



中國建築國際集團有限公司

CHINA STATE CONSTRUCTION INTERNATIONAL HOLDINGS LIMITED

Stock Code 股份代號: 03311

Exercise Caution in Details
and Implementation
Build a Strong Foundation to
Seek Greater Success
慎微篤行 精築致遠



2018

Interim Report 中期報告

目錄 CONTENTS

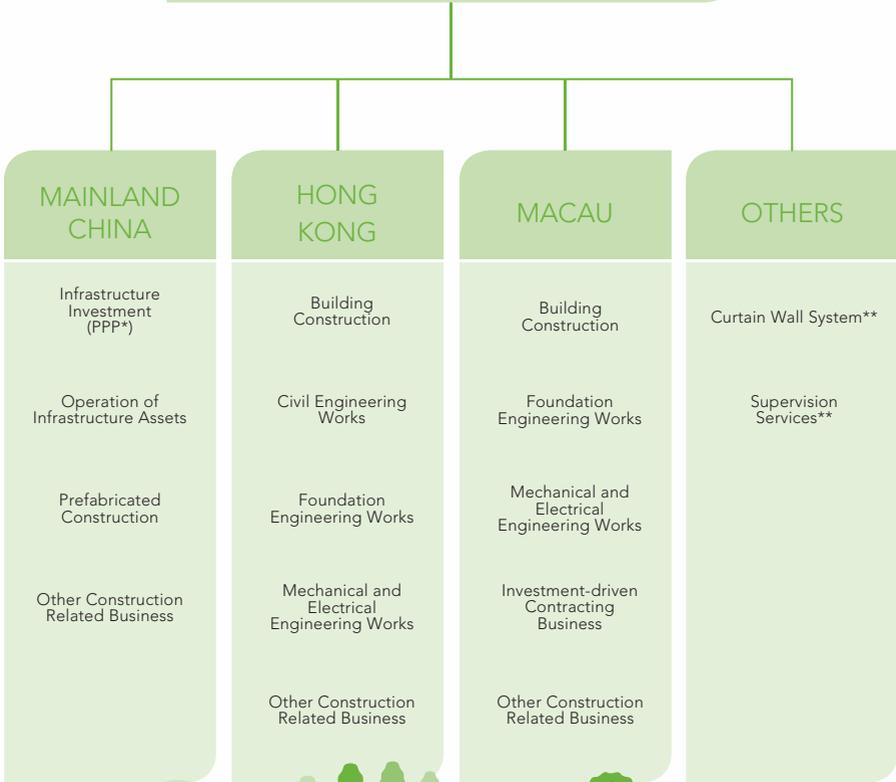
2	公司業務架構	68	Corporate Structure
3	董事局及委員會	69	Board of Directors and Committees
4	公司資料	70	Corporate Information
5	主席報告書	71	Chairman's Statement
15	管理層討論及分析	81	Management Discussion and Analysis
22	未經審核之簡明 綜合收益表	88	Unaudited Condensed Consolidated Income Statement
23	未經審核之簡明 綜合全面收益表	89	Unaudited Condensed Consolidated Statement of Comprehensive Income
24	簡明綜合財務狀況表	90	Condensed Consolidated Statement of Financial Position
26	未經審核之簡明 綜合權益變動報表	92	Unaudited Condensed Consolidated Statement of Changes in Equity
29	未經審核之簡明 綜合現金流量表	95	Unaudited Condensed Consolidated Statement of Cash Flows
31	簡明財務報表附註	97	Notes to the Condensed Financial Statements
62	其他資料	128	Other Information



Corporate Structure



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



* "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

(see notes below)

Zhou Yong (Chairman)
Zhang Haipeng (Chief Executive Officer)
Tian Shuchen
Zhou Hancheng
Hung Cheung Shew

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMMITTEES

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

Notes:

The following changes have been effected from the conclusion of the Board Meeting of the Company held on 21 August 2018 and the director list above has incorporated such changes:

- (1) Mr. Zhou Yong ceased to serve concurrently as the Chief Executive Officer of the Company;
- (2) Mr. Zhang Haipeng was appointed as the Chief Executive Officer of the Company; and
- (3) Mr. Pan Shujie and Mr. Wu Mingqing resigned as Executive Directors of the Company.



Corporate Information

AUTHORISED REPRESENTATIVES

Zhou Yong
Zhang Haipeng

COMPANY SECRETARY

Tse Sui Ha

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISOR

Mayer Brown JSM

PRINCIPAL BANKERS

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

LISTING INFORMATION SHARES

Hong Kong Stock Exchange: 03311

GUARANTEED NOTES (CSCFIN II N2211)

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

GUARANTEED NOTES (CSCFIN II N2711)

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

WEBSITE

www.csci.com.hk

FINANCIAL CALENDAR

Closure of Register of Members — Interim Dividend

20 September 2018

2018 Interim Dividend Payable

4 October 2018



Chairman's Statement

PRUDENT PROGRESS FOCUSED ON QUALITY

OPERATION RESULTS

The Group's unaudited profit attributable to shareholders and revenue for the six months ended 30 June 2018 amounted to HK\$2,522 million and HK\$27,106 million, respectively, representing year-on-year growth of 1.2% and 18%, respectively. Earnings per share was HK49.96 cents, representing year-on-year decrease of 9.9%.

DIVIDEND PAYMENT

The Board has declared an interim dividend of HK15 cents per share for the six months ended 30 June 2018.

REVIEW OF OPERATION

While the stable, full-scale recovery of the global economy continued into the first half of the year, potential risks were seen increasing. The increasing pace of the normalisation of the U.S. Federal Reserve's monetary policy amidst strong U.S. economic growth was driving the gradual rise of global financing costs. In China, the quality of economic development further improved, as the nation embraced a new era underpinned by the intensive implementation of reform and opening measures as well as stable progress of "deleveraging and risk prevention" guidelines.

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



Chairman's Statement (continued)

REVIEW OF OPERATION (CONTINUED)

MARKET CONDITIONS

In Hong Kong and Macau, the construction markets presented opportunities as well as challenges, as both cities continued to enjoy thriving economic development. In Mainland China, the economy was progressing in stability, although there was a slight slowdown in the growth of infrastructure investment following the government's move to tighten regulation and control. The glass curtain wall market was generally stable.

1. *Hong Kong and Macau*

The Hong Kong economy continued to perform strongly with a robust residential property market, but there were fewer large-scale government infrastructure works than before, while market competition was escalating. The Macau economy enjoyed growth amidst stable development driven by the gaming sector with an increasing number of government projects in the pipeline, while the number of gaming concession projects were seen decreasing. In view of the changes in market landscape, the Group stepped up with the consolidation of its internal resources to enhance business expansion and secure market shares, on the back of integrated strengths afforded by its end-to-end construction business chain. For the first half of the year, new contracts with a total amount of HK\$22,620 million were signed up in Hong Kong and Macau. With a persistent emphasis on the synergized development of construction and investment, the Group secured growing market influence as it continued to drive its contracting business with the deployment of its investment business.

2. *Mainland China*

The infrastructure investment market in Mainland China was under pressure as the authorities made further inroads in regulating Project Database of the National PPP ("Public-Private-Partnership") Integrated Information Platform and enhanced industry regulation. Growth slackened amidst vigorous deleveraging efforts in a tightening financing environment. To address the complex market situation, the Group strengthened the rectification and implementation of projects on hand, while raising the standard for screening new projects. In addition to ongoing efforts to develop premium PPP projects, we were also actively driving innovation of business models like industrial new town development. New contracts with a total worth of HK\$39,080 million were signed up during the first half of the year.



REVIEW OF OPERATION (CONTINUED)

MARKET CONDITIONS (CONTINUED)

3. *Curtain Wall*

Competition was fierce in the thriving curtain wall markets of Hong Kong and Macau, while the North American market was steadily growing. Competing on quality with a strong awareness for servicing, Far East Global Group Limited ("FEG") secured steady growth in market shares on the back of its sound project performance and market reputation. New contracts with a total worth of HK\$2,790 million were signed up during the first half of the year.

CORPORATE GOVERNANCE

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

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 step 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 is fostered for the effective implementation of comprehensive risk management.



Chairman's Statement (continued)

REVIEW OF OPERATION (CONTINUED)

RISK MANAGEMENT (CONTINUED)

In active response to market and policy risks, all required procedures and documents have been completed and implemented 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, in order to prevent or neutralise policy and financing risks. The Group is engaged in ongoing efforts to improve the natural hedging mechanism for exchange risks, while plans for project financing have been made ahead of time with initiatives to investigate foreign RMB loan arrangements and step up with overseas business development to increase the weighting and scale of overseas assets. In close tandem with national taxation policies, communication with the tax authorities has been strengthened to facilitate effective prevention of taxation risks.

FINANCIAL MANAGEMENT

In consistent adherence to the principle of prudent financial management, the Group has continued to enhance the allocation of financial resources, and broaden its financing channels and expedite the integration of industry and finance. Moreover, the Group is making arrangements to coordinate the conduct of traditional versus innovative financing, on-balance sheet versus off-balance sheet financing and domestic versus foreign financing, with a view to driving healthy and rapid business development. During the first half of the year, the Group secured new Mainland China loans amounting to RMB5,690 million and completed drawdown of Mainland China loans amounting to RMB5,799 million. The proportion of Renminbi bank borrowings increased to 58.5%. The preparation of the Group's "Belt and Road Investment Foundation" has been progressing well and supply chain financing has effectively commenced. As at 30 June 2018, the Group had bank deposits of HK\$19,045 million and total borrowings of HK\$43,032 million with a net gearing ratio of 60.7%. Drawdown of bank loans amounted to HK\$14,372 million, while committed but unutilised credit facilities amounted to HK\$17,942 million.



Chairman's Statement (continued)

REVIEW OF OPERATION (CONTINUED)

HUMAN RESOURCES

Based on the strategy of “strengthening the enterprise through the employment of talents and giving priority to securing the service of talents”, the Group has consistently introduced innovations to its talent training regime and increased its effort to arrange job rotation across different regions and business lines in an active fostering of a culture for job rotation. With a strong emphasis on training in multiple positions and diversity in job experiences, we have sought to nurture accountability and commitment among talents at intermediary and senior levels while improving the mechanism for the appointment and promotion of young officers, in a bid to transform the structure and enhance the ability of the Group's staff regime in general.

TECHNOLOGICAL INNOVATION

During the first half of the year, the Group received approvals for 2 invention patents in Hong Kong, as well as 27 patents (including 3 invention patents) and 1 design patent from national authorities. The Harbour Area Treatment Scheme of Hong Kong, jointly submitted by six entities including the Group and the Drainage Services Department of the Hong Kong SAR Government, was awarded the 15th Tien-Yow Jeme Civil Engineering Prize, while the Group's report on “Characteristics of Engineering Construction Technologies Applied in the Construction of Large Tunnels in Hong Kong with Case Study” won wide acclaim at the 20th Annual Meeting of the China Association for Science and Technology.

To adapt to technical changes in the building industry, the Group has converted its specialised unit engaged in the building information model (BIM) business into a formal corporation. With mature BIM business management capabilities fostered through the linking of internal projects and efforts to develop customers in the industry, this corporation is well-positioned to provide more comprehensive and forward-looking BIM solutions. The BIM technology will enable us to lower risks and increase returns by significantly enhancing our projects in terms of quality, safety, environmental friendly, progress and cost control.



Chairman's Statement (continued)

REVIEW OF OPERATION (CONTINUED)

SOCIAL RESPONSIBILITY

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

MAJOR AWARDS

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

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



Chairman's Statement (continued)

REVIEW OF OPERATION (CONTINUED)

MAJOR AWARDS (CONTINUED)

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

BUSINESS PROSPECTS

In the second half of the year, the trend of global economic recovery will hopefully continue, although factors potentially contributing to instability and uncertainty are increasing, as market concerns will be focused on policy adjustments by major economies and their spillover effects, trade tensions and geopolitical risks. Based on its astute understanding of macro-economic movements and industry development trends, the Group will formulate forward-looking business strategies and enhance its ability to analyse and respond to market developments in proactive response to changes in external business conditions.

MARKET OUTLOOK

Given the sustained positive trend of the Hong Kong and Macau economies and new opportunities presented by the development of the "Guangdong-Hong Kong-Macao Bay Area", private residential property investment in Hong Kong is expected to remain stable in the short term, while the market for public sector construction sites will also start to improve, as volumes of large-scale government and quasi-government projects will be coming on stream. In Macau's construction market, opportunities will persist in the both private and government works, despite the decreasing number of gaming concession projects.



Chairman's Statement (continued)

BUSINESS PROSPECTS (CONTINUED)

MARKET OUTLOOK (CONTINUED)

In Mainland China, economy will continue a quality growth, while infrastructure investment is expected to remain stable. After the regulation of national database of PPP projects is completed, legally compliant projects commanding better social and economic benefits will be implemented in a faster pace. As a key strategy in urbanisation developments, "industry-township integration" will continue to infuse new elements and new drive force into economic development, holding out encouraging prospects for the business of industrial new town development.

In connection with the curtain wall market, the North American market is expected to entail steady growth driven by strong economic recovery, while the Hong Kong and Macau markets will experience a gradual decline. Elsewhere, broad prospects are anticipated for other overseas markets, such as Australia and the United Kingdom.

OPERATIONAL STRATEGIES

The Group will adopt an operational strategy of "**Exercising Caution in Details and Implementation and Building a Strong Foundation to Seek Greater Success**". Detailed market researches will be conducted in a timely manner to seize with precision opportunities arising from structural changes in the industry and to prevent or neutralise operating risks in effective safeguarding of general project management standards. Efforts will be made to cement the dual-core business drivers of construction contracting and infrastructure investment in ongoing enhancement of our enterprise value and market competitiveness.

Our Hong Kong and Macau operations will strengthen regional links and synergies through vigorous engagement in the macro-development schemes of the nation, such as Guangdong-Hong Kong-Macao Greater Bay Area Development. In connection with our contracting business, we will foster a sound brand image by enhancing servicing awareness and quality management, as we focus on major projects and government works with sizeable scale, advanced technologies and considerable social influence. In connection with our investment business, we will draw lessons from previous positive experience in a timely fashion to enhance business model innovation, making diligent efforts in the investment in and operation of investment-driven contracting business. In the meantime, we will continue to grow our innovative business and strive for breakthroughs in BIM, modular integrated construction (MIC), smart work sites and e-commerce platforms for construction materials.



Chairman's Statement (continued)

BUSINESS PROSPECTS (CONTINUED)

OPERATIONAL STRATEGIES (CONTINUED)

Our investment business in Mainland China will step up with transformation and upgrade in line with national policies. In our traditional PPP business, we will enhance our ability to deliver projects in association with the government as we seek to secure, on a highly selective basis, sound and legally compliant local projects which are strong in financial backing, sizeable in scale, brief in cooperation period and predominantly paid by project users. We will step up with business model innovation with a special emphasis on the business model for industrial new towns. Interaction within the Group will be enhanced to identify opportunities for consolidated application of industrial resources, while specialised teams will be built. Criteria for project assessment will be formulated to facilitate early implementation of exemplary projects which will form the basis for replication and a new niche for profit growth.

Underpinned by the business strategy of “big market, big clients and big project” and the business philosophy of “unwavering focus on the high-end market and provision of high-quality services”, FEG will conduct effective brand promotion and market development, while enhancing its operational and management control models in light of the characteristics of different markets to optimise its business deployment in its three major markets, namely, Hong Kong and Macau, North America and Mainland China. Management and control over projects on hand will be strengthened, with a view to bolstering our core competitiveness in design, procurement, production and construction as we seek to maintain sound profitability.

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



Chairman's Statement (continued)

BUSINESS PROSPECTS (CONTINUED)

MANAGEMENT MODEL

In accord with a management control model emphasising strategic controls, the Group will implement measures to optimise organisational functions, procure reasonable allocation of duties and rationalise business processes, such that regional operations will be primed to assume a more proactive role in business management and innovations will be introduced to the internal coordination mechanism, while the functions of the headquarters in direction, service and supervision are being enhanced. Such measures will increase the scale and profitability of the Group's business as a whole, while fortifying its foundation in the construction contract and investment businesses.

COMPANY MISSION

In line with its longstanding business philosophy of “**sustainable growth for mutual success with harmony**”, the Group makes vigorous efforts to realise China State Construction's 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 “**harmony and mutual success**” 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 enthusiastic 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, 21 August 2018



Management Discussion and Analysis

OVERALL PERFORMANCE

With the growth of operating profit of each segment, the profit from core business (excluding the gain on fair value changes of investment properties) attributable to owners of the company was HK\$2,522 million, represents a year-on-year increase of 20.5%. The Group recorded revenue of HK\$27,106 million, and profit attributable to the owners of the Company amounted to HK\$2,522 million for the six months ended 30 June 2018, representing 18% and 1.2% growth respectively. Basic earnings per share was HK49.96 cents, representing a decrease of 9.9% as compared with the same period of last year after accounted for the bonus element of the rights issue which was completed on 12 October 2017. However, basic earnings per share increases 7.41% on a year-on-year basis, excluding the non-core element of earnings.

The Board declared an interim dividend of HK15.00 cents per share, the dividend payout ratio will be approximately 30%.

As at 30 June 2018, the equity attributable to the owners of the Company reached HK\$38,994 million, representing an increase of 2.4% as compared to 31 December 2017.

SEGMENT RESULT

CONSTRUCTION AND RELATED BUSINESS — HONG KONG AND MACAU

With a constantly changing market environment in Hong Kong and Macau, the Group has strengthened internal resource integration. Both segment reported comfortable results and continued to provide stable cash flow to the Group. Due to the decrease of launch of government's large-scale infrastructure projects, yet partly compensated by the booming of private housing work, revenue derived from Hong Kong segment dropped 12.8% from HK\$8,434 million to HK\$7,357 million. With the better result than expected of project settlement, segment result amounted to HK\$520 million, represents a growth of 29.3% compared with HK\$403 million for the same period of last year. Amid a declining of gambling business related projects, government work has gradually been increasing in Macau. This segment reported stable revenue of HK\$4,016 million but with better result of HK\$599 million due to effective cost management and bonus from employer, representing a growth of 27.7% year-on-year.



Management Discussion and Analysis (continued)

SEGMENT RESULT (CONTINUED)

INFRASTRUCTURE INVESTMENT PROJECTS AND CONSTRUCTION RELATED BUSINESSES — MAINLAND CHINA

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

The Group strengthened the rectification and implementation of on hand project, and aimed for the high-quality PPP projects. With the ample order book, this segment recorded notable increase in both of revenue and result to HK\$14,109 million and HK\$2,682 million, representing a growth of 49.2% and 40.9% year-on-year.

Infrastructure Investment Projects

Our investments in infrastructure projects span over different kinds of business, including investment and construction of toll road, toll bridge and a variety of housing project, such as affordable housing, hospital and school. We mainly participated in these infrastructure projects by way of PPP model. During the period under review, the Group received buy-back payment of HK\$4,140 million from infrastructure investment project, including the attributable share of such payment received by our joint venture investments.

Many large-scale infrastructure projects are in full swing, the result of Infrastructure investment sector have been boosted, reported total revenue and result of HK\$13,491 million and HK\$2,582 million, compared with HK\$8,740 million and HK\$1,776 million respectively for the corresponding period in 2017.

Operating Infrastructure Projects

The contribution from operating infrastructure projects, including thermoelectric plant and toll road remained relatively stable, excluding contribution from joint venture, this sector recorded revenue of HK\$480 million, which was slightly higher than that of HK\$420 million for the corresponding period in last year.



Management Discussion and Analysis (continued)

SEGMENT RESULT (CONTINUED)

FACADE CONTRACTING — FAR EAST GLOBAL GROUP LIMITED (“FEG”)

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

INVESTMENT INCOME, OTHER INCOME AND OTHER GAINS, NET

There was a fair value gain of HK\$401 million on the revaluation of the Group’s investment properties in last corresponding period. Due to stable commercial property market, no revaluation gain is noted during the period. As a result, the investment Income, other Income and other gains, net fell by 46.8% to HK\$281 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 are stable, amounting HK\$385 million, as compared to HK\$416 million for the same period of last year.

CORPORATE FINANCE

The Group dedicated to maintain a sound financial position with a strong capital base to support its stable expansion. Shareholders’ equity reached HK\$39,517 million as at 30 June 2018 (31 December 2017: HK\$38,463 million). The increase was mainly attributable to the profit for the period of HK\$2,543 million, distribution of HK\$1,010 million and HK\$596 million increase in translation reserve (loss) due to the depreciation of Renminbi against Hong Kong Dollars during the period.



Management Discussion and Analysis (continued)

FINANCIAL POSITION OF THE GROUP

(A) BANK BALANCES AND CASH

At 30 June 2018, the Group had bank balances and cash of HK\$19,045 million (31 December 2017: HK\$17,593 million), representing approximately 14.5% of the total assets of the Group. The portfolio of the currencies of bank deposits is listed as follow:

	30 June 2018 %	31 December 2017 %
Hong Kong Dollars	43	21
Renminbi	41	40
Macao Patacas	13	10
United State Dollars	2	28
Others	1	1

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

(B) BORROWINGS

The Group continued to strengthen the management of financing and capital operation. Focusing on cash flow management of projects and prudent wealth management. Capital management was further centralised and flexible use of funds between Mainland China and Hong Kong in order to enhance the effectiveness of capital usage and cost-efficiency. As Renminbi is fluctuated in recently years, the Group intend to increase the proportion of Renminbi finance in order to natural hedge with the exposure from the receipts of Mainland China business.

During the period, the Group has net drawn down various new term loans, revolving loans, project loans or syndicated loans of an aggregate amount of approximately HK\$14,077 million.



Management Discussion and Analysis (continued)

FINANCIAL POSITION OF THE GROUP (CONTINUED)

(B) BORROWINGS (CONTINUED)

At 30 June 2018, the total borrowings of the Group (including the unsecured guaranteed notes denominated in US dollars issued by the Group in November 2017) were HK\$43,032 million of which, approximately 40.4% and 58.5% of the bank borrowing were denominated in Hong Kong dollars and Renminbi respectively. Bank borrowings were mainly bearing interest at floating rates with reference to either Hong Kong Inter-bank Offered Rate ("HIBOR") or People's Bank of China ("PBOC") reference rate (overall the condition is favorable) while the Notes bear fixed interest rate.

The following table sets out the maturities of the Group's total borrowings as at 30 June 2018 and 31 December 2017:

	30 June 2018 HK\$' million	31 December 2017 HK\$' million
Bank and other borrowings		
On demand or within one year	3,635	2,581
More than one year but not exceeding two years	10,770	1,529
More than two years but not more than five years	14,447	13,555
More than five years	7,972	5,508
Total bank and other borrowings	36,824	23,173
Guaranteed notes payable	6,208	10,104
Total borrowings	43,032	33,277



Management Discussion and Analysis (continued)

FINANCIAL POSITION OF THE GROUP (CONTINUED)

(B) BORROWINGS (CONTINUED)

At 30 June 2018, the Group had net borrowings of HK\$23,987 million (31 December 2017: HK\$15,684 million) and the Group's net gearing ratio was approximately 60.7% (31 December 2017: 40.8%). The increase was mainly attributable to the significant investment in PPP projects in Mainland China during the period, given the longer project period and larger working capital need, but in return with higher margin. Also, the mitigation of shareholder's equity due to the Renminbi depreciation against Hong Kong dollars contributed to the further increase of net gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated statement of financial position) less cash and cash equivalents. At 30 June 2018, committed but unutilised credit facilities and other facilities like construction performance bond facilities amounted to HK\$17,942 million.

(C) USE OF PROCEEDS FROM THE RIGHTS ISSUE

Up to 30 June 2018, we utilised the net proceeds raised from rights issue in accordance with the designated uses set out in the prospectus dated 18 September 2017 as follows:

	Amount designated in the prospectus dated 18 September 2017 HK\$' million	Utilised (up to 30 June 2018) HK\$' million
Proceeds from the rights issue		
— for the further development and expansion of the Group's existing infrastructure investments business in Mainland China	5,676.6	5,304.8
— for general working capital of the Group	630.7	630.7
	6,307.3	5,935.5



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 period under review, the Group has achieved the following significant milestones in business expansion:

- (i) The Group was awarded numerous investment and construction project of municipal infrastructure, comprehensive urban development by way of PPP model in different regions, such as Jiangxi, Fujian, Hebei, Shandong, Hubei and Jiangsu Province. The aggregate attributable contract value of the Group amounts to HK\$17.31 billion.
- (ii) The Group was awarded two shanty town redevelopment projects in Henan and Beijing Province with aggregate attributable contract value of the Group amounts to HK\$11.12 billion.
- (iii) In March 2018, the Group entered into an agreement to acquire a land including the properties on it in Macau for redevelopment to commercial property. The investment sum amounts to HK\$1.1 billion.

FINANCIAL RISK FACTORS AND FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

There has been neither any change in major risk factors that may significantly affect the Group's business nor any change in risk management policies since the last year end. This interim report does not include all financial risk management information and disclosures required in the annual report of the Company for the year ended 31 December 2017 ("2017 annual report"), and should be read in conjunction with the relevant disclosures in the 2017 annual report.

During the period under review, the group continued to step up its efforts in risk management and control. On the principles of stability, sustainability, high efficiency and low risk in the Group's business expansion and operation, a balance will be achieved among risks, resources and business exploration to ensure smooth operation of each segment.



Unaudited Condensed Consolidated Income Statement

	Notes	Six months ended 30 June	
		2018 HK\$'000	2017 HK\$'000
Revenue	7	27,105,613	22,966,135
Costs of sales		(23,000,814)	(19,712,731)
Gross profit		4,104,799	3,253,404
Investment income, other income and other gains, net	9	280,528	527,436
Administrative, selling and other operating expenses		(623,367)	(664,408)
Share of profits/(losses) of			
Joint ventures		384,923	416,360
Associates		(11,816)	85,309
Finance costs	10	(838,598)	(442,166)
Profit before tax	11	3,296,469	3,175,935
Income tax expenses, net	12	(753,205)	(641,400)
Profit for the period		2,543,264	2,534,535
Profit for the period attributable to:			
Owners of the Company		2,522,320	2,493,401
Non-controlling interests		20,944	41,134
		2,543,264	2,534,535
Earnings per share (HK cents)	14		(restated)
Basic		49.96	55.42
Diluted		49.96	55.42



Unaudited Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Profit for the period	2,543,264	2,534,535
Other comprehensive (loss)/income		
<i>Items that may be reclassified to profit and loss</i>		
Gain on fair value changes of available-for-sale investments, net of tax	–	3,571
Loss on fair value changes of financial assets at fair value through other comprehensive income, net of tax	(1,048)	–
Release of investment revaluation reserve to income statement upon disposal of financial assets at fair value through other comprehensive income	(109)	–
Exchange differences on translation of the Company and its subsidiaries	(431,228)	891,328
Exchange differences on translation of joint ventures	(155,163)	176,987
Exchange differences on translation of associates	(9,644)	16,684
Other comprehensive (loss)/income for the period, net of tax	(597,192)	1,088,570
Total comprehensive income for the period, net of tax	1,946,072	3,623,105
Total comprehensive income attributable to:		
Owners of the Company	1,936,818	3,573,846
Non-controlling interests	9,254	49,259
	1,946,072	3,623,105



Condensed Consolidated Statement of Financial Position

	Notes	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (restated)
Non-current Assets			
Property, plant and equipment	15	3,813,973	3,818,806
Investment properties		4,750,616	4,750,265
Interests in infrastructure project investments		3,402,871	3,294,041
Prepaid lease payments		384,756	391,306
Interests in joint ventures		11,288,581	9,956,111
Interests in associates		5,126,547	4,570,740
Concession operating rights		5,244,346	5,414,282
Deferred tax assets		202,021	222,580
Trademark, project backlogs and licenses		323,734	334,686
Goodwill		577,664	577,664
Available-for-sale investments		–	411,234
Financial assets at fair value through other comprehensive income		456,773	–
Amounts due from investee companies		207,934	204,061
Trade and other receivables	16	33,179,755	29,094,860
		68,959,571	63,040,636
Current Assets			
Interests in infrastructure project investments		46,383	44,346
Inventories		314,858	214,039
Properties under development		1,638,771	–
Properties held for sale		414,340	414,367
Contract assets		11,605,967	10,979,356
Trade and other receivables	16	26,070,110	22,136,148
Deposits and prepayments		272,139	298,577
Available-for-sale investments		–	38,996
Amounts due from joint ventures		3,174,903	3,728,290
Tax recoverable		14,566	30,315
Bank balances and cash		19,045,090	17,593,203
		62,597,127	55,477,637



Condensed Consolidated Statement of Financial Position (continued)

	Notes	30 June 2018 HK\$'000 (unaudited)	31 December 2017 HK\$'000 (restated)
Current Liabilities			
Trade payables, other payables and accruals	17	35,139,427	33,133,986
Contract liabilities		7,281,983	6,795,165
Deposits received		38,176	33,478
Amounts due to joint ventures		795,374	2,231,753
Amount due to an associate		87,695	76,703
Current tax payables		3,420,439	3,247,384
Dividend payables		1,009,831	–
Borrowings	18	3,634,634	2,580,590
Guaranteed notes payables		–	3,898,357
Obligations under finance leases		820	865
		51,408,379	51,998,281
Net Current Assets		11,188,748	3,479,356
Total Assets less Current Liabilities		80,148,319	66,519,992
Capital and Reserves			
Share capital	19	126,229	126,229
Share premium and reserves		38,867,905	37,961,400
Equity attributable to owners of the Company		38,994,134	38,087,629
Non-controlling interests		522,978	375,282
		39,517,112	38,462,911
Non-current Liabilities			
Borrowings	18	33,189,613	20,592,443
Guaranteed notes payables		6,208,479	6,206,053
Contract liabilities		796,821	809,431
Deferred tax liabilities		434,124	446,655
Obligations under finance leases		2,170	2,499
		40,631,207	28,057,081
		80,148,319	66,519,992



Unaudited Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company									Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (note 19)	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	Total HK\$'000		
At 1 January 2017	112,203	14,247,148	(6,602,497)	337	50,358	(2,683,342)	283,813	20,039,938	25,447,958	222,360	25,670,318
Profit for the period	-	-	-	-	-	-	-	2,493,401	2,493,401	41,134	2,534,535
Gain on fair value changes of available-for-sale investments, net of tax	-	-	-	-	3,571	-	-	-	3,571	-	3,571
Exchange differences on translation of the Company and its subsidiaries	-	-	-	-	-	883,203	-	-	883,203	8,125	891,328
Exchange differences on translation of joint ventures	-	-	-	-	-	176,987	-	-	176,987	-	176,987
Exchange differences on translation of associates	-	-	-	-	-	16,684	-	-	16,684	-	16,684
Total comprehensive income for the period	-	-	-	-	3,571	1,076,874	-	2,493,401	3,573,846	49,259	3,623,105
Capital contribution relating to share-based payment borne by an intermediate holding company	-	-	3,291	-	-	-	-	-	3,291	-	3,291
Contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	-	-	-	14,899	14,899
Acquisition of additional interest of a subsidiary	-	-	(39)	-	-	-	-	-	(39)	-	(39)
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(4,473)	(4,473)
2016 final dividend declared	-	-	-	-	-	-	-	(807,865)	(807,865)	-	(807,865)
At 30 June 2017	112,203	14,247,148	(6,599,245)	337	53,929	(1,606,468)	283,813	21,725,474	28,217,191	282,045	28,499,236



Unaudited Condensed Consolidated Statement of Changes in Equity (continued)

	Attributable to owners of the Company										Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000 (note 19)	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	Total HK\$'000			
At 1 January 2018	126,229	20,540,459	(6,592,503)	337	54,529	(374,178)	296,518	24,036,238	38,087,629	375,282	38,462,911	
Profit for the period	-	-	-	-	-	-	-	2,522,320	2,522,320	20,944	2,543,264	
Release of investment revaluation reserve to income statement upon disposal of financial assets at fair value through other comprehensive income	-	-	-	-	(109)	-	-	-	(109)	-	(109)	
Loss on fair value changes of financial assets at fair value through other comprehensive income, net of tax	-	-	-	-	(1,048)	-	-	-	(1,048)	-	(1,048)	
Exchange differences on translation of the Company and its subsidiaries	-	-	-	-	-	(419,538)	-	-	(419,538)	(11,690)	(431,228)	
Exchange differences on translation of joint ventures	-	-	-	-	-	(155,163)	-	-	(155,163)	-	(155,163)	
Exchange differences on translation of associates	-	-	-	-	-	(9,644)	-	-	(9,644)	-	(9,644)	
Total comprehensive (loss)/income for the period	-	-	-	-	(1,157)	(584,345)	-	2,522,320	1,936,818	9,254	1,946,072	
Capital contribution relating to share-based payment borne by an intermediate holding company	-	-	5,493	-	-	-	-	-	5,493	-	5,493	
Contribution from non-controlling interests of subsidiaries	-	-	-	-	-	-	-	-	-	118,058	118,058	
Changes in ownership interests in subsidiaries	-	-	(25,975)	-	-	-	-	-	(25,975)	25,975	-	
Dividend paid to non-controlling shareholders	-	-	-	-	-	-	-	-	-	(5,591)	(5,591)	
Transfer to statutory reserve	-	-	-	-	-	-	244,930	(244,930)	-	-	-	
2017 final dividend declared	-	-	-	-	-	-	-	(1,009,831)	(1,009,831)	-	(1,009,831)	
At 30 June 2018	126,229	20,540,459	(6,612,985)	337	53,372	(958,523)	541,448	25,303,797	38,994,134	522,978	39,517,112	



Unaudited Condensed Consolidated Statement of Changes in Equity (continued)

Notes:

(a) Special reserve arose from:

- (i) The balance of special reserve brought forward from prior years arose from the combinations of China State Construction Engineering (Hong Kong) Limited, Zetson Enterprises Limited and its subsidiaries, China Construction Engineering (Macau) Company Limited and its subsidiaries, China Overseas Insurance Limited, China Overseas Insurance Services Limited, COHL (Macao) Commercial and Industrial Company Limited, 深圳中海建築有限公司 and its subsidiary, China Overseas Public Utility Investment Limited and its subsidiaries, Fuller Sky Enterprises Limited, Value Idea Investments Limited, 陽泉市陽五高速公路投資管理有限公司, China Overseas Technology Holdings Limited and its subsidiaries and China Overseas Ports Investment Company Limited and its subsidiaries under common control. In 2016, the Group acquired Precious Deluxe 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 Far East Global Group Limited (“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 carrying amount of the attributable share of net assets of FEG of approximately HK\$23 million, was credited to the special reserve.
 - (iii) During 2016, the FEG Group further acquired 36.63% of equity interests in Gamma North America, Inc. through conversion of shareholder’s loans. The net liability value of Gamma North America, Inc. of HK\$229,666,000 has been transferred from non-controlling interests to special reserve in equity.
 - (iv) During the period, the Group disposed its wholly owned subsidiary, 中海監理有限公司 and its subsidiary to FEG Group resulted in an addition of 25.94% non-controlling interest. The net assets value of 中海監理有限公司 and its subsidiary of HK\$25,975,000 has been transferred from special reserve in equity to non-controlling interests.
- (b) Capital redemption reserve represents the amount by which the Company’s issued share capital was diminished on cancellation of the ordinary shares repurchased.
- (c) Statutory reserve of the Group represents a general and development fund reserves applicable to the overseas and Mainland China subsidiaries which were established in accordance with the relevant regulations.



Unaudited Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Net cash used in operating activities	(3,993,896)	(2,089,048)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(246,443)	(858,595)
Acquisition of investment properties	–	(17,321)
Purchase of properties under development	(800,000)	–
Acquisition of subsidiaries	–	(138,800)
Capital investment in joint ventures	(1,174,122)	(2,967,536)
Advances to joint ventures	(1,419,589)	(157,934)
Repayment of loans to joint ventures	–	25,581
Dividends received from joint ventures	71,411	145,617
Increase in interests in associates	(735,978)	(251,749)
Dividends received from associates	184,680	9,450
Advance from an associate	12,049	–
Interests received	75,164	60,383
Other investing cash flows	114,967	(27,445)
Net cash used in investing activities	(3,917,861)	(4,178,349)
FINANCING ACTIVITIES		
New bank loans raised	14,372,056	7,155,190
Repayment of bank loans	(294,804)	(858,598)
Repayment of guaranteed note payable	(3,900,000)	–
Finance costs paid and other financing cash flows	(701,048)	(425,448)
Net cash from financing activities	9,476,204	5,871,144



Unaudited Condensed Consolidated Statement of Cash Flows (continued)

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Increase/(decrease) in cash and cash equivalents	1,564,447	(396,253)
Cash and cash equivalents at the beginning of the period	17,570,868	11,484,194
Effect of foreign exchange rate changes	(92,117)	122,245
CASH AND CASH EQUIVALENTS AT 30 JUNE	19,043,198	11,210,186
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENT		
Bank balances and cash	19,045,090	11,210,638
Less: Pledged bank deposits and deposits with financial institutions	(1,892)	(452)
	19,043,198	11,210,186

Note: During the period, 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\$3.2 billion in six months ended 30 June 2017 to HK\$5.19 billion in current period.



Notes to the Condensed Financial Statements

1. GENERAL INFORMATION

The principal activities of China State Construction International Holdings Limited (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 contraction business.

The Company is a public limited company incorporated in the Cayman Islands and its shares are listed on 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”) (incorporated in Hong Kong) and 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”), 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 disclosed in the corporate information section of the interim report.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instrument and investment properties, which are measured at fair values.



Notes to the Condensed Financial Statements (continued)

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND IMPROVEMENTS TO EXISTING STANDARDS AND INTERPRETATION

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except for the adoption of amendments to HKAS effective for the financial year ending 31 December 2018.

In the current interim period, the Group has applied, for the first time, the following amendments to HKAS issued by the HKICPA which are relevant to the Group:

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

The application of the above new standards, amendments and improvements to existing standards and interpretation in the current period has had no material impact on the Group's results and financial position, except HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers". As a result of adopting the standards, the Group had to change its accounting policies. The impact of adoption are disclosed in Note 4.



Notes to the Condensed Financial Statements (continued)

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND IMPROVEMENTS TO EXISTING STANDARDS AND INTERPRETATION (CONTINUED)

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

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

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2021

³ The mandatory effective date will be determined



Notes to the Condensed Financial Statements (continued)

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND IMPROVEMENTS TO EXISTING STANDARDS AND INTERPRETATION (CONTINUED)

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

HKFRS 16, “LEASES”

HKFRS 16 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.



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES

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

(a) HKFRS 9 “FINANCIAL INSTRUMENTS”

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The new accounting policies applied from 1 January 2018 are as follows:

(i) *Classification*

Debts instruments

HKFRS 9 has three financial asset classification categories for investments in debt instruments:

- those to be measured at amortised cost;
- those to be measured subsequently at fair value through other comprehensive income (“FVOCI”); and
- those to be measured subsequently at fair value through profit or loss (“FVPL”).

Classification depends on the entity’s business model for managing the debt instruments and the debt instruments’ contractual cash flow characteristics.



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9 "FINANCIAL INSTRUMENTS" (CONTINUED)

(i) *Classification (Continued)*

Debts instruments (Continued)

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective of collecting the contractual cash flows; and
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Group classifies its financial assets as at FVOCI only if both of the following criteria are met:

- the objective of the Group's business model is to hold the asset to collect the contractual cash flows and to sell financial assets; and
- the contractual terms of the debt instruments give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

Equity instruments

Investment in equity instruments are always measured at fair value. Equity instruments that are held for trading are measured at FVPL.

For equity instruments which are not held for trading, the Group has made an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9 "FINANCIAL INSTRUMENTS" (CONTINUED)

(ii) *Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets measured at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A gain or loss on a financial asset that is subsequently measured at amortised cost is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in finance income using the effective interest rate method.

Equity instruments classified as fair value through other comprehensive income

The Group subsequently measures all equity instruments at fair value. Since the Group's management has elected to present fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Equity investments that are elected by the Group's management to be classified as FVOCI are not subject to impairment. Dividends from such instruments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9 "FINANCIAL INSTRUMENTS" (CONTINUED)

(iii) *Impairment*

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

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

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



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9 “FINANCIAL INSTRUMENTS” (CONTINUED)

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

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

The financial assets held by the Group include financial assets previously classified as available-for-sale investments under HKAS 39, and that have reclassified as financial assets at fair value through other comprehensive income under HKFRS 9. Except for the above, the application of HKFRS 9 does not have material impact on the classification, recognition and measurement of the other financial assets held by the Group at 30 June 2018.

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



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) HKFRS 9 “FINANCIAL INSTRUMENTS” (CONTINUED)

(ii) Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses 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. At 30 June 2018, the Group assessed the impact of loss allowance is immaterial.

(b) HKFRS 15 “REVENUE FROM CONTRACTS WITH CUSTOMERS”

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

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



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 15 “REVENUE FROM CONTRACTS WITH CUSTOMERS” (CONTINUED)

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

Accounting for revenue from construction contracts

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

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

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



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 15 “REVENUE FROM CONTRACTS WITH CUSTOMERS” (CONTINUED)

Presentation of contract assets and liabilities

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

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



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS" (CONTINUED)

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

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



Notes to the Condensed Financial Statements (continued)

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) HKFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS" (CONTINUED)

The following adjustments were made to the amounts recognised in the statement of financial position on 30 June 2018:

	At 30 June 2018 (without the adoption of HKFRS 15) HK\$'000	Effects of adoption of HKFRS 15 HK\$'000	At 30 June 2018 (as reported) HK\$'000
Condensed consolidated statement of financial position (extract)			
Amounts due from customers			
for contract work	11,605,967	(11,605,967)	–
Contract assets	–	11,605,967	11,605,967
Trade payables, other payables and accruals	35,198,693	(59,266)	35,139,427
Amounts due to customers			
for contract work	5,827,580	(5,827,580)	–
Deposits received and advances from customers	1,433,313	(1,395,137)	38,176
Deferred income	796,821	(796,821)	–
Contract liabilities	–	8,078,804	8,078,804

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



Notes to the Condensed Financial Statements (continued)

5. ESTIMATES

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In the preparation of these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017, except the following accounting estimates and judgements:

ESTIMATES AND JUDGEMENTS IN REVENUE RECOGNITION FOR CONSTRUCTION WORK

Revenue from construction contracts is recognised over time when the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date; otherwise, revenue is recognised at a point in time. The construction projects have generally no alternative use for the Group due to contractual restrictions and the Group has an enforceable right to payment for performance completed to date.

For revenue from construction work that is recognised over time, the Group recognises such revenue by reference to the progress of satisfying the performance obligation at the reporting date. This is measured based on the Group's costs incurred up to the reporting date and budgeted costs which depict the Group's performance towards satisfying the performance obligation. Significant estimates and judgements are required in determining the accuracy of the budgets. In making the above estimation, the Group conducts periodic review on the budgets and mark reference to past experience and work of internal quantity surveyors.



Notes to the Condensed Financial Statements (continued)

5. ESTIMATES (CONTINUED)

IMPAIRMENT OF RECEIVABLES, CONTRACT ASSETS AND AMOUNTS DUE FROM RELATED PARTIES

The Group assesses on a forward looking basis the expected credit losses associated with its receivables and amounts due from related parties carried at amortised cost and contract assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. Significant estimates and judgements are required in determining the probability-weighted amount that is not recoverable and the forecast of future economic conditions.

6. FINANCIAL RISK MANAGEMENT ESTIMATES

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk.

There has been no change in major risk factors that may significantly affect the Group's business nor any change in risk management policies since the last year end. This interim report does not include all financial risk management information and disclosures required in the annual report of the Company for the year ended 31 December 2017 ("2017 Annual Report"), and should be read in conjunction with the relevant disclosures in the 2017 Annual Report.

During the period under review, the Group continued to step up its efforts in risk management and control. On the principles of stability, sustainability, high efficiency and low risk in the Group's business expansion and operation, a balance will be achieved among risks, resources and business exploration to ensure smooth operation of each segment.



Notes to the Condensed Financial Statements (continued)

7. REVENUE

Revenue represents the revenue arising from construction contracts, infrastructure investment projects, facade contracting business, infrastructure operation, project consultancy services, sales of building materials, machinery leasing, logistics services, insurance contracts and rental income from investment properties.

An analysis of the revenue is as follows:

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Revenue from construction contracts	11,248,967	12,621,460
Revenue from infrastructure investments projects (note (a))	13,490,952	8,739,934
Revenue from facade contracting business	1,542,361	855,453
Revenue from infrastructure operation (note (b))	480,614	420,914
Others (note (c))	342,719	328,374
	27,105,613	22,966,135

Notes:

- (a) Revenue from infrastructure investment projects mainly comprise of revenue generated from the provision of construction services under Public-Private-Partnership ("PPP") model, previously known as "build-transfer" ("BT") model, and the corresponding interest income.
- (b) Revenue from infrastructure operation comprise of revenue from thermoelectricity business and toll road operation.
- (c) Revenue from others mainly comprise of revenue from project consultancy services, sales of building materials, machinery leasing, logistics services, insurance contracts and rental income from investment properties.



Notes to the Condensed Financial Statements (continued)

8. SEGMENTAL 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) for the period ended 30 June 2018 and 2017.

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 Condensed Financial Statements (continued)

8. SEGMENTAL INFORMATION (CONTINUED)

Segment revenue and results for the six months ended 30 June 2018 and 2017 are as follows:

	Segment revenue		Gross profit		Segment result	
	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment						
Mainland China	14,109,112	9,455,686	2,862,097	2,136,689	2,681,648	1,902,715
Hong Kong and Macau	11,373,132	12,654,996	1,065,410	899,035	1,119,307	871,636
Hong Kong	7,356,967	8,433,989	475,381	443,372	520,347	402,516
Macau	4,016,165	4,221,007	590,029	455,663	598,960	469,120
Overseas	–	–	–	–	(3,275)	(1,814)
FEG Group	1,623,369	855,453	177,292	217,680	70,015	128,215
	27,105,613	22,966,135	4,104,799	3,253,404	3,867,695	2,900,752
Share of revenue/results of joint ventures	1,236,101	2,461,251			384,923	416,360
Total	28,341,714	25,427,386			4,252,618	3,317,112
Unallocated corporate expenses					(105,735)	(185,320)
Unallocated corporate income					–	401,000
Share of profits of associates					(11,816)	85,309
Finance costs					(838,598)	(442,166)
Profit before tax					3,296,469	3,175,935

For the six months ended 30 June 2018, the Group recognised revenue from contracts with customers amounted to HK\$27,022,215,000 over time, and revenue from other sources, including rental income and revenue from interests in infrastructure project investments, amounted to HK\$83,398,000.



Notes to the Condensed Financial Statements (continued)

9. INVESTMENT INCOME, OTHER INCOME AND OTHER GAINS, NET

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Interest income on:		
Bank deposits	68,056	36,816
Debt securities	7,108	2,768
Imputed interest on amounts due from investee companies	3,873	3,622
Loans to joint ventures	13,994	9,718
Loan to an associate	16,326	17,348
Dividend income from:		
Unlisted available-for-sale investments	–	17,231
Financial assets at fair value through other comprehensive income	24,226	–
Gain on disposal of:		
Property, plant and equipment, net	268	2,405
Gain on fair value changes of investment properties	–	401,000
Service income	113,201	11,158
Others	33,476	25,370
	280,528	527,436



Notes to the Condensed Financial Statements (continued)

10. FINANCE COSTS

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Interest on bank loans wholly repayable within five years	489,481	311,991
Interest on bank loan not wholly repayable within five years	185,071	46,064
Interest on guaranteed notes payables wholly repayable within five years	139,997	64,796
Finance lease charges	99	95
Others	23,950	19,220
	838,598	442,166

11. PROFIT BEFORE TAX

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Profit before tax has been arrived at after charging:		
Depreciation of property, plant and equipment	76,414	64,163
Amortisation of prepaid lease payments	3,837	3,454
Amortisation of concession operating rights	109,863	101,124
Amortisation of trademark, project backlogs and licences	9,054	8,765



Notes to the Condensed Financial Statements (continued)

12. INCOME TAX EXPENSES, NET

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Current tax:		
Hong Kong	130,983	86,957
Other jurisdictions	634,671	555,230
	765,654	642,187
(Over)/underprovision in prior years:		
Hong Kong	(23,347)	3,899
Other jurisdictions	(9,495)	(966)
	(32,842)	2,933
Deferred tax, net	20,393	(3,720)
Income tax expenses for the period, net	753,205	641,400

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the current and the last periods. Income taxes arising in other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions.



Notes to the Condensed Financial Statements (continued)

13. DIVIDENDS

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Dividends recognised as distributions during the period	1,009,831	807,865

In July 2018, the Company distributed 2017 final dividends of HK20.00 cents per share (2017: HK18.00 cents per share) amounting to approximately HK\$1,009,831,000 (2017: HK\$807,865,000).

The Board declared the payment of an interim dividend of 2018 of HK15.00 cents per share (2017: interim dividend of HK15.00 cents per share).

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share	2,522,320	2,493,401



Notes to the Condensed Financial Statements (continued)

14. EARNINGS PER SHARE (CONTINUED)

	2018 '000	2017 '000 (restated)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	5,049,157	4,498,931

No diluted earnings per share are presented as the Company did not have any diluted potential ordinary shares during the period ended 30 June 2018 and 30 June 2017.

The weighted average number of ordinary share used in the calculation of basic and diluted earnings per share for the period ended 30 June 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 period of 2017 have been retrospectively adjusted to reflect the bonus element of the rights issue.

15. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK\$246,443,000 (corresponding period in 2017: HK\$858,595,000) on the additions to property, plant and equipment.



Notes to the Condensed Financial Statements (continued)

16. TRADE AND OTHER RECEIVABLES

The analysis of trade and other receivables, including the aging analysis of trade receivables, net of allowance for doubtful debts, presented based on invoice date or the term of the related contracts, is as follow:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Trade receivables, net of allowance for doubtful debt, aged:		
0–30 days	5,307,234	5,989,786
31–90 days	2,992,746	4,103,596
Over 90 days	44,389,499	34,636,080
Retention receivables	52,689,479	44,729,462
Other receivables	3,724,913	3,894,448
Trade and other receivables	59,249,865	51,231,008
Current Portion	(26,070,110)	(22,136,148)
Non-current portion (Note)	33,179,755	29,094,860

Note: The balances of the 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 the second half of 2019 to 2023, with approximately HK\$8,984,306,000 in the second half of 2019, HK\$16,309,484,000 in 2020, HK\$5,638,911,000 in 2021, HK\$2,247,054,000 in 2022 to 2023. As a result, they are classified as non-current.

Included in the receivables aged over 90 days were receivables attributable to the infrastructure investment projects amounting to HK\$41,021,135,000 (31 December 2017: HK\$33,606,541,000).



Notes to the Condensed Financial Statements (continued)

16. TRADE AND OTHER RECEIVABLES (CONTINUED)

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 30 June 2018, the amount of retention receivables expected to be recovered after more than one year was approximately HK\$2,414,171,000 (31 December 2017: HK\$2,092,077,000).

Except for the receivables arising from construction contracts, including infrastructure investment projects trading under PPP model which are billed and payable in accordance with the terms of relevant agreements, the Group generally allows an average credit period of not exceeding 90 days (2017: 90 days) to its trade customers and the retention receivables are recoverable upon the expiry of defect liability periods of construction.

17. 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:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000 (restated)
Trade payables, aged:		
0–30 days	11,064,785	10,837,606
31–90 days	2,202,957	2,981,808
Over 90 days	6,736,963	4,898,971
	20,004,705	18,718,385
Retention payables	11,675,575	11,163,334
Other payables and accruals	3,459,147	3,252,267
	35,139,427	33,133,986



Notes to the Condensed Financial Statements (continued)

17. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (CONTINUED)

Other payables included in the other payables and accruals comprise primarily staff cost, other tax and other operating expenses payables.

The average credit period on trade and construction cost payables is 60 days (2017: 60 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit time-frame. At 30 June 2018, the amount of retention payables expected to be due after more than one year was approximately HK\$4,079,163,000 (31 December 2017: HK\$2,873,143,000).

18. BORROWINGS

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Bank loans, secured	3,887,879	3,938,939
Bank loans, unsecured	32,936,368	19,234,094
	36,824,247	23,173,033
Less: Amount due within one year shown under current liabilities	(3,634,634)	(2,580,590)
Amount due after one year	33,189,613	20,592,443
Carrying amount repayable:		
Within one year	3,634,634	2,580,590
More than one year but not exceeding two years	10,769,884	1,529,003
More than two years but not more than five years	14,447,588	13,554,679
More than five years	7,972,141	5,508,761
	36,824,247	23,173,033



Notes to the Condensed Financial Statements (continued)

18. BORROWINGS (CONTINUED)

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

Borrowings are dominated in the following currencies:

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
HK\$	14,873,690	7,665,053
RMB	21,534,076	15,093,102
US\$	398,822	386,026
Canadian Dollar ("CAD")	17,659	28,852
	36,824,247	23,173,033

The effective interest rates of borrowings are as follows:

	30 June 2018				31 December 2017			
	HK\$ %	RMB %	CAD %	US\$ %	HK\$ %	RMB %	CAD %	US\$ %
Bank loans, secured	-	4.58	3.84	-	-	4.80	4.24	-
Bank loans, unsecured	2.87	4.75	4.20	3.72	2.40	4.66	3.95	4.11



Notes to the Condensed Financial Statements (continued)

19. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each as at 30 June 2017 and 30 June 2018	60,000,000,000	1,500,000
Issued and paid up:		
Balance at 1 January 2017 and 30 June 2017	4,488,139,261	112,203
Issue of ordinary shares (Note)	561,017,407	14,026
Balance at 31 December 2017 and 30 June 2018	5,049,156,668	126,229

Note: A right issue of one rights share for every eight existing shares held by members on the register of members on 12 October 2017 was made, at an issue price of HK\$11.33 per rights share, resulting in the issue of 561,017,407 ordinary shares for a total cash consideration of approximately HK\$6,356,327,000. The new shares rank pari passu with the then existing shares in all respects.

20. COMMITMENTS

At 30 June 2018 and 31 December 2017, the Group had the following commitments contracted but not provided for in the consolidated financial statements.

	30 June 2018 HK\$'000	31 December 2017 HK\$'000
Contracted but not provided for — construction in progress for property, plant and equipment	84,030	115,156



Notes to the Condensed Financial Statements (continued)

21. RELATED PARTY TRANSACTIONS

(A) The Group had the following significant transactions with its intermediate holding company, fellow subsidiaries, associate and joint ventures during the period under review as follows:

Transactions	Six months end 30 June	
	2018 HK\$'000	2017 HK\$'000
Intermediate holding company		
Revenue from construction contracts	9,903	86,855
Fellow subsidiaries		
Rental income	2,139	1,850
Security service payment	4,158	5,580
Revenue from construction contracts	1,316,692	867,026
Project consultancy service income	32,803	32,431
Insurance premium income	565	607
Construction costs	6,343,744	3,307,621
Management fee income	13,295	–
Associates		
Purchase of construction materials	120,036	133,018
Revenue from construction contracts	1,622,717	948,464
Interest income	16,326	17,348
Joint ventures		
Revenue from construction contracts	5,006,623	1,596,671
Rental income from lease of machinery	306	2,289
Purchase of materials	41,832	23,927
Sales of building materials	3,770	29,392
Insurance premium income	10,420	10,124
Construction costs	325,860	336,575
Management fee income	–	13,361
Interest income	13,994	9,718



21. RELATED PARTY TRANSACTIONS (CONTINUED)

(B) 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, associate and joint ventures of the Group, the Group has transactions with other state-controlled entities including but not limited to the following:

- Revenue from construction contracts
- Investment income
- Finance costs

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled.

Certain of the Company's subsidiaries had entered into various transactions with state-controlled entities, including general banking facilities transactions with certain banks and financial institutions which are state-controlled entities, in their ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.



Other Information

INTERIM DIVIDEND

The Board declared an interim dividend of HK15.00 cents per share (2017: HK15.00 cents per share) to shareholders whose names appear on the register of members of the Company on Thursday, 20 September 2018. The interim dividend will be payable on Thursday, 4 October 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed and no transfer of shares will be registered on Thursday, 20 September 2018, for the purpose of determining shareholders' entitlement to the interim dividend.

In order to qualify for the interim dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong Branch Share Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 19 September 2018.

SHARE CAPITAL

The Company's total issued share capital as at 30 June 2018 was 5,049,156,668 ordinary shares of HK\$0.025 each ("Shares").

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, the interests of the Directors and chief executive of the Company in the shares and underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (the "Model Code") were as follows.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

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

As at 30 June 2018, 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 30 June 2018, Mr. Zhou Yong, Mr. Tian Shuchen, Mr. Zhou Hancheng, Mr. Pan Shujie, Mr. Wu Mingqing and Mr. Zhang Haipeng respectively held 357,000; 294,000; 294,000; 294,000; 294,000; and 294,000 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).

Save as disclosed above, as at 30 June 2018, none of the Directors or chief executive of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



Other Information (continued)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Save as disclosed above, at no time during the six months ended 30 June 2018 was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate. Save as disclosed above, at no time during the six months ended 30 June 2018, none of the Directors and chief executive of the Company (including their spouses and children under the age of 18) had any interests in or was granted any right to subscribe for the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO), or had exercised any such rights.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the 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 ¹
China Overseas Holdings Limited ² ("COHL")	Beneficial owner	3,261,796,136	64.60
China State Construction Engineering Corporation Limited ³ ("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*) ⁴ ("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.



SUBSTANTIAL SHAREHOLDERS (CONTINUED)

LONG POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES OF THE COMPANY (CONTINUED)

Notes:

1. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 30 June 2018 (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 was 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.

Save as disclosed above, as at 30 June 2018, there was no other person (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



Other Information (continued)

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, the Company has applied and complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules, except for certain deviations as specified and explained below with considered reasons for such deviations:

- Under code provision A.2.1 (the roles of chairman and chief executive officer should be separate and should not be performed by the same individual). Mr. Zhou Yong 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. The roles of chairman and chief executive officer were separated with effected from 21 August 2018. The Company has complied code provision A.2.1 since then.
- Under code provision E.1.2 (chairman of the board should attend the annual general meeting). Mr. Zhou Yong, Executive Director, Chairman and Chief Executive Officer, due to other business engagement was unable to attend the annual general meeting of the Company which held on 1 June 2018 ("AGM"). Mr. Tian Shuchen, Executive Director, chaired the AGM to ensure effective communication with shareholders of the Company at such meeting. All the independent non-executive directors attended the AGM and were available to answer questions and developed a balanced understanding of the views of the shareholders.

DIRECTOR'S 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. After making enquiries by the Company, all directors confirmed that they have complied with the Securities Code during the six months ended 30 June 2018.



Other Information (continued)

REVIEW OF INTERIM REPORT BY AUDIT COMMITTEE

The Group's unaudited interim results for the six months ended 30 June 2018 have been reviewed by the Audit Committee which comprises four Independent Non-executive Directors.

DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 30 June 2018, the Group's financial assistance to certain affiliated companies exceeded the assets rate of 8 per cent. A combined balance sheet of the affiliated companies as at 30 June 2018 is set out below:

	HK\$'000
Non-current assets	1,904,766
Current assets	19,014,793
Non-current liabilities	(2,279,230)
Current liabilities	(11,904,239)
Net assets	6,736,090
Reserves	(6,441,974)
Total equity	(6,736,090)

As at 30 June 2018, the Group shared the retained profits of these affiliated companies amounted to HK\$276,837,000.



Other Information (continued)

CHANGES IN DIRECTORS' INFORMATION

Changes in Directors' information since the date of the 2017 Annual report are set out below:

Mr. Zhang Haipeng

- With effect from 1 July 2018, the monthly salary of Mr. Zhang Haipeng was changed from HK\$101,000 to HK\$157,000.

Mr. Tian Shuchen

- With effect from 1 July 2018, the monthly salary of Mr. Tian Shuchen was changed from HK\$101,000 to HK\$146,000.

Mr. Zhou Hancheng

- With effect from 1 July 2018, the monthly salary of Mr. Zhou Hancheng was changed from HK\$101,000 to HK\$146,000.

Mr. Hung Cheung Shew

- With effect from 3 August 2018, the monthly salary of Mr. Hung Cheung Shew was changed from HK\$201,800 to HK\$240,000.





中國建築國際集團有限公司

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