,911</b>

Note: The consolidated net assets as at 31 December 2013, 2014 and 2015 have been restated for the application of merger accounting for common control combination, acquisition of Precious Deluxe Global Limited 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 to 12th Floors, Rooms C to F of 15th Floor, 16th Floor to 25th Floor and 60 car parking spaces on 2nd and 3rd Floor, China Overseas Building, 139 Hennessy Road and 138 Lockhart Road, Wanchai, Hong Kong	Commercial	Medium-term lease	174,557	100



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