

DYNAMIC GROWTH AND EXCELLENCE

強勁增長 卓越表現

Annual Report 2014

Stock Code : 165



SERVICE PHILOSOPHY

MAKING WEALTH SIMPLE

We adhere to our service philosophy with sound corporate governance, professionalism and tailored financial solutions, helping our clients create wealth and value with ease.



COVER STORY

To win even the shortest race, one must run thousands of miles. China Everbright Limited has become agile and strong based on years of experience and the will to succeed.

Today, after more than a decade of development, the dimensions of China Everbright Limited's asset management platform continues to expand, and its operating figures are more robust than ever. Everbright has emerged as a comprehensive cross-border asset management enterprise.

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DYNAMIC

Everbright's asset management business has grown by leaps and bounds, adding cross-border equity and bond products and venturing into the overseas M&A market. The Group has leveraged the solid development of its Primary Market funds, expanding into Secondary Market product management and further widening its business portfolio.

HIGH-GROWTH

This year saw a marked rise in Everbright's financial metrics. The Group realised profit after tax and non-controlling interests of HK\$2.56 billion - a year-on-year increase of 90.1%. Meanwhile, with rapid but steady growth in its asset management business, Everbright's fundraising scale reached HK\$50.3 billion, representing growth of 50.6%.



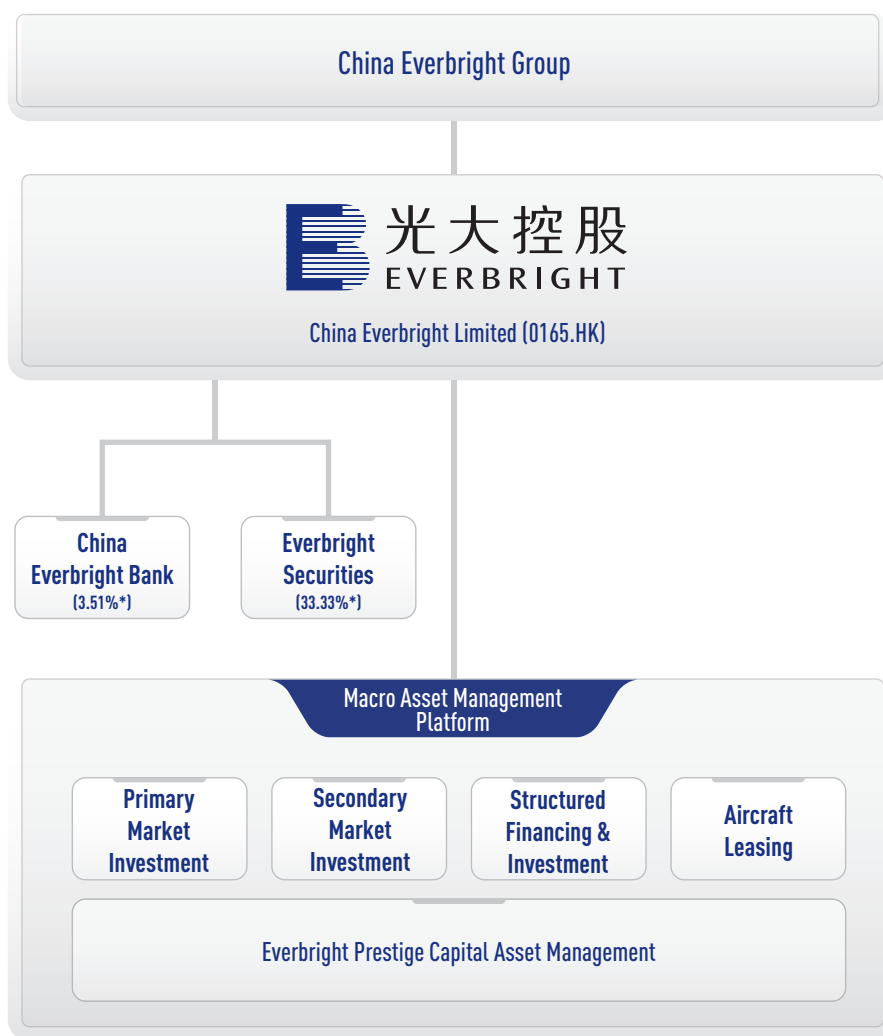




EXCELLENCE

Everbright has seized the opportunity presented by the rising trend of cross-border asset management - optimising its business and management structure, opening up channels for bilateral RMB flow under its capital account and realising synergies between China Everbright Group's sister companies - to become a comprehensive asset management enterprise.

COMPANY OVERVIEW



* As of 31 December 2014

China Everbright Limited (“Everbright”, stock code: 165.HK), has woven huge cross-border social and business networks in Hong Kong and the Mainland. China Everbright Limited, being a member of China Everbright Group, is a diversified financial services enterprise operating in Hong Kong and Mainland China. It is the second largest shareholder of Everbright Securities (stock code: 601788.SH) and third largest shareholder of China Everbright Bank (stock code: 601818.SH, 6818.HK) in the Mainland. China Everbright Group is the holding company of Everbright.

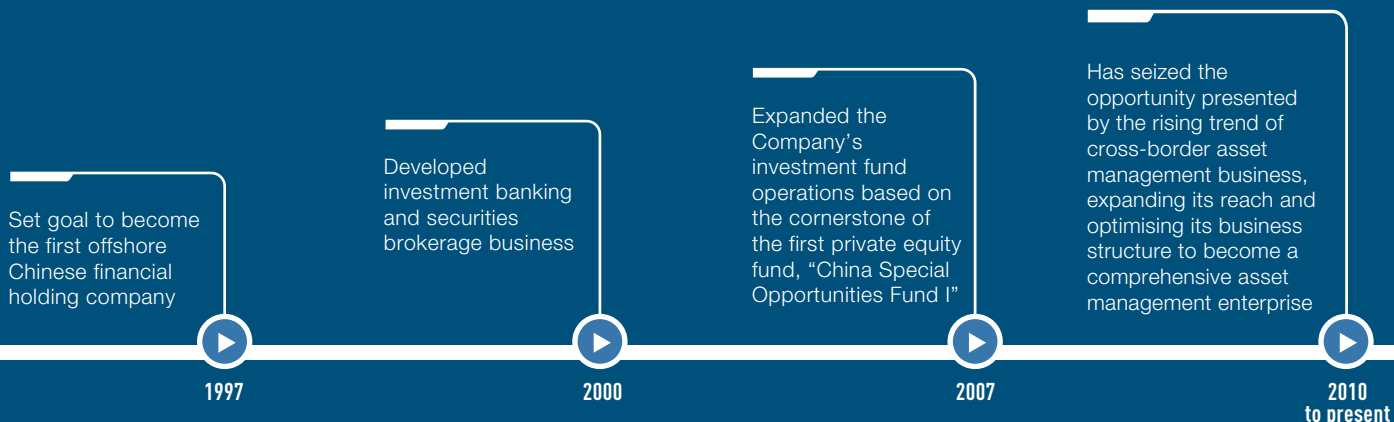
Established in 1997 at Hong Kong, Everbright persistently pursues its “Macro Asset Management” strategy, with specific focuses being placed on fund management and investment businesses, namely Primary Market Investment, Secondary Market Investment and Structured Financing and Investment. Moreover, being a substantial shareholder of China Aircraft Leasing Group Holdings Limited (stock code: 1848.HK), Everbright is actively developing aircraft leasing business in China and emerging markets. In addition, by leveraging the advantages in cross-border fee-based business of an associate, Everbright Securities, Everbright also participates in the development of investment banking (corporate financing) and brokerage services (wealth management) businesses in Hong Kong.

Over the past years, Everbright has developed solid bases in various sector markets. It manages series of private equity funds, venture capital funds, sector funds and hedge funds as operated via an international management platform, and provides overseas investors with opportunities to explore and invest in companies with fast growing potential in the Mainland China. On the other hand, Everbright also seeks investment opportunities from overseas and provides diversified financial services for its clients in Mainland China.

Through upholding the philosophy of “Making Wealth Simple”, Everbright leverages on its own substantial financial strength, as well as the position and influence of China Everbright Group and its affiliated companies in the financial industry in China, and has successfully built huge cross-border social and business networks in Hong Kong and the Mainland, and established a reputable image in the market.

CORPORATE STRATEGY

Over the last decade or so, Everbright has been undergoing a strategic business transformation:



The Group has built a cross-border macro asset management platform based on its unique competitive advantages:

- Trust from domestic and overseas investors as a state-owned enterprise under the Chinese government
- Deeply established in the China investment market, investing in industries and projects with high potentials
- A Hong Kong-listed platform with international standards of operations
- A market-driven incentive scheme that helps attract and retain the best domestic and overseas talent to help realise the Group's "create value, share value" philosophy together
- Solid capital strength and a strong balance sheet, allowing the Group to nurture and grow new funds with seed capital while using self-owned capital for market investment to create significant return on investment
- A promising track record and by offering customised products for investors that continuously generate rapid growth in assets under management as well as stable, sustainable income growth
- A diversified product structure enabling flexible investment combination amid various market conditions

Looking to the future, Everbright intends to build a cross-border asset management platform that combines its leading core capabilities with high growth, high returns and a stable income, generating sustainable revenue for shareholders.

High growth:

Maintain growth momentum of assets under management at over 30% per annum, as in the past five years



High returns:

Take a very selective approach to investment projects to ensure rewarding capital returns



Stable income:

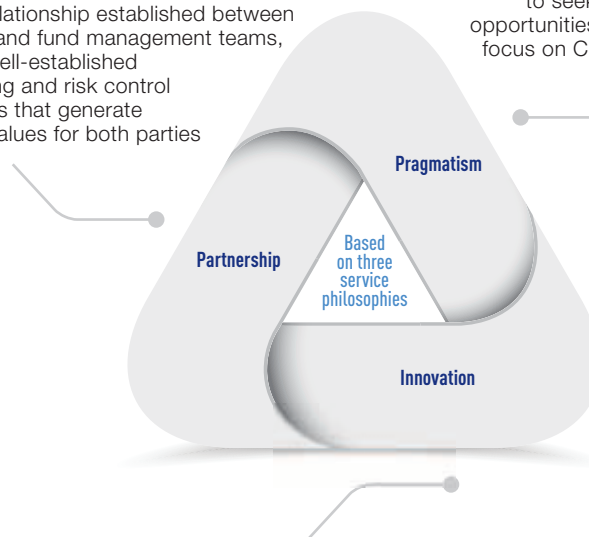
Enhance the proportion of stable income from management fees, consulting fees and interest income to the Group's increasing scale of assets under management



Leading core capabilities:

The solid relationship established between customers and fund management teams, based on well-established profit-sharing and risk control mechanisms that generate long-term values for both parties

Leveraging solid capital strength to seek optimal investment opportunities, distinguished by a focus on Chinese business and markets



The capability to create competitive, diversified cross-border investment products that can accommodate changes in markets and customer demand, both domestically and internationally

2014 RESULTS HIGHLIGHTS

Dynamic

Releasing asset value

Completing the restructuring of China Everbright Group has laid the foundation for building a well-defined equity structure and releasing asset value for China Everbright Limited.

Publicly listed

Several investment projects were publicly listed during the year, and the number of listed projects reached 21.

Overseas investment market

Establishing the CEL Catalyst China Israel Fund has helped us gain a foothold in the overseas investment market.

First publicly listed aircraft leasing company in Asia

The successful listing of China Aircraft Leasing Group Holdings Limited (CALGH) on the Hong Kong Stock Exchange (stock code: 1848) has created the first publicly listed aircraft leasing company in Asia.

Two-way cross-border RMB flow

Leveraging the Shanghai Free Trade Zone which opens up two-way cross-border RMB flow under the capital account.

High-growth

2.56 billion + 90.1%

Profit attributable to equity shareholders of the Company reached HK\$ 2.56 billion, up 90.1% year-on-year.

24 funds 74 investment projects

Everbright's core operating business, the cross-border asset management business, managed 24 funds. The number of investment projects increased from 71 last year to 74 in 2014.

50.3 billion + 50.6%

Fundraising totalled HK\$ 50.3 billion, up 50.6% year-on-year, with a compound annual growth rate (CAGR) of 56% from 2009-2014.

81% external funding

This year saw a higher proportion of external funding, amounting to 81% of total assets under management, up 4 percentage points compared to the same period in 2013.

864 million + 47.4%

Everbright's stable income, including management fees, consulting fees and interest income, rose 47.4% to HK\$ 864 million, accounting for over 28.8% of total revenue.

Excellence

Fundraising channels

Investing in Everbright Prestige Capital Asset Management Company helped enhance the fundraising channels to gain access to mainland China customers.

Cross-selling

Synergies between China Everbright Group's sister companies were realised through the cross-selling of several investment products from China Everbright Bank, Everbright Securities and Sun Life Everbright Life.

Management structure

The Group engaged an international management consultancy firm to reorganise Everbright's management structure and optimise the fundraising, investment, management and divestment capabilities of its asset management business.

High-end property

Investing in the Singapore-listed property developer Ying Li International strengthened the Group's capability in managing and developing high-end property.

Strong competitive edge

CALGH developed its aircraft purchase, disassembly and asset securitisation activities to create a strong competitive edge.

(HK\$ million)	2014	2013	Changes
Operating income, including:	1,688	1,162	45.2%
Fund management fees	225	187	20.6%
Consultancy fees	185	116	59.2%
Interest income	454	283	60.6%
Dividend income	716	574	24.7%

(HK\$ million)	2014	2013	Changes
Major business segments results (after reduction of "non-controlling interests")			
Primary Market Investment	720	783	-8%
Secondary Market Investment	61	(51)	N/A
Structured Financing & Investment	188	237	-20.7%
Aircraft Leasing	122	82	48.8%

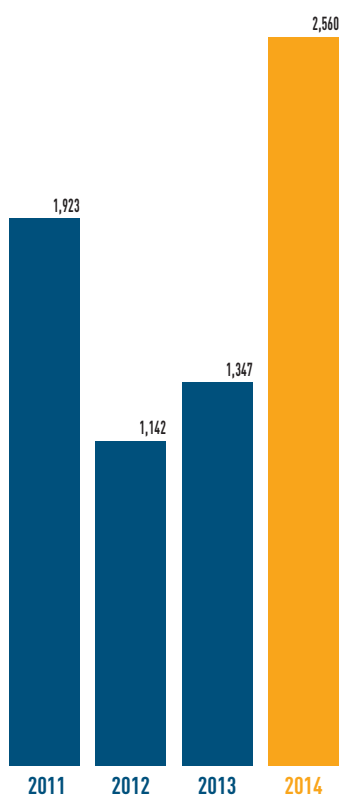
Key financial ratio	2014	2013	Changes
Interest-bearing debts gearing ratio	23.9%	11.5%	12.4 percentage point
Return on shareholders' equity	7.1%	4.7%	2.4 percentage point
Return on assets	4.8%	3.6%	1.2 percentage point

(HK\$)	2014	2013	Changes
Basic earnings per share	1.514	0.783	93.4%
Full-year dividend per share	0.480	0.310	54.8%

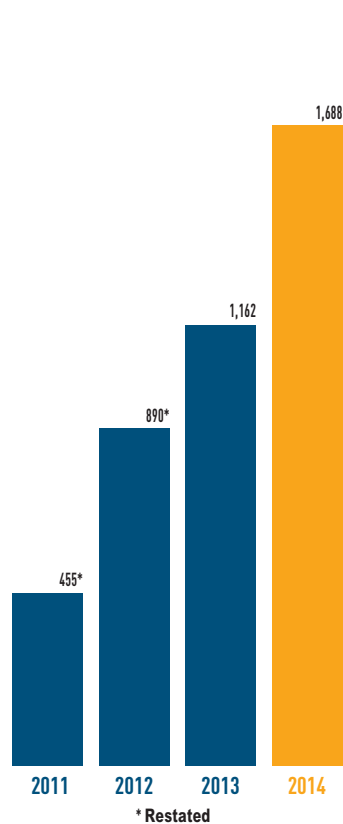
2014 RESULTS HIGHLIGHTS (CONTINUED)



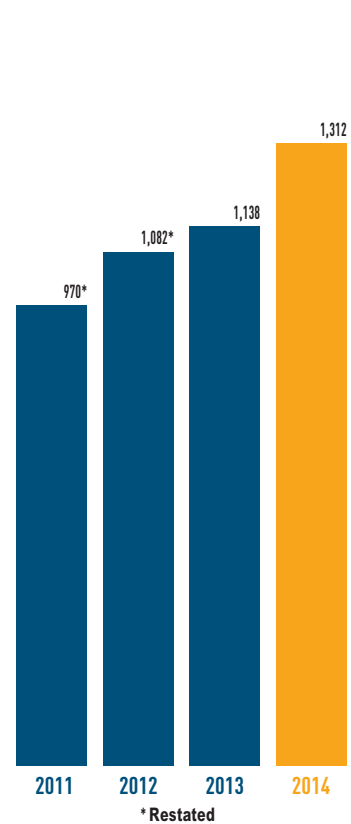
Profit attributable to equity shareholders (HK\$ million)



Operating Income (HK\$ million)

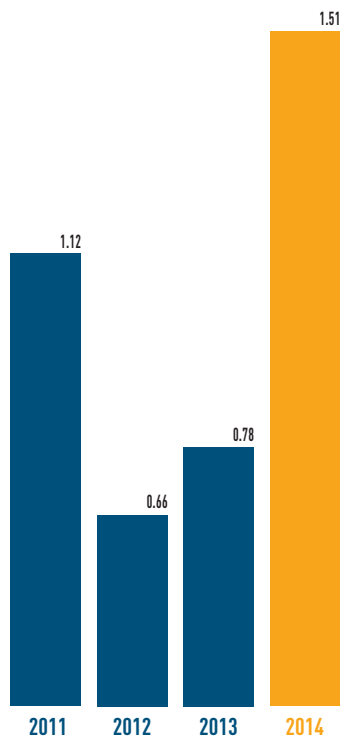


Other Net Income (HK\$ million)

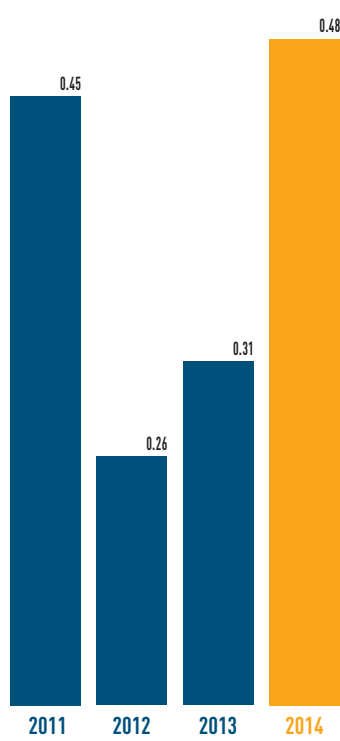




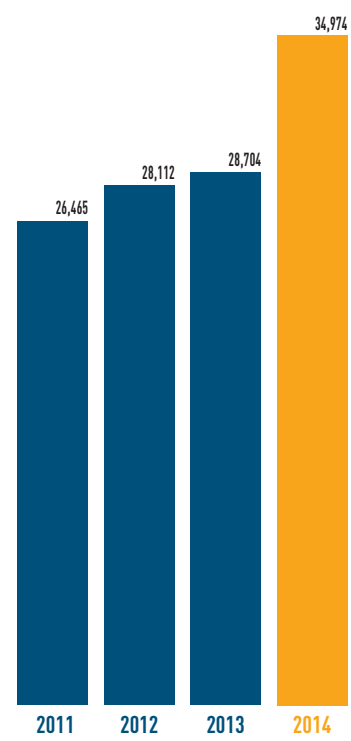
Basic earnings per share
(HK\$)



Full-year dividend per share
(HK\$)



Shareholders' Equity
(HK\$ million)



2014 REVIEW

Milestones of Business Development



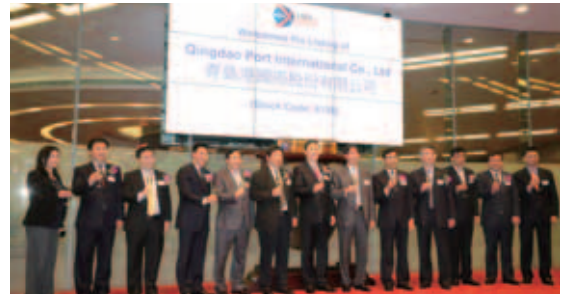
- CEL has won the 2013-2014 Top 50 GP with the Most LP Investment Value. The event was organized by China Limited Partners Associates

- Anhui Yingliu, an investee of CEL's China Special Opportunity Fund I, announced its admission to trading on the Shanghai Stock Exchange

- CECEP Wind-Power, an investment project of CEL's venture capital funds, was listed on the Shanghai Stock Exchange

- Yixing CEL together with Sequoia Capital and Highlight Capital jointly invest in Yuyue Medical

- Several investment projects of CEL were listed on the New OTC BB market including Beijing LVSAN Chemistry, Yida Chemical, Anyang Xinsheng, Leili Group and Jiangsu Turbine Seal



- CEL's investment project Qingdao Port International and China Aircraft Leasing Group Holdings Ltd., an associate of CEL were listed on the main board of Hong Kong Stock Exchange

- CEL Catalyst China Israel Fund has secured approximately US\$100 million at the first closing, and acquired a controlling stake in Lamina Technologies

- Shandong Hi-Speed Everbright Industrial Investment Fund announced that its first RMB1.8 billion fund raising has been secured

- CEL Assets Management was granted investment qualification in China Interbank Bond Market and received the approval for the US\$300 million additional QFII Quota



- Everbright Investment Conference 2014 successfully held in Xiamen, China

- iSoftStone Information Technology, an investment project of CEL has completed its privatization with the support of the fund management team of CEL's China Special Opportunities Fund

- CEL invested in "Prestige Capital Asset Management" to become its substantial shareholder

- CEL acquired all shares of Burke E. Porter Machinery, an automotive testing equipment manufacturer

- CEL became the second largest and strategic shareholder of Ying Li

- Everbright Financial Leasing (Shanghai) Company Limited officially established at the China (Shanghai) Pilot Free Trade Zone



- CEL's China Aircraft Leasing Company entered into Purchase Agreements to purchase 100 airbus aircrafts from Airbus

2014 REVIEW (CONTINUED)

Corporate Social Responsibility Activities and Recognitions



- China Everbright Charitable Foundation fully supports and sponsors some long-term charity projects which are beneficial to Hong Kong communities. They include, "The Everbright Project" which was in cooperation with Caritas Family Crisis Support Centre for five consecutive years regarding issues of the middle class in Hong Kong; "Project Companion - Professional Social Workers in Greater China Scheme" jointly managed with Social Workers Across Borders; and a mainland China study tour for Hong Kong teachers organised by Hong Kong Federation of Education Workers; and as a long term and important supporting organisation of Lifeline Express



- CEL volunteers visited Pok Oi Hospital Mrs Lee Ho Siu Fong Memorial Children And Families Development Centre, Heep Hong Society Special Children Centre, also participated in the Sowers Action Challenging Charity Hiking, as well as had the first Parent-Child Visiting Program to Lifeline Express Eye-Train Hospital in Shandong



- CEL donated HK\$1 million to Lifeline Express as the Title Sponsor for three consecutive years in a charity fund raising dinner jointly held by the two organisations



- CEL was awarded "Caring Company" and "Caring Organisation" for four consecutive years



- Hosted by IFC1000, the Chinese Financial Association of Hong Kong and the Chinese Securities Association of Hong Kong, sponsored by CEL, the First Hong Kong Internet Finance Summit was successfully held



- The Chinese Financial Association of Hong Kong held its Annual General Meeting cum 6th anniversary ceremony. CEL's CEO Chen Shuang completed his 3-year chairmanship and became Honorary Chairman



○ Everbright Charitable Foundation awarded the “5 Years Caring Award” by Caritas



○ CEL's 2013 Annual Report captured six awards in the 28th International ARC Awards, two Silver Awards in LACP 2013 Vision Awards and one Silver Award in the financial category of 2014/2015 Mercury Awards



○ This year, CEO Chen Shuang has attended a number of professional financial seminars on behalf of CEL, such as “The 12th China’s Financial Annual Champion Awards Overseas Summit”, “CGCC Forum - The Future Economy and Opportunities in Hong Kong” and luncheon held by Citi and as guest speaker for these events

EVERBRIGHT'S INVESTMENT VALUE GREW WITH ITS EXPANDING BUSINESS CHANNELS

The Group is evolving steadily, always growing and improving to become a comprehensive asset management enterprise with a strong, well-defined structure.

CHAIRMAN'S STATEMENT



Tang Shuangning
Chairman

The world's economies have become more divergent in 2014. China's economy is entering into a period of "new normal", while business opportunities have continued to emerge in Hong Kong. Meanwhile, our parent company, China Everbright Group, has successfully restructured. China Everbright Limited is evolving steadily. This year the Group expanded its reach and improved its business structure to strengthen its comprehensive asset management operations.

This year saw substantial improvements in Everbright's financial metrics, as well as its growing asset management business. As at 31 December 2014 the Group managed 24 funds, and total amount of fund raised grew by 50.6% to HK\$50.3 billion. Operating income was HK\$1.69 billion, up 45.2%, while profit after tax and after non-controlling interests was HK\$2.56 billion, representing an increase of 90.1%. Stable income (management fees, consulting fees and interest income) from our Hong Kong business – with a focus on cross-border asset management – reached HK\$864 million, a 47.4% increase. Other net income, consisting mainly of investment income, totalled HK\$1.31 billion, up 15.4%.

The Group's investment value grew with its expanding business channels. Invested companies enjoyed growing market values, in particular the shares of Everbright Securities and China

Everbright Bank held by China Everbright Limited. The newly set-up Everbright Prestige Capital Asset Management Company further augmented the Group's AUM growth. In line with China Everbright Group's internationalisation strategy, China Everbright Limited set up its first overseas mergers and acquisitions fund and made full use of the Shanghai Free Trade Zone to facilitate cross-border RMB fund flows.

Success does not come easily. I would like to express my sincerest gratitude to our management and staff, as well as our shareholders, directors and other stakeholders in Hong Kong and beyond, all of whom have made 2014 a very successful year for Everbright.


Looking ahead in 2015, the global economy is expected to recover slowly. Meanwhile the Chinese economy is steadily growing, offering potential for the Hong Kong market. The advantages of China Everbright Group's restructuring will become even clearer in the months ahead. Everbright will continue to identify and take advantage of the key market trends, cautiously manage risks, expanding further to create value for all our stakeholders.

Tang Shuangning
Chairman

30 March 2015, Hong Kong

SURGING TOWARD AN EVER-BRIGHTER FUTURE

2014 was a year full of change and opportunity for Everbright's cross-border asset management business. All of Everbright's financial metrics were up significantly, accompanied by rapid but stable growth in the Company's asset management business.



MANAGEMENT DISCUSSION AND ANALYSIS

In 2014 the shift in the growth momentum of the global economy became more apparent. The US economy outshined the rest of the world with better employment figures, the US Federal Reserve ended Quantitative Easing (QE) in late October and the US dollar saw resurgence. In Europe, conditions remained difficult. The European Central Bank intensified its QE policy. The risk of deflation loomed, and many countries were still struggling with double-digit unemployment rates. The sovereign debt problem in Greece remained un-resolved; together with geopolitics crisis in Ukraine and the plunge in crude oil prices, clouded Europe's outlook. The Japanese government has taken multiple measures to reform the economy, but these have not resulted in a strong recovery, meanwhile the government's debt burden increased further.

In 2014 the "new normal" best described China's economic development. Within the new paradigm, the nation's GDP growth will downshift from high to medium-high. China's full-year GDP growth rate for 2014 decreased to 7.4%. The country continued to adjust its economic structure; growth went from factor- and investment-driven to innovation-driven, and this resulted in a decline in investment relative to GDP. The rise of internet finance has intensified competition in the financial sector. Direct financing increased, but the difficulty experienced by small- and medium-sized enterprises remained obvious. Financial reforms revealed a growing trend towards marketisation and reduced shadow banking, and regulatory reforms helped improve investor protection.

Against this background, 2014 was a year full of change and opportunity. On one hand, the global financial system – regional economic uncertainties notwithstanding – was awash in ample liquidity, which together with continued wealth accumulation by mainland Chinese, resulted in an ever-increasing demand for asset management services. On the other hand, new investment opportunities continued to emerge. These included the launch of Shanghai-Hong Kong Stock Connect, which opened up channels for two-way investments between the two cities; the globalisation of the RMB, which offered opportunities for cross-border investment. Everbright catches the development opportunity of cross-border asset management, broaden its business horizon, a comprehensive asset management platform is beginning to solidify.

During the reporting period, all of Everbright's financial metrics were up significantly, accompanied by rapid and robust growth in the Company's asset management business:

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- Macro Asset Management:** At the end of 2014, Everbright's macro asset management business managed a total of 24 funds, with a steadily growing management portfolio. The total amount of funds raised was HK\$50.3 billion, up HK\$16.9 billion for a 50.6% increase compared to the same period last year. Of these, external capital accounted for approximately 81%, up 4 percentage points year-on-year. Assets under management (AUM) in the Primary Market grew by 22.2% year-on-year to reach HK\$38 billion, while AUM in the Secondary Market grew by 163% to reach HK\$6.3 billion. The associated company Everbright Prestige Capital Asset Management Company ("Everbright Prestige") has helped to raise RMB20.4 billion for products not directly managed by Everbright.
- Investment projects:** Everbright's investment projects continued to show their value. In 2014 a number of projects were listed, including Anhui Yingliu Electromechanical Company, Limited (603308.SH), a Private Equity (PE) Funds investment project; China Aircraft Leasing Group Holdings Limited ("CALGH", 1848.HK), strategic investment using Everbright's own capital; and CECEP Wind Power Corporation Company Limited ("CECWPC", 601016.SH), a Venture Capital Funds investment project. These, together with the outstanding performance of the real estate sector funds, have made the Primary Market portfolio more robust.
- Secondary Market Investment:** Through the addition of the QFII Fund and RQFII Fund, as well as participation in various PIPE projects, the Secondary Market expanded its product variety significantly. AUM for the segment increased sharply following an investment in Everbright Prestige, the platform to access high-net-worth individuals (HNWI) for financing, in April 2014.
- Structured Financing and Investment attracts high-quality external investors:** Taking advantage of the relaxation of restrictions on insurance investment, the Group was able to attract major domestic insurers to put in capital for joint investments.

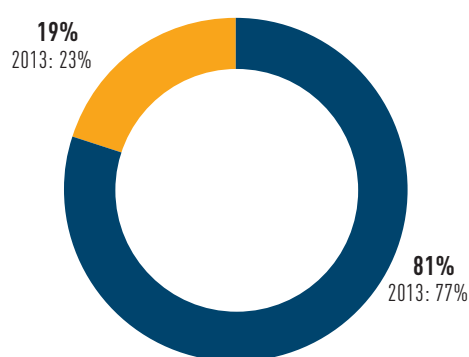
Number of Funds

24

Total amount of funds raised

HK\$50.3 billion

Internal & External Capital in Funds



Fundraising Scale:
HK\$50.3 billion

■ External Capital
■ Everbright Capital

Anhui Yingliu Electromechanical

Listed on the Shanghai Stock Exchange on 22 January 2014



CALGH

Listed on the Hong Kong Stock Exchange on 11 July 2014



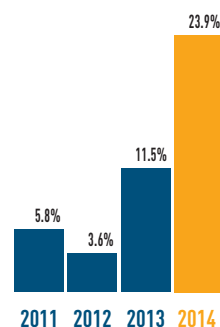
CECWPC

Listed on the Shanghai Stock Exchange on 29 September 2014



- 5 Involvement in overseas mergers and acquisitions (M&A): In line with the parent company China Everbright Group's strategic aim of internationalisation, and the trend of Chinese enterprises "going global", the first overseas M&A fund – CEL Catalyst China Israel Fund – was established for outbound M&As. Key M&A targets were high-tech industrial enterprises, which will be connected to Chinese enterprises to promote industrial upgrades.
- 6 Moving towards industry consolidation: Among Everbright's investees, many are leaders in their respective sectors. This will enable Everbright to move from a traditional private equity investor to an industry consolidator. This will also further reduce the concentration risk of investing in one single company in an industry, and at the same time increase the value of investees.
- 7 Reorganisation of management structure: To cope with rapid expansion, Everbright engaged an internationally renowned management consultancy firm during the reporting period to formulate and implement measures that will help enhance operations, management processes and governance.
- 8 Opening up channels to facilitate cross-border RMB flows under the capital account: Through the Shanghai Free Trade Zone, Everbright set up a new platform for cross-border capital flows. The RMB could move quickly in both directions under the capital account, greatly increasing the efficiency of capital employment and further highlighting the advantage of a cross-border asset management platform.
- 9 Unleashing synergies among Everbright's sister companies: Following the establishment of China Everbright Group Ltd., China Everbright Limited has strengthened its formation with the Group's banking, securities and insurance subsidiaries. During the reporting period, China Everbright Limited began co-working on capital raising HNWIs through Everbright Prestige with its sister companies such as China Everbright Bank. It also carried out cross-border asset management utilizing the strength of Everbright Pramerica Fund Management (Everbright Pramerica)'s QDII quota.
- 10 Leverage gradually rising: With Everbright's investment teams becoming more established, the gearing ratio is gradually lifted with rigorous risk control during the reporting year to achieve higher return on capital.

Gearing Ratio



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Operating Results

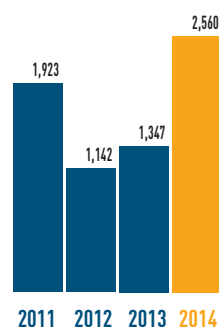
In 2014 the Group's profit after tax and non-controlling interests was HK\$2.56 billion, up 90.1% year-on-year. Earnings per share was HK\$1.514, presented an increase of 93.4%. Operating income amounted to HK\$1.69 billion, representing an increase of 45.2% compared to 2013. For the Hong Kong business focused on cross-border asset management, asset management fees grew by 20.6% over 2013, totaling HK\$225 million. Consulting fees grew by 59.2% to HK\$185 million. Interest income amounted to HK\$454 million, a year-on-year increase of 60.6%. Other net income, mainly comprising investment income, grew 15.4% to HK\$1.31 billion.

During the reporting period, the Group's total expenditure amounted to HK\$1.06 billion, representing an increase of 60.6% compared to the previous year. Total cost over income ratio rose to 35.5%, up 6.7 percentage points; among which, one-off expenses on restructuring matters amounted to HK\$162 million. In order to better support business growth and prepare for expansion, the Group modestly increased its leverage and raised its gearing ratio to 23.9% (11.5% in the previous year), still a very comfortable level. The Group's solid financial position will continue to support the expansion of its various businesses.

In 2014 the Group's share of profit as per the associates financial statement (Everbright Securities), under equity accounting method, amounted to HK\$870 million (2013: HK\$86 million). China Everbright Bank contributed a dividend income after tax of HK\$320 million, representing a year-on-year increase of 165%. To allocate resources for developing its cross-border asset management businesses, the Group sold 112 million shares of China Everbright Bank's A-shares to China Everbright Group on 24 February 2014 for a consideration of RMB278 million, realising an investment gain of HK\$252 million.

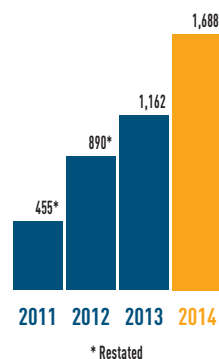
Profit Attributable to Equity Shareholders

(HK\$ million)



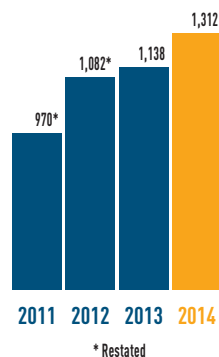
Operating Income

(HK\$ million)



Other Net Income

(HK\$ million)



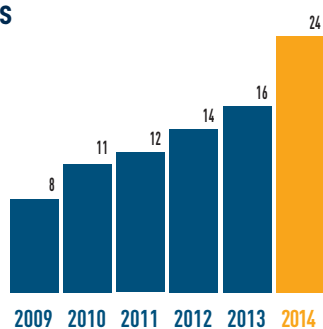
Core Business – Cross-Border Asset Management

As at 31 December 2014, the Group's cross-border macro asset management business managed a total of 24 funds. The total amount of capital raised was HK\$50.3 billion, at a compound annual growth rate of 56% from 2009 to 2014. The outstanding committed capital balance plus the fair value of project investments amounted to HK\$54.1 billion, representing an increase of 57% compared to fiscal year 2013.

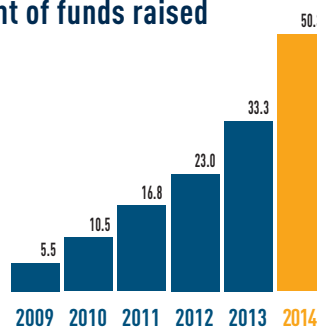
CEL Macro Asset Management – Solid Fund Portfolio (As at 31/12/2014)

Business Segment	Fund Nature	Fund	Year of launch	Investment focus	Total committed capital	No. of outstanding projects	Accumulated No. of exits
Primary Market Investment	PE Funds (offshore)	1 China Special Opportunities Fund I (SOF I)	2004	Manufacturing & servicing	USD 50 M	4	4
		2 China Special Opportunities Fund II (CSOF II)	2007	Telecom, media, hi-tech & consumer	USD 100 M	7	1
		3 China Special Opportunities Fund III (CSOF III)	2010	Agriculture, consumer goods & financial auxiliary	USD 399 M	13	–
	VC Funds (onshore)	1 Beijing Zhongguancun Investment Fund	2007	High-growth manufacturing, hi-tech & servicing	RMB 200 M	5	1
		2 Everbright Jiangyin Asset Investment Fund	2009	Hi-tech industries	RMB 360 M	6	1
		3 Everbright Guolian Fund	2009	High-growth industries	RMB 320 M	7	1
	Sector Focus Funds	1 Everbright Ashmore Real Estate Fund	2009	China real estate	USD 140 M RMB 19 B	2+17 (USD+RMB)	3+7
		2 Everbright Jiangsu New Energy (Low Carbon) Fund	2010	New materials, environmental & energy saving	RMB 100 M	2	–
		3 Everbright Medical and Healthcare Fund	2012	Healthcare industry	RMB 600 M	4	–
		4 Everbright Qingdao New Energy (Low Carbon) Fund	2013	New materials, environmental & energy saving	RMB 650 M	2	–
		5 Shandong Hi-Speed Everbright Industrial Fund	2014	Municipal engineering, environmental protection	RMB 1.8 B	2	–
	M&A Fund	1 CEL Catalyst China Israel Fund	2014	Israeli or Israeli-related companies	USD 100 M	1	–
		1 Absolute Return Funds *4	2012	Global hedge opportunities	USD 100 M	–	–
Secondary Market Investment	2 QDII Greater China Bond Fund	2012	Offshore Chinese enterprises' bonds/ fixed income products	RMB 1 B	–	–	
	3 Everbright Dynamic Bond Fund	2012	Offshore Chinese enterprises' bonds/ fixed income products	USD 30 M	–	–	
	4 Everbright China Dynmaic QFII	2014	Onshore Equities	USD 80 M	–	–	
	5 Everbright RQFII	2014	Onshore Equities	RMB 1.66 B	–	–	
	6 China Focus Fund	2014	Onshore Equities	USD 20 M	–	–	
	7 Gopher	2014	Offshore Chinese enterprises' bonds/ fixed income products	USD 11 M	–	–	
	8 China Focus Fixed Income Fund	2014	Offshore Chinese enterprises' bonds/ fixed income products	RMB 196 M	–	–	
	1 Onshore Mezzanine Fund	2012	Onshore mezzanine financing	RMB 800 M	2	1	
Structured Financing & Investment							
Prestige Capital Asset Management			2014	Asset management for onshore clients	RMB 7 B		
Summary					HK\$ 50.3 B	74	19

No. of Funds



Total amount of funds raised (HK\$ billion)



PRIMARY MARKET INVESTMENT

Continuously enhancing the depth and breadth of our products while ensuring sufficient risk controls and guaranteed returns.



Primary Market Investment Business

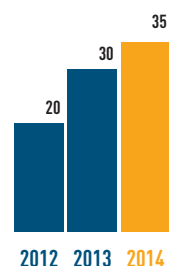
The Group's Primary Market Investment Business, comprising Private Equity Funds, Venture Capital Funds, Sector Focus Funds and the new overseas M&A funds set up in 2014, remains Everbright's most established business segment. Investment projects cover various industries including precision instruments, infrastructure, new materials, medical and healthcare, and real estate. Everbright injects a certain amount of seed capital into different funds (especially newly established teams) to support their development and expand the existing product while ensuring sufficient risk control and a satisfactory return rate.

During the reporting period, AUM for the growing Primary Market Investment business was HK\$38 billion, with 72 investment projects and a pre-tax profit of HK\$720 million, representing a 8% decrease over fiscal year 2013. Project investment models became more diverse, with not only traditional private equity investments, but also investments through various avenues such as privatisation. At the same time, with the resumption of IPOs in mainland China, a number of mature projects had already been listed or had applications for their listings submitted. These listings are expected to generate substantial profits for the Company.

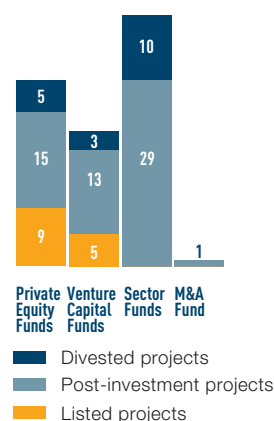
Everbright's Primary Market investment highlights for 2014 are as follows:

- 1 More collaboration among internal funds. Following the co-investment into BGI in 2013, the Medical and Healthcare Fund and China Special Opportunities Fund are collaborating on a joint investment in Kunming Jida Pharmaceutical. An A-share prospectus for the project was submitted in November 2014.
- 2 More collaboration with external PE funds in mainland China. In September 2014 Everbright jointly invested in Jiangsu Yuyue Medical Equipment & Supply Co., Ltd ("Yuyue Medical", 002223.SZ) with Sequoia Capital and Highlight Capital.
- 3 Involvement in privatisation projects. The Company helped iSoftStone (NYSE:ISS) complete its privatisation in August 2014 through an innovative arrangement of equity and debt financing.

Total amount of funds raised (Primary market) (HK\$ billion)



Primary Market Investment Investment Stages of Projects



- 4 Formation of a new M&A Fund to capitalise on opportunities accorded to Chinese enterprises venturing overseas. Apart from raising funds and building partnerships in mainland China, Everbright has also started to venture into overseas M&A projects. In August 2014, in response to China's strategy of actively promoting outbound investment, the Group launched the CEL Catalyst China Israel Fund and acquired a controlling stake in Lamina Technologies. The Group is also building up the Global M&A Fund and using the Group's own capital to acquire a car services company, Burke E. Porter, in the United States. The acquired technology and products will be integrated with the needs of Chinese enterprises for technological advancement. Major conglomerates will be invited on suitable occasions to take part in joint investments to maximise profit.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Private Equity Funds

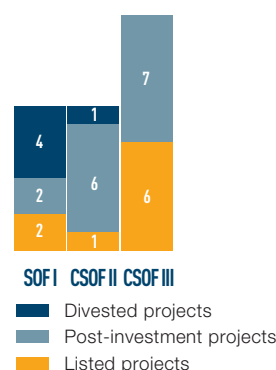
Everbright invests in high-growth industries in mainland China through private equity funds. During the reporting period, the three China Special Opportunities funds have a total of 24 projects, and fully divested from 5 projects.

China Special Opportunities Fund I and China Special Opportunities Fund II, set up in 2004 and 2007 respectively, are already in the maturity stage, with 7 projects listed on NASDAQ, Hong Kong's main board and China's A-share market. China Special Opportunities Fund III, launched in 2010, has essentially completed the investment process and added 3 projects to its portfolio in 2014.

In 2014 Anhui Yingliu Electromechanical, a project under the Special Opportunities Fund series, was listed on the Shanghai Stock Exchange (603308.SH). The high-end machined parts manufacturing leader was among the first batch of companies to be listed after the resumption of IPOs in mainland China. Anhui Yingliu's issue price was RMB8.28 per share. As at the end of 2014, the share price had risen to RMB17.9, a significant increase of 116% compared to the listing price. China UMS, a China-wide payment services company whose business covers a bank card service, internet payment and prepaid card acceptance, continued to enjoy stable growth. Liaoning Wufeng, a state-level leading enterprise in agricultural industrialisation, and Yuan Cheng Logistics, one of China's first Class 5A integrated logistics services companies, are preparing for listing. In addition, joint investment projects with the Medical and Healthcare Fund, such as BGI and Kunming Jida Pharmaceutical, are benefiting from the strong growth in medical services and medical equipment in mainland China, as evidenced by steadily higher operating figures.

Given the continued consolidation of the Mainland's private equity fund sector and the possibility of the A-share IPO market transitioning from an audit system to a registration system, the Group believes that exit channels for the projects in the Special Opportunities Fund series will be smoother in 2015.

Private Equity Funds Investment Stages













Stock Price of Anhui Yingliu since it was listed



At the same time, the Special Opportunities Fund series, following several years of growth, is holding onto a large number of shares for listing companies and convertible bonds that are already beyond the lock-up periods. The teams will capture the right moments to liquidate these available-for-sale securities to realise more capital gain for Everbright.

List of listed projects under primary market

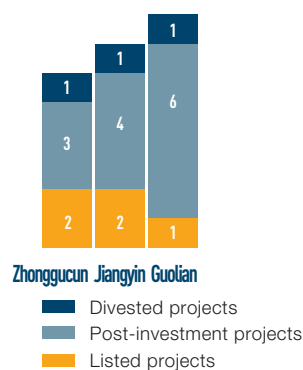
Anhui Yingliu Group (603308.SH) 	CALGH (1848.HK) 	CEC Wind-Power Corporation (601016.SH) 
Being mate (002570.SZ) 	SPT Energy (1251.HK) 	China Outfitter (01146.HK) 
Beijing Jing Neng (579.HK) 	China High Speed Transmission 动 (658.HK) 	Global Market (GMC.AIM) 
Goldwind Science and Technology (002202.SZ) 	iSoftStone (ISS.NYSE) 	Shenzhen Jiawei (300317.SZ) 

Venture Capital Funds

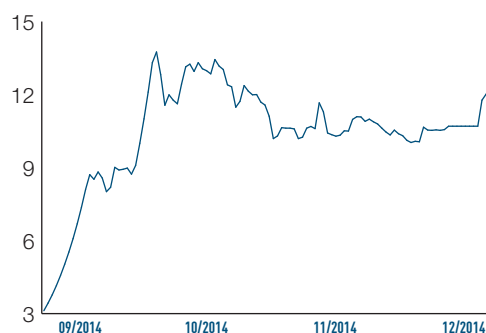
Everbright's Venture Capital Funds – professional investment funds raised and managed by Everbright – comprise Beijing Zhongguancun Investment Fund, Everbright Jiangyin Asset Investment Fund and Everbright Guolian Fund. These three focus on high-tech and high-growth small- and medium-sized enterprises in mainland China, which are at the start-up or growth stages and have yet to be listed. The main exit strategies are either listing on the Mainland's SME and ChiNext, or M&As. At the moment, the three Venture Capital Funds are at the post-investment value creation management and project exit stages. With a number of projects being publicly listed in 2014, this sector is generating more investment income for the Group. In addition, the Venture Capital Funds took hold of market opportunities to sell parts of unlisted projects to industry consolidators at a premium, realising substantial cash earnings.

During the reporting period, under this sector CECEP Wind Power Corporation listed on the Shanghai Stock Exchange (601016.SH) in September 2014. Riding on the vast popularity of energy efficiency stocks, the stock's price rose steadily following its listing and reached limit up for 11 consecutive trading days. As at 31 December 2014, the share price had increased 372% over its issue price, reaching RMB10.25. The team took the opportunity to exit the Shenzhen Jiawei Solar Lighting (300317.SZ) investment project, which was listed in 2012 and achieved a 210% return on investment. Beijing Leili was listed on the New OTC BB market for public trading on 17 November 2014 becoming the third enterprises to list on the New Third Board after Beijing LvSan Chemistry and Jiangsu Yida Chemical were listed in the first half of the year. With the China Securities Regulatory Commission initiating the registration system, these projects on the New OTC BB market can benefit from an increasingly mature market framework.

Venture Capital Funds Investment Stages



Stock Price of CECWPC since it was listed



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Sector Focus Funds

Everbright's Sector Focus Funds concentrate on the pillar industries in mainland China that can offer stable returns, as well as emerging industries with huge growth potential. The funds cover the four specific sectors: real estate, infrastructure, medical and healthcare, and new energy. With professional teams and their thorough understanding of these markets, Sector Focus Funds uncover investment opportunities in every sector and achieve gains arising from the long-term growth and structural demands of various industries.

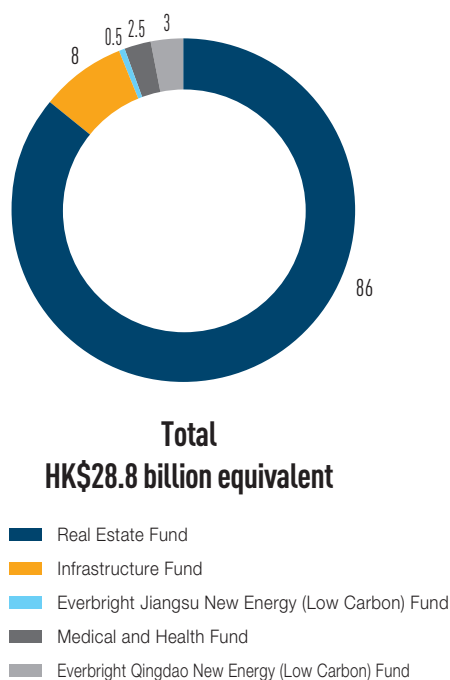
Real Estate Fund

Everbright Ashmore Real Estate Fund (Everbright Ashmore), the largest Sector Focus fund under the Group, has become the leader in real estate private equity in China. With the correction of the Mainland real estate market in 2014, approximately 40 real estate experts in the fund team all over China captured a great number of investment opportunities by segmentising a diversified market.

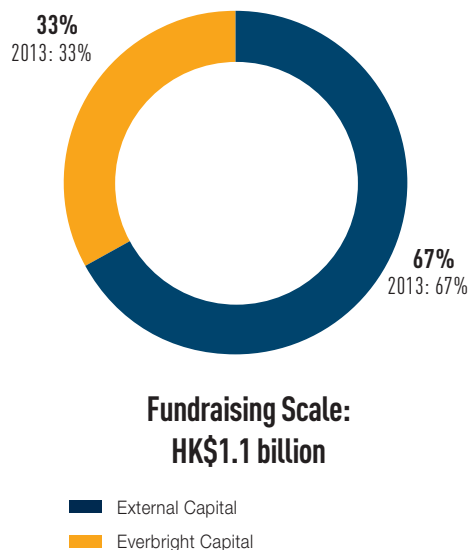
Everbright Ashmore is divided into two currency investment streams: USD-denominated and RMB-denominated funds. Its investment portfolio includes a diverse mix of residential, office and commercial properties. Through the equity-based USD fund and bond-based RMB fund, the Group can derive both investment gains and interest income from the Mainland property market. At the same time, the investment and asset management team, consisting of experienced experts in real estate, investment, engineering and asset management, has the capability to be fully involved in projects, thereby minimising the non-systematic risks of this business segment.

During the reporting period, the USD-denominated fund – which invests in Chinese real estate projects with high growth potential using an equity investment approach – completed its investments. It successfully exited from two Shenyang Rongsheng projects in early 2015, realising an investment return of approximately 18%. Currently the USD-denominated fund has two projects in Shanghai and Xuzhou, achieving highly satisfactory sales and returns.

Sector Funds Fundraising Scale (%)



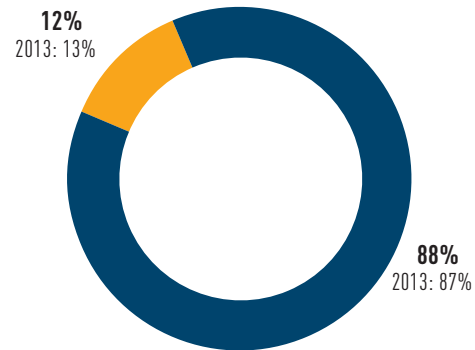
USD – denominated Real Estate Fund



The RMB-dominated fund focuses on investing in short-term bonds and fixed income products through various investment structures customised for individual projects. With rigorous risk controls, the fund contributes a consistent stream of management fees, consulting fees and interest income. The fund added 6 new projects during the reporting period and exited 4 projects. Currently it manages 17 projects, with AUM of HK\$24.1 billion, of which 88% was raised from external investors.

In addition, the Group completed two significant investments in 2014. On September 2014, the Group completed an investment in the Singapore-listed, Chongqing-based commercial property developer Ying Li International Real Estate Limited (Ying Li), becoming its second-largest strategic shareholder. The investment in Ying Li has high strategic significance for Everbright Ashmore, China Everbright Limited and China Everbright Group, for three reasons. (1) Everbright Ashmore's capabilities in providing value-added real estate management, capital strength and business network management are organically merged with Ying Li's experience and capabilities in construction. Ying Li will become a strong property developer and manager that will not only add value to current high-end real estate and urban redevelopment projects in Chongqing, but also further expand its operations into China's first- and second-tier cities as well as other markets. (2) Ying Li's current high-quality real estate projects will lay an excellent foundation for China Everbright Limited's future plans to issue real estate investment trusts

RMB – denominated Real Estate Fund



**Fundraising Scale:
HK\$23.8 billion**

- External Capital
- Everbright Capital

(REITs), thus increasing the diversity of Everbright's asset management products. (3) By incorporating a developer with strong real estate construction capabilities, the Group can initiate the development and construction of new projects according to China Everbright Group's development needs in the future.

Real Estate Projects in Chongqing



**Chongqing International
Future Tower**



Yingli International Financial Centre



New York New York

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In the second half of 2014, Everbright Ashmore launched a special real estate investment fund of RMB7.5 billion for the development of an 800,000-square-metre international financial and technological hub in Beijing's Tongzhou Canal core region. The project is part of the Beijing Municipal Government's major effort to develop a city sub-centre that focuses on finance, technology and culture. Incorporating Ying Li's project organisation and construction capabilities, China Everbright Limited will ride its core properties to create a multi-function cluster that combines commerce and finance, technology and offices, and high-end residences. This will help Everbright ramp up good quality core properties in preparation for the overseas REIT market.

Medical and Healthcare Fund

In 2014, the mainland's medical industry has intensively promoted a number of policies which include, the gradually loosening of price restrictions on medicines, the approval of online sales of medicines and the marketisation of the medical sector, etc. Policies related to the medical equipment industry covered many aspects, including research and development (R&D), approvals, production, sales and distribution, and usage.

The Group's Everbright Medical and Healthcare Fund focuses on unlisted Chinese medical and healthcare companies that are in the development stage, with key investment areas of biopharmaceuticals, medical equipment and facilities, medical services and medical IT. At the end of 2014, Everbright Medical and Healthcare Fund I, with fund raising sale of RMB600 million, has essentially completed its first-phase of investment. The Fund's team is now in the project management and exit stage. During the reporting period, the team added 1 investment projects. Kunming Jida Pharmaceuticals, in which the team started investing in the first half of the year, filed an A-share IPO prospectus in November 2014. The company specialises in the R&D, production, sales and distribution of medicines for digestive, liver, cardiovascular, cerebrovascular, bone and muscular sicknesses.

Meanwhile, among those projects under post-investment management, an A-share prospectus for invested company Betta Pharmaceuticals (focusing on critical illnesses such as malignant tumours, diabetes, and cardiovascular and cerebrovascular sicknesses) has been filed. The BGI project benefited from restructuring as its parent company BGI Group aimed to raise core competitiveness and operational capabilities. The AMCARE Women's and Children's Hospital expanded its treatment centre and hospital area, enjoying strong sales growth as a result.

Given the excellent investment results of Everbright Medical and Healthcare Fund I, the medical and healthcare team has built up a strong brand reputation and a large number of high-quality projects. The Everbright Medical and Healthcare

Fund II team is already in place and has essentially completed its fundraising of RMB1 billion. It is expected that the growth of China's medical equipment, pharmaceutical and medical services sector will remain strong in 2015 and bring about more investment opportunities for Everbright.

Infrastructure Fund

In 2014 the Group reorganised the management structure of the Infrastructure Fund, moving away from managing the Macquarie Greater China Infrastructure Fund yet continuing its investments in 8 existing projects.

During the year, Everbright partnered with Shandong Hi-Speed Group and jointly set up the Shandong Hi-Speed Everbright Industrial Fund, with a target size of RMB5 billion. Through this fund, Everbright focuses on the establishments developments brought about by the new type of urbanisation happening in mainland China, concentrating on meeting growing demand in areas such as municipal services, environmental protection and clean energy as well as investment opportunities for industry upgrade. The fund will seek strategic directions that conform to China's future urbanisation policies, and look for fast-growing, competitive companies in the infrastructure sector with a potential for development and profit. It also aims to promote the combination of industrial capital and financial capital as much as possible.

During the reporting period, the Shandong Hi-Speed Everbright Industrial Fund completed its first round of fundraising and generated RMB1.8 billion, of which 89% came from external funding. The second round of fundraising is in progress and targeting on a number of large insurers and financial institutions. The fund is in its investment stage and completed 2 projects during the reporting period. In addition, Everbright, leveraging its asset management expertise, was involved in the financing of Shandong High-Speed Group's major projects to help it revitalise its inventory assets through asset securitisation.

New Energy Funds

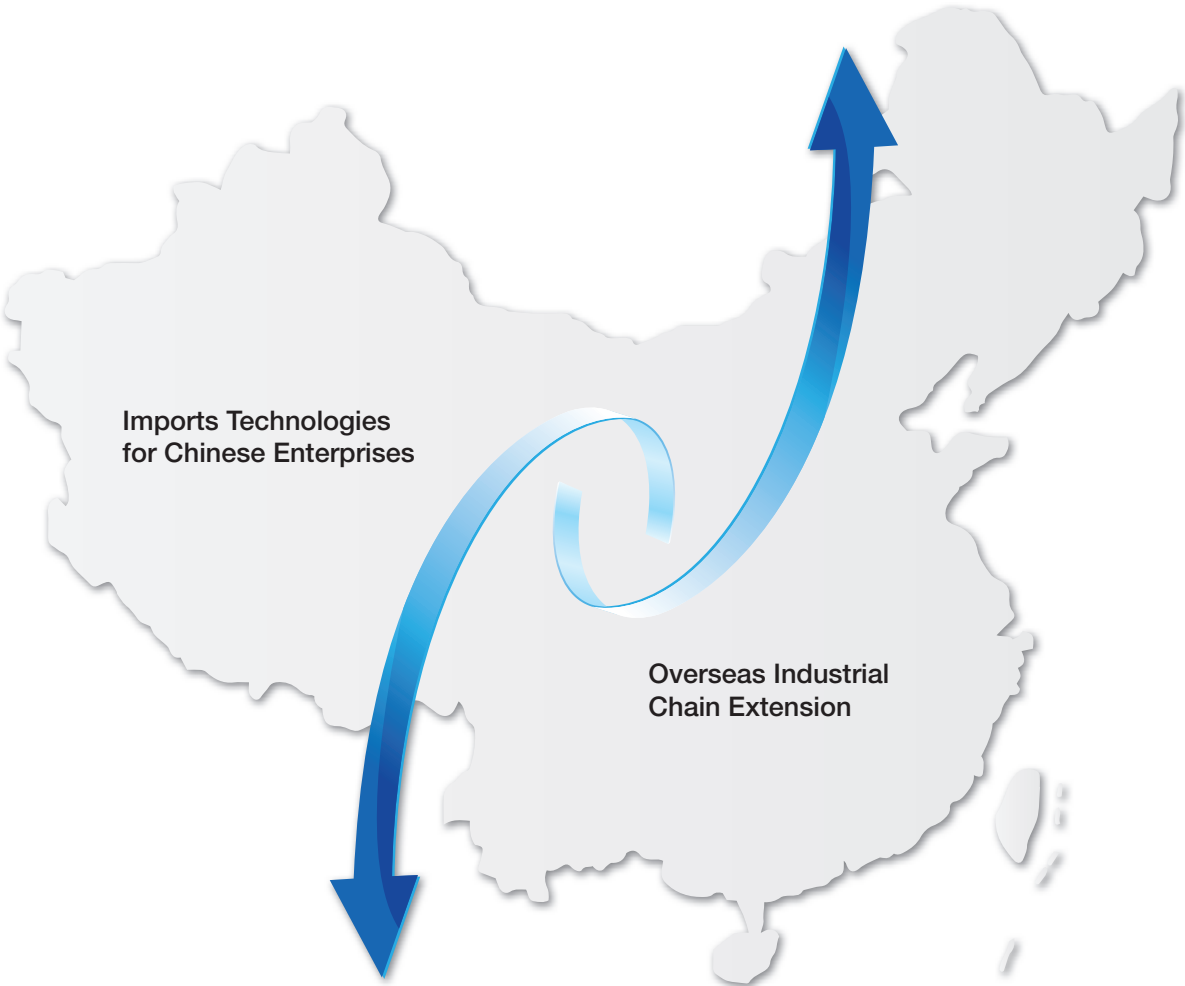
The Group manages two New Energy RMB funds, Everbright Jiangsu New Energy (Low Carbon) Fund (set up in 2010) and Everbright Qingdao New Energy (Low Carbon) Fund (set up in 2013). The funds focus on areas such as energy conservation and environmental protection, new materials, clean energy, high-end clean manufacturing and green consumption. As at the end of 2014 the team had invested in 4 projects. In January 2015 Jiangsu Turbine Seal High-Technology Co., Limited, with investment by the New Energy Fund, was listed on the New OTC BB market for public trading.

During the year the team also strengthened its post-investment project management. To better identify potential ventures with diversified products, profit structures with high standards of financial and internal controls, and good market prospects.

Mergers and Acquisitions Funds


In 2014 China Everbright Limited set up its first overseas M&A fund, the CEL Catalyst china Israel Fund, in response to China Everbright Group’s strategic goal of internationalisation and the trend of Chinese enterprises “going global”. During the period the fund completed its first closing and finished its first investment project – Swiss company Lamina Technologies. In the early days of its formation, the M&A fund team focused on investing proprietary capital before gradually moving to external funds and switching to a fund management mode. It looks around the world to acquire quality corporates assets and technologies.

Israel is receiving a lot of attention from Chinese companies for its wide range of innovative industries and excellent investment environment. CEL Catalyst China Israel Fund is targeting on enterprises with proven business models and unique, innovative technologies. These enterprises should also have growth strategies or business activities that are aimed at developing the Greater China market, as well as the ability to synergise with demands in the China market so as to promote industry upgrade in China. The establishment of this fund was an important step for Everbright to become an internationalised cross-border asset management company, and it has provided a wealth of experience for the Company in the development of its asset management business overseas.



SECONDARY MARKET INVESTMENT

Boosting the scale of our asset management with strong products that leverage increasing capital flow.

A person in athletic wear is captured in a starting crouch on a track, with their body low to the ground and arms extended forward. The image is overlaid with a blue tint and serves as a background for the text.

Secondary Market Investment Business

Everbright's Secondary Market Investment Business consists of two main segments, Traditional Asset Management and Global Absolute Return Funds. With the increase in the number of HNWIs in China, the deployment of assets overseas has become a trend. The Group's Secondary Market Investment Business aims to capitalise on this trend by leveraging its excellent capabilities in product deployment to focus on investing Mainland capital in the Hong Kong and overseas markets, in order to satisfy the expanding overseas investment needs of clients.

In 2014 the AUM of Everbright's Secondary Market amounted to HK\$6.3 billion, up 163% from the previous year. It registered a profit of HK\$61 million, representing a substantial increase of HK\$112 million from 2013. Everbright Prestige also laid a good foundation for the rapid growth of AUM in the Secondary Market. Currently, HK\$3.1 billion of assets raised by Prestige are managed by asset management team as sub-advisor.

The Absolute Return Investment team, set up in 2012, has built a strong institutionalised platform within the Group to provide solid support in trade operations, risk control, compliance, trade reports and marketing for a series of investment strategies (global event-driven strategy, convertible arbitrage strategy and greater China equity long/short strategy). The team adopts different strategies for investing in different markets and asset categories, with the aim of maximising gain after risk adjustment. With its growing track record of accomplishments, the Absolute Return Investment team is ready for external fundraising.

In the Traditional Asset Management business, fixed income products performed well, with the QDII Greater China Bond Fund, set up in November 2012, registering a 12.6% net return after expenses. Everbright Dynamic Bond Fund I, launched in December 2012, achieved a 9.2% (type A) and 36.7% (type B) net return after expenses. Everbright Dynamic Bond Fund II, set up in late February 2013, recorded a 10.4% (type A) and 38.2% (type B) net return after expenses. The Group also built on its existing Qualified Domestic Institutional Investor (QDII) products, and added Qualified Foreign Institutional Investor (QFII) and RMB Qualified Foreign Institutional Investor (RQFII) products to enable the Group to participate in more cross-border investments between mainland China and Hong Kong. In addition, the Group diversified its investment categories by participating in the private placement of equity and quasi-equity PIPE projects from listed companies, expanding its product offerings. To pave the way for new products and investments in the future, the Secondary Market Investment Business applied for an additional US\$300 million QFII quota (totalling US\$400 million) and received a license to invest in the interbank bond market in China. Everbright Prestige also laid a good foundation for the rapid growth of AUM in the Secondary Market, which will generate additional stable income for Everbright.

To support the growth of the Secondary Market operations, the Group underwent an adjustment and restructuring of its overall operational structure in 2014. Division of work and manpower became more defined and enhanced, and research into the fundamentals of various bonds, stocks and companies was deepened, as was the search for potential partners. The Group also started the formation of a professional institutional sales team, which will lay the foundation for the future expansion of Secondary Market products while maintaining and strengthening relationships with existing clients.

STRUCTURED FINANCING & INVESTMENT

Generating strong returns in short- and medium-term financing and mezzanine investment with flexible investment between loans and equities.



Structured Financing and Investment Business

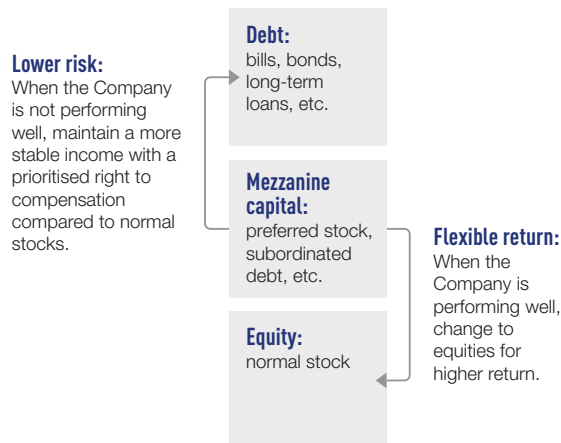
By fully leveraging Everbright's own capital, its Structured Financing and Investment Business took part in short- and medium-term mezzanine financing, as well as investment opportunities in bonds and equities. Through providing structured financing products to listed companies and their major shareholders, this business segment supports the onshore and offshore financing needs of invested companies as well as bringing good return for the Group.

Currently this business segment is divided into two primary categories: Capital Investment and Financing and the RMB Mezzanine Fund. The former primarily engages in short- and medium-term offshore financing or investment, and provides companies with customised and focused financing and investment structures. The latter satisfies the diverse onshore and offshore mezzanine financing needs of Mainland enterprises through its RMB Mezzanine Fund I with fund raising scale of RMB 800 million. The Mezzanine Fund I has essentially completed its investments. To meet the increasingly high demand for offshore structured financing and investment, the team has begun preparatory work to raise funds for USD Fund.

In 2014 the Structured Financing and Investment Business realised a profit of approximately HK\$188 million, a decrease of 21% compared to 2013. Interest income from loans and bonds as well as management fees and consultancy fees generated from managed projects totalled HK\$282 million, representing a year-on-year increase of 36%. Investment income was HK\$246 million, representing an increase of 17% and made a provision of HK\$210 million for some projects under a prudent approach. During the reporting period, the team progressively drove a structural reorganisation project within the Mainland's high-tech industry, riding the strong growth of the sector. It also became the first to enter into discussions with insurers to introduce their funds into the projects, representing a new milestone for Everbright's fundraising strategy.

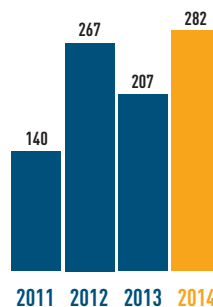
In 2015 Everbright's Structured Financing and Investment Business will aim to grow and expand its channels. Leveraging the substantial and increasingly frequent bilateral flow of cross-border capital, it will raise USD and RMB funds more efficiently, thereby growing this business into another sizable asset management segment.

Mezzanine capital is the most important source of growth capital, producing excellent return after risk adjustment



Structured Financing and Investment Business Interest Income, Management Fee and Consultancy Fee

(HK\$ million)



EVERBRIGHT PRESTIGE

An important carrier and business platform for Everbright's future asset management business in mainland China.



Everbright Prestige Capital Asset Management Company

With the full implementation of the Mainland's new Fund Act in 2014, special asset fund management subsidiaries experienced overall growth. Taking this opportunity, the Group acquired a stake in Everbright Prestige Capital Asset Management Company. Everbright Prestige has received the PRC Certificate of Business Qualification of Asset Management for Specific Clients, issued by the China Securities Regulatory Commission, and it will become an important carrier and business platform for Everbright's future asset management business in mainland China. During the reporting period under equity accounting method, the business after tax profit contribution to Everbright reached HK\$12 million, Everbright Prestige demonstrated its value in four areas: AUM contribution, product creation and design, distribution channels and client consolidation, and more "Everbright" synergy.

1 Stronger fund-raising capability. Everbright Prestige demonstrates the Group's capabilities in product development, investment and management, resulting in rapid growth in AUM. During the reporting period, Everbright Prestige has raised RMB7.1 billion for Everbright managed products, and RMB20.4 billion for products not directly managed by Everbright.

2 More efficient product issuance. The Group's various Mainland client-oriented products developed by the Secondary Market team can now be issued through Everbright Prestige, significantly accelerating the establishment of Everbright's own products.

3 More systematic sales and distribution channels for client integration. Through Everbright Prestige, Everbright can better integrate its sales and distribution channels as well as its client resources to raise capital for the funds it manages.

4 More organic synergy. Through Everbright Prestige, China Everbright Limited can directly collaborate with banking, securities and insurance subsidiaries under the China Everbright Group. During the reporting period, China Everbright Limited, operating through Everbright Prestige, shared with China Everbright Bank the capital raised from HNWI and used these funds for cross-border asset management, leveraging the QDII quota of Everbright Pramerica.

Given the continued synergistic growth between wealth management and asset management, it is likely that Everbright Prestige will grow further to become the leading RMB asset management institution in mainland China.



AIRCRAFT LEASING

Powering a successful listing on the Hong Kong Stock Exchange's main board with a unique business model, strong competitive advantage.

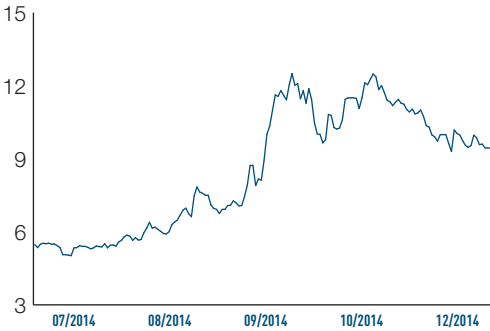


Aircraft Leasing Business

China Aircraft Leasing Group Holdings Limited (CALGH) under Everbright is a pioneer in aircraft leasing total solution in China. Everbright, being the largest shareholder, holds a 36.74% stake in CALGH, which was officially listed on the main board of the Hong Kong Stock Exchange (stock code: 1848.HK) on 11 July 2014, with an issue price of HK\$5.53 per share. Total funds raised was approximately HK\$729 million. As at 31 December 2014, CALGH's share price was HK\$11.5, an increase of 108% from the listing price. Everbright is optimistic about the prospects of the aircraft leasing industry and will continue to support CALGH's business expansion. Following several years of rapid growth, CALGH has already gained a competitive edge within the industry due to several features.

- 1 "Dual Platforms" business model. CALGH has two leasing platforms, located in Tianjin and Ireland, which complement each other's strengths. Using the overseas leasing platform in Ireland, CALGH is much more flexible when it orders aircraft and acquires assets. Also, by commercialising aircraft purchases as an independent aircraft leasing company, CALGH can reduce costs significantly. At the same time, it can obtain lower financing costs and more tax savings through the offshore platform. Through the domestic platform, Everbright can help CALGH take advantage of its extensive international financial network, and maintain good relationship with manufacturers and airlines in both the domestic and international aviation industries.
- 2 Securitisation of accounts receivable. Everbright helps CALGH adopt a business model of asset securitisation, and also package its accounts receivable – e.g. aircraft leases – for sale. By doing this, CALGH can achieve both good investment return and quick return of capital. This creates an effective business cycle for bringing in more aircraft, gradually transforming the securitisation of aircraft leases into another asset management business. During the reporting period, CALGH sold 4 aircrafts to large financial institutions in mainland China through asset securitisation.

Stock Price of CALGH since it was Listed



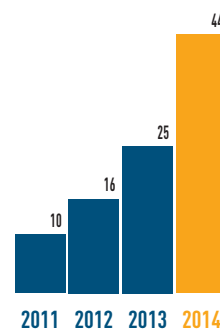
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- 3 Operating leasing business model. CALGH's leasing business uses this model instead of the traditional finance leasing model. Not only does it lay a good foundation for an favorable taxation implication, but it also helps maintain aircraft ownership and provide airlines with the value-added service of the aircraft Life circle chain. In addition, it enhances cooperation between airlines and CALGH.
- 4 Develop aircraft disassembly operation and extend the aviation industry chain. In December 2014, CALGH and the Municipal Government of Harbin signed a memorandum of understanding to invest in and build China's most sizable aircraft disassembly base. This signified the start of CALGH's expansion into downstream business, an important step in building a business model that includes a service platform for the whole life cycle of an aircraft. CALGH will purchase, in advance, aging aircraft which are about to be decommissioned. It will then lease back the aircraft to airlines or transform them into cargo planes and provide them to freight companies. When the leases are drawing to an end, the decommissioned aircraft are then dismantled. This process not only satisfies the market's demand for the disposal of retaining aircraft, but it also provides favourable conditions for airlines to optimise the usage and value of aged aircrafts, thus speeding up airlines' fleet expansion and renewal of fleet. In addition, it promotes the growth of CALGH's new aircraft leasing business. The development of this business will consolidate CALGH's leading position in the operating aircraft leasing industry and create another high-growth business segment for the Group.

In 2014 CALGH delivered 19 aircrafts, expanding its fleet to 44 in total. Income continues to grow rapidly, and the business' after-tax profit contribution to Everbright, under equity accounting method, reached HK\$122 million, a year-on-year increase of 49%. (This excludes the one-off deemed disposal gain of HK\$140 million on the listing of CALGH.) In December 2014 CALGH signed an agreement with Airbus to purchase 100 planes, becoming Airbus's biggest leasing company client in China. Looking ahead, CALGH will further expand into global aviation markets that show development potential, providing creative, flexible leasing solutions to clients around the world.

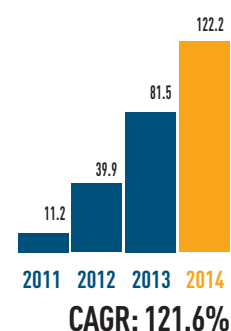
Aircraft fleet

(No. of aircrafts)



Profit Contribution by Aircraft Leasing

(HK\$ million)



China Everbright Bank

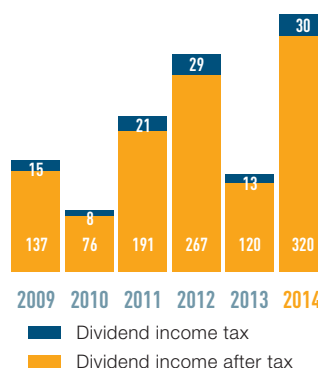
In 2014, China Everbright Bank's pre-tax dividend income contribution to the Group amounted to HK\$350 million, representing an increase of 165% compared to the same period in 2013. Based on the Group's strategy of focusing resources on effectively developing Hong Kong's macro asset management business, China Everbright Limited sold 112 million shares of China Everbright Bank's A-shares to its parent company, China Everbright Group, on 24 February 2014 for a total consideration of RMB 278 million. This lowered China Everbright Limited's shareholding in China Everbright Bank to 3.51%.

Everbright Securities

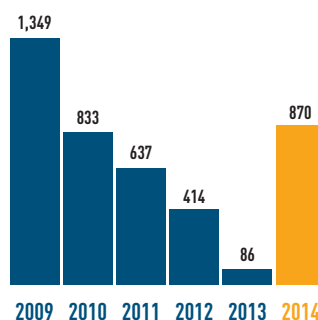
Since the China Securities Regulatory Commission issued the "The Decision on Removing the Restrictive Measures on Everbright Securities Company Limited's Securities Proprietary Business and Reviving the Acceptance of the Company's New Business Application" in July 2014, the operations at Everbright Securities – an associated company in which the Group has a 33.33% stake – have continued to recover. In 2014, the Group's share of profit as per the associates financial statement, under equity accounting method, amounted to HK\$870 million (2013: HK\$86 million).

To help the further development of its overseas securities business, Everbright Securities announced in February 2015 its plans to acquire a 70% stake in Sun Hung Kai Financial Limited, a subsidiary of Sun Hung Kai (86.HK).

Dividend Income from China Everbright Bank (HK\$ million)



Profit Contribution by Everbright Securities (under equity accounting method) (HK\$ million)



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Prospects

The global economy in 2015 will face two major uncertainties. The first is the risk of global deflation, which could result from the plunges in energy and commodity prices. Although this would help reduce the operational and investment costs of midstream and downstream industries, it could add to the risk of a slowdown in inflation, placing even more pressure on enterprises and nations that rely on oil exports. The second is the pending rise of interest rates in the United States in 2015. This will not only speed up the repatriation of capital from around the world, but also increase the financing costs of USD-denominated debt as well as risk to newly emerging countries with high levels of USD debts (especially economies with double-digit deficits, and those that are heavily reliant on external financing).

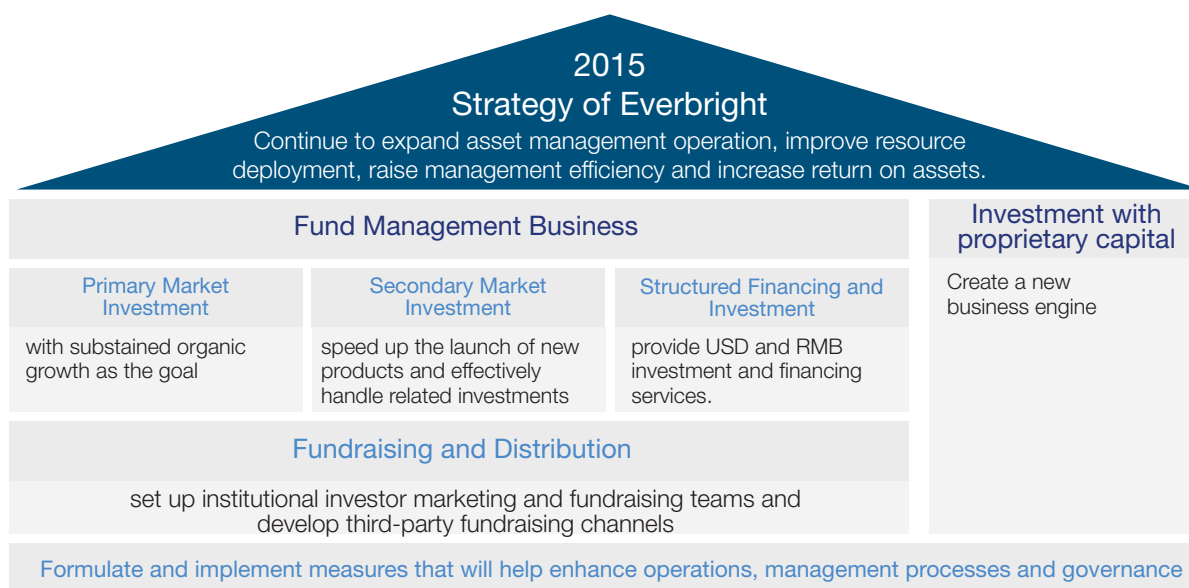
China's economic slowdown is expected to continue in 2015. To prevent the economy from decelerating too quickly, interest rates may be further reduced and fiscal stimulus measures expanded as cross-border capital flows become more volatile. Everbright will pursue the following efforts in light of these development trends:

1 Expand its HNWI client base. Given the declining interest rates in mainland China, the rate of return from traditional investment products, such as bank deposits, is not enough to satisfy investors' demand. The US' economic recovery and the strong US dollar are also leading to increasing demand for overseas asset investment. For these reasons, the need for high value-added wealth management services among Mainland investors (especially HNWIs) is obvious. With a far lower penetration rate of the Mainland asset management industry compared to developed markets, the potential for growth is huge. Everbright will seek more fundraising opportunities through the secondary market.

2 Expand further into the overseas and M&A markets. UNCTAD predicts that the value of global multinational investments will expand from USD1.6 trillion in 2014 to USD1.7 trillion in 2015. The need to transform and upgrade mainland Chinese enterprises is expected to be more urgent, and many more Chinese companies will set up or expand their overseas businesses and engage in M&As. At the same time, the RMB exchange rate will come under pressure due to the economic situation; so too will exports, resulting in greater demand for allocation to USD assets. This also increases the opportunities for cross-border investment activities. By setting up more diverse global M&A funds, Everbright will invest in overseas enterprises capable of generating good synergistic effects with the market demand in China.

3 Seize the opportunities arising from the internationalisation of the RMB. The progress of the RMB's internationalisation means enhanced depth and breadth of offshore RMB-denominated products, and wider channels for cross-border investment. Shanghai-Hong Kong Stock Connect was launched in 2014, and Shenzhen-Hong Kong Stock Connect may launch in 2015. QDIE and RQDII are also going to be initiated. All these will help Everbright's cross-border investment activities and its issuance of cross-border investment products. The Group will make use of its own license and platforms in places like the Shanghai Free Trade Zone to study and benefit from free trade policies, promote cross-border capital flows and usage, and increase the rate of return and liquidity through measures like asset securitisation.





Our Strategies

In 2015 Everbright will continue to expand its asset management operation, improve its resource deployment, raise management efficiency and increase return on assets. At the same time, China Everbright Limited will gradually exit from the passive investments that it holds following the restructuring of China Everbright Group. The strong finances of its headquarters will be used not only for nurturing and supporting the development of the fund business, but also for market investment. These measures will bring about more long-term gains for China Everbright Limited, and unleash the value of its capital to the greatest extent possible. Concrete measures include:

- I Fund Management Business. As Everbright's core business, fund management will continue to raise long-term funds, expand the scale of asset management operations and improve its deployment of resources. It will also continue to seek good investment opportunities, raise management efficiency and increase returns on assets. With China Everbright Limited's asset management business growing more mature, the Group will restructure the functions of each team and division of work to strengthen its checks-and-balances mechanism and further develop the following businesses:
 - 1 Primary Market. This business segment will continue to be developed through the Group's diverse product lines, with sustained organic growth as the goal. China Everbright Limited will accelerate project divestments and new product development. Provided that sufficient risk control and guaranteed rate of return

can be achieved, it will develop customised products to meet investors' ever-changing investment needs.

- 2 Secondary Market. With Everbright Prestige's increasingly mature fundraising platform, as well as more cooperation with third-party sales and distribution organisations, AUM by Everbright's Secondary Market business saw rapid expansion. Looking ahead, the Secondary Market business will take advantage of the overseas investment credentials that it has achieved to speed up the launch of new products and effectively handle related investments, as well as manage more onshore and offshore external capital.
- 3 Structured Financing and Investment. Goals in this area include appropriately increasing leverage with rigorous risk control, packaging capital originally intended for investment and financing as fund product, creating new mezzanine funds and raising the scale of asset management. Everbright also intends to meet the fund demand currently being generated by two-way capital flows between mainland China and overseas markets, and provide USD and RMB investment and financing services.
- 4 Fundraising support. To share client resources and unify marketing strategies, Everbright will set up institutional investor marketing and fundraising teams, and develop third-party fundraising channels. It will also create a platform, led by a professional team, to market products to HNWIs.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

II Investment with proprietary capital. The group will set up additional professional investment teams for proprietary capital, strengthen the firewall of the fund management business and create a new business engine. Details include:

- 1 Using proprietary capital and funds managed by Everbright to co-invest in industries or good-quality projects with high growth potential, and obtain substantial investment-related gain for the Group.
- 2 Continuing with Everbright's existing concept of giving newly established business teams with high potential a suitable amount of seed capital to help them invest and grow.
- 3 Continuing to seek attractive strategic M&A opportunities to increase the scale of Everbright's overall operations.
- 4 Broadening the categories of marketable products, and setting up a fund of funds to get involved in high-growth industries in China and overseas. This fund can be invested in quality external funds, or Everbright's internal funds.
- 5 Allocating a portion of self-owned capital to fixed income products to achieve stable income.
- 6 With strict risk control, using self-owned capital to provide value-added services such as bridge loans for investment projects, so as to maximise the Group's return on equity.

After several years of transformation, China Everbright Limited delivered robust results in 2014. We firmly believe that 2015 will bring more challenges and opportunities for Everbright's cross-border platform. With the increasing liberalisation of capital flow between mainland China and overseas markets, the gradual progress of China's economic and industrial transformation had become further defined. As the equity structure under China Everbright Group becomes clearer, China Everbright Limited will see huge opportunities as a result. We will continue to seize every opportunity to make Everbright into the region's leading cross-border asset management platform, generating even higher returns for our shareholders and clients.

Chen Shuang

Executive Director and Chief Executive Officer

Hong Kong, 30 March 2015

PASSING ON THE LOVE

WITH CARING, UNIQUE CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Everbright draws on its expertise and resources to create deep, meaningful relationships and a sustainable environment with shareholders, business partners, employees and communities.



CORPORATE SOCIAL RESPONSIBILITY REPORT

The international financial market has seen substantial volatility over the past few years. Despite this, Everbright has been able to successfully transform itself from a traditional investment bank into a cross-border macro asset management platform by capitalising on its solid foundation and visionary strategies. With rich knowledge about China, world-class operations and a skilled team, Everbright has achieved strong growth in AUM and expanded its reach beyond Hong Kong and mainland China to overseas markets, taking advantage of recent opportunities presented by the internationalisation of the RMB and cross-border capital flow. During this time the Group has generated steady business, driving maximum benefits and forging long-term partnerships based on mutual trust with shareholders, investors, clients and business partners and employees. Everbright is also committed to the communities it calls home. The Group established the China Everbright Charitable Foundation in 2008, which has supported a number of charity initiatives since the global financial tsunami.

These efforts have been recognised by the Hong Kong Council of Social Service, which has presented the Foundation and the Group with “Caring Company” and “Caring Organisation” awards for four consecutive years for achievements in corporate social responsibility. In 2014 the Foundation also received the “5 Years Corporate Partnership with Caritas Award” from Caritas, the largest charitable organisation in Hong Kong, in recognition of its support over the past five years as the sole sponsor of “The Everbright Project”, a social service project that aims to support middle-income individuals in Hong Kong.



Long-term Trusting Partnership with Four Groups of Stakeholders



Clients and Business Partners

Everbright's cross-border macro asset management platform connects the thriving mainland China and Hong Kong markets, both of which possess huge potential. In recent years the Group has also actively sought overseas investment and cooperation opportunities. In order to ensure confidence among fund investors' and business partners, the Group implements a proven risk management mechanism that protects mutual capital investors, equilibrium benefits and personnel retention, aiming to build long-term relationships based on mutual trust with clients and business partners.

Before seeking external funding, the Group invests a certain amount of seed capital in each fund to demonstrate its confidence and commitment to the fund. During the capital commitment period, investment teams are required to invest a certain amount of the Group's proprietary funding as risk capital, ensuring the same level of interest from both the fund management teams and investors. An independent investment assessment committee (or similar entity) is also established for each fund to maintain sound operations and protect the interests of external investors. When funds are investing in or exiting from specific projects, the interest stake held by the fund management team is also in line with the holdings of other investors. This ensures that the fund management teams exercise a prudent, pragmatic approach underscored by proper risk awareness when making investment decisions.



In the last decade, the financial sector was heavily impacted by market turbulence from the global financial crisis. The collapse of large financial institutions led to a review of fundamental thinking about the equilibrium between rapid business expansion and risk control. By leveraging its sound corporate governance and risk management system (please refer to the Corporate Governance Report for details), the Group has managed to achieve fast yet steady growth in a notably bearish investment environment, while capturing opportunities by expanding its business horizons as markets recovered.

In order to enhance communications and interactions with fund investors and business partners, the Group held its first Everbright Investment Conference in 2012. The event received positive feedback from institutional investors, business partners and various Everbright business units. In 2013 and 2014, more than 500 attendees from around the world come to learn about the latest developments in Everbright's macro asset management platform, the Group's strategies and prospects, its fund operations, and its business developments and advantages. They also take the opportunity to explore synergistic collaborations across sectors and formats. For the 2014 edition, Everbright also invited key journalists from Hong Kong and the Mainland, enabling the wider business and financial community to learn about the Group and its latest updates through the media.

Shareholders and Investors

To enhance corporate transparency, the Group places significant emphasis on maintaining good communication channels and keeping close contact with shareholders and investors.

Every year the Group participates in investor conferences organised by leading financial institutions. In 2014 Everbright took part in group or one-on-one meetings with almost 330 institutional investors and analysts. Highlights of these meetings are available on the “Investor Relations” section of the Group’s website.) As a result, six well-known financial institutions generated 30 analyst reports. During the year, the Group undertook a number of reviews of its shareholding structure by examining shareholding volume and changes, helping it conduct investor relations more efficiently. The Group also aggregated investor relations reports for the Board’s review on regular basis. These included external communications, investor feedback and changes in share price. Everbright’s shareholding pattern allows the Board to better understand the investment community’s views and suggestions regarding Everbright’s development strategies.

For the ease and convenience of investors and shareholders, Everbright optimised and upgraded its website (www.everbright165.com) in 2013. In addition to giving the site a clearer, more artistic design and layout, the Group also enriched the content of the “Investor Relations” section, providing practical tools such as interactive financial data and stock charts. As to disclosure of information, visitors can keep abreast of the latest developments at Everbright by subscribing to receive alert of new announcements, circulars and press releases. In 2014 the Group upgraded its website’s back-end configuration, strengthening its log-in function for funds to allow closer communication and information-sharing between fund management teams, clients and investors.

In addition, the Group’s management communicates directly with shareholders at the annual general meeting. The Group also holds press conferences and analyst presentations twice a year, after its interim and annual results are published. These presentations are recorded and made available as webcasts on Everbright’s website for viewing at any time by the public.

For the ease and convenience of investors and shareholders, Everbright optimised and upgraded its website (www.everbright165.com).



Employees

Everbright sees its employees as “partners” and considers them its most important asset. The Group recruits the top-notch talent from the financial sector and builds its distinguished fund management team upon the principle of “Create Value to Share Value”. Employees share in the fruits of the Group’s success, creating economic value and enhancing work efficiency.

In terms of enhancing individual competencies, Everbright provides an instrumental package for the career development of its employees. In addition to study allowances and paid study leave, the Group also organises regular training programmes to boost skill sets and team spirit. In 2013, for example, Everbright held an Outward Bound event in Qingdao for middle and senior management. China-based employees are provided on-the-job training exchanges in Hong Kong, and in 2014 the Group held an exchange visit and training in Shanghai for middle management and back office employees from Hong Kong. New staff members receive a clear overview of the Group through regular training sessions on human resources, brand culture and risk management systems. The Group also arranges talks to facilitate exchange between senior management and new staff, giving management a better understanding of employees and their views, and enhancing contact and interaction. In addition, the Group organises an annual gathering of employees and their families to promote work-life balance.



Everbright places appreciable emphasis on maintaining a productive exchange of information and interactions with its employees via diverse formats. The Group uses an internal email system, “Partner Express”, as the vehicle for publishing company news and real-time information. Relevant content is released to institutional investors and media in the form of presentations and press releases. The “Partner”, Everbright’s bimonthly electronic periodical, integrates key business information, branding development and scenes of employee life together into one handy publication, which is disseminated via online media to keep colleagues in the Mainland and Hong Kong in close contact. The Group also publishes hard copies of the “Partner” by consolidating all the experiences of the past year into a single book, which helps accommodate the varied reading habits of employees. In order to offer more convenience for employees and improve work efficiency, Everbright is also developing an online collaborative office management platform with comprehensive functions. It is the Group’s wish that this platform will allow employees to access company information and conduct administrative work from anywhere, whether they are in or out of the office.

In 2012 Everbright set up a volunteer team that gives staff the chance to give back to society by participating in charitable initiatives. This programme also serves to further enhance camaraderie among employees. During 2014 the Group’s management and employees volunteered at a home-based child care service center, a special child care centre, “Lifeline Express Hospital Eye-Train” and other social service agencies. Management and employees also formed teams and participated in charitable activities such as the “Sowers Action Challenging – Charity Hiking”. The Group will continue to organise regular volunteer activities so that Everbright can continue to grow and serve the community.

The overall effect of these staff initiatives – including timely information-sharing, diverse company activities, staff welfare programmes and incentives – is to help build a closer partnership with employees. These efforts have also resulted in meaningful contributions to the Group’s business success in terms of establishing its own fund teams, and retaining and recruiting the best talent.



Community

In Hong Kong, the Government, social service groups, corporate philanthropy organisations, individuals and others contribute much-needed resources to help those in need. As a CSR-committed corporation, Everbright is a strong supporter of disaster relief and poverty relief. The Group has given generously to disaster victims and impoverished areas in the Mainland, and it contributes long-term support to many social service projects. Most of these causes are unique, sustainable in nature and benefit those who tend to be overlooked by society.

In 2009, before many of the social problems faced by the middle class emerged, Everbright sponsored the Caritas Family Crises Support Centre and jointly launched “The Everbright Project” to provide community services specifically targeted towards Hong Kong’s middle class. Everbright then lent its full support to Social Workers Across Borders in 2012 and established the “Project Companion – Professional Social Workers in Greater China Scheme” (“Project Companion”), with the aim of training professional social workers and providing post-disaster counselling in the Mainland. In 2013 Everbright sponsored the Hong Kong Federation of Education Workers and launched the “Everbright Teachers’ Heritage Discovery Tour”, a programme providing Hong Kong teachers with the opportunity to visit various cities in Jiangsu Province. After the visit, teachers talked to students about what they saw and heard during



their travels, enriching the students’ National Education curriculum and deepening their love for their country. Over the past couple of years Everbright has also formed a close partnership with Lifeline Express, becoming one of the biggest sponsors helping this worthy cause cure cataract patients in poverty-stricken areas in the Mainland. The middle class, social workers and teachers share a common trait: They are all individuals who work hard and make huge contributions to society, yet they are often overlooked. As an enterprise based in Hong Kong and supported by the Mainland, Everbright hopes to introduce more programmes that will benefit Hong Kong communities and development in the Mainland through important works by its charitable foundation.



“The Everbright Project”: A community services programme targeting the middle class in Hong Kong

In recent years, the fluctuating Hong Kong economy has put the middle class, the backbone of the society, under significant stress. This pressure stems from work, social life and rising property prices. The middle class often does not benefit from any government policies, which are focused on the grassroots. And unlike in the golden age of the ‘90s, it is more difficult today for one to work towards affluence. This has caused many middle-class people to develop emotional, confidence, economic, work-related and family issues.

In 2009 Everbright formed a partnership with the Caritas Family Crises Support Centre to launch the Everbright Project, the first-ever community service program targeting the middle class in Hong Kong. The project fosters the idea of positive mentality and life planning to help middle-class individuals realise their full potential at various stages of life – in career development, interpersonal relationships, family planning, retirement planning and lifestyle change after retirement. It also promotes a balanced, happy and healthy lifestyle through the Group’s “Making Life Simple” philosophy.



Since its launch five years ago, the Everbright Project has organised several major seminars and nearly 400 service activities. These activities proved the popularity of the Project. As at the end of 2014, they had drawn the participation of over 8,000 people, showing high demand among the middle class. In addition, the Everbright Project has held more than 120 corporate workshops that help companies and their employees build harmonious interpersonal relationships and achieve sound work-life balance. The Everbright Project has also invited renowned local academics to carry out several comprehensive studies on the stress levels of the middle class in Hong Kong, later issuing a report and hosting a press conference that generated wide media coverage of the survey results. The survey report was also submitted to relevant Government departments, which made the Everbright Project not just a service initiative, but also a communication platform for the Government and the middle class. As at the end of 2014 the Everbright Project had more than 2,200 registered members and nearly 150 registered volunteers. The Everbright Project’s services have benefited over 20,000 people, and it is Hong Kong’s largest middle class service programme.

“Project Companion – Professional Social Workers in Greater China Scheme”: Training professional social workers in mainland China to care for victims of natural disasters

In 2012 the China Everbright Charitable Foundation and Social Workers Across Borders established the “Project Companion – Professional Social Workers in Greater China Scheme” (“Project Companion”). The scheme utilises the expertise of seasoned social workers from Hong Kong to train practicing social workers, social work teachers and students as well as social service organisations in mainland China. It also helps trainees acquire the knowledge and skills required for post-disaster support and other social services, such as crisis management, counselling and social worker skills.

Project Companion was officially launched in early 2013 with two-year operations in Wuhan, Chengdu and Harbin. After recruiting over 70 Hong Kong social workers as teachers, and training over 900 social workers in the Mainland, the Project set up a Project Companion Team of 60 social workers who provided professional post-disaster counselling and support. Following the Sichuan earthquake, Project Companion immediately dispatched the Project Companion Team to affected areas, putting the Project into practice. In August 2014 there was a dust explosion at a Zhongrong factory in Kunshan, Jiangsu Province. Project Companion arranged a four-day training for social workers that focused on practical skills for intervention in disaster



relief, hospital visits, and techniques in providing companionship and emotional counseling. More than 500 people have benefited from Project Companion over the last two years, gaining the initiative appreciation from local academic institutions and social service organisations as well as support from local governments.

“Everbright Teachers’ Heritage Discovery Tour”: A programme for Hong Kong teachers to visit the Mainland

In addition to social welfare services, the China Everbright Charitable Foundation also focuses on education. At the end of 2013, Everbright collaborated with the Hong Kong Federation of Education Workers to jointly launch the “Everbright Teachers’ Heritage Discovery Tour”, a national education programme providing Hong Kong teachers with a chance to visit heritage sites and understand new development in mainland China. Running under a different cultural topic every year, the programme brings 40 to 50 Hong Kong teachers to the Mainland to exchange ideas with local educators and visit ancient historic sites, which helps enhance the teachers’ knowledge of Chinese history and culture. After these visits, participating teachers are required to prepare a lesson plan and share their experiences with students.



Other community projects and donations

Over the past five years, Everbright has supported people impacted by the Sichuan and Qinghai earthquakes, typhoon victims in Taiwan and impoverished areas in the Mainland. The Group helped the Central Conservatory of Hong Kong Foundation and the Jackie Chan Charitable Foundation organise fundraising events. It has also supported Lifeline Express's annual charity gala dinner as the title sponsor for three consecutive years. Donations to all these charitable activities exceeded HK\$10 million.



Contributing to socioeconomic and cultural activities

Everbright is very involved in promoting socioeconomic and cultural activities through the knowledge and influence of its professional sector. The Group's management holds a number of honourable positions in the financial sector, including Chairman of the Chinese Financial Association of Hong Kong, Vice Chairman and Founding Member of the Chinese Securities Association of Hong Kong, and standing member of the China Mergers and Acquisitions Association. Since 2013 Chen Shuang, Chief Executive Officer of the Group, has served as a non-official member of the Financial Services Development Council of Hong Kong, which has made many practical recommendations to the Hong Kong Government in relation to the internationalisation of the renminbi and development of the Hong Kong financial market.



Environmental Protection and Energy Conservancy

Since 2006 Everbright has been investing in environmental protection and renewable energy enterprises including Goldwin Science and Technology Co., Ltd, CECEP Wind Power Corporation Co., Limited, and Beijing Jingneng Clean Energy Co., Limited. The Group also supports the overall development of the sector. Everbright has also instituted numerous energy-saving and conservation initiatives throughout its operations. For example, employees are advised to switch off their computers and monitors after work and make photocopies on recycled paper. Also, Everbright's annual report is printed on FSC-certified paper.

SOUND CORPORATE GOVERNANCE PRACTICES- PROTECTING AND SAFEGUARDING THE INTERESTS OF OUR STAKEHOLDERS

Through comprehensive corporate governance and risk management, Everbright is laying a solid foundation for its sustainable development.

CORPORATE GOVERNANCE REPORT

Governance Principles and Structure

The Company always aims to comply with established corporate governance best practices, and the core value of the Company is to protect the interests of its shareholders, customers, staff and other stakeholders. It is committed to strictly abide by the laws and regulations of Hong Kong and observe the rules and guidelines issued by the relevant regulatory authorities such as the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited (“the Stock Exchange”). The Company also constantly reviews its corporate governance practices to meet international and local best practices including the Corporate Governance Code (“the Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”). One of the core values of the Company is that the highest standard of integrity is essential to business development.

The Company recognises the importance of high standards of corporate governance and maintains an effective corporate governance framework which delivers long-term success of the Group. The Company is also strongly committed to embracing and enhancing sound corporate governance principles and practices. The established and well-structured corporate governance framework directs and regulates the business ethical conduct of the Company, thereby protects and upholds the value of shareholders and stakeholders as a whole in a sustainable manner.

The Board would like to confirm that, subsequent to careful examination and review, other than deviation from the Code A.2.7, providing that the Chairman should at least annually hold meeting with non-executive directors without the executive directors present and the Code E.1.2 providing that the Chairman of the Board should attend the annual general meeting, the Company has complied with the Code for the year ended 31 December 2014. Due to other commitment, Mr. Tang Shuangning, the Chairman of the Board was unable to hold meeting with non-executive directors without executive directors and attend the annual general meeting held in May 2014. However, Mr. Zang Qiutao, the then Deputy Chairman of the Board, had attended the annual general meeting held in May 2014 and also held a meeting with non-executive directors without the executive directors presented.

Board

Composition of the Board

The Company is led by the Board that is effective and of quality. The Board acts honestly and fiducially, which makes decisions objectively for the best interests of the Company, so as to bring maximum value to the shareholders in the long term and practically fulfill its obligations to the stakeholders of the Company. The Board is comprised of a balanced portfolio from executive directors, non-executive director and independent non-executive directors (“INEDs”). Currently the Board has 9 members:

Name of Directors	Title
<i>Executive Directors</i> Mr. Tang Shuangning Dr. Liu Jun (Note) Mr. Chen Shuang Mr. Tang Chi Chun, Richard Mr. Jiang Yuanzhi	Chairman Deputy Chairman Chief Executive Officer Chief Financial Officer Chief Investment Officer
<i>Non-executive Director</i> Mr. Wang Weimin	Non-executive Director
<i>Independent Non-executive Directors</i> Mr. Seto Gin Chung, John Dr. Lin Zhijun Dr. Chung Shui Ming, Timpson	Independent Non-executive Director Independent Non-executive Director Independent Non-executive Director

Note: Mr. Zang Qiutao resigned as the Deputy Chairman and executive director of the Company on 27 August 2014.

Dr. Liu Jun was appointed as the Deputy Chairman and executive director of the Company on 27 August 2014.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Mr. Tang Chi Chun, Richard, Dr. Lin Zhijun and Dr. Chung Shui Ming, Timpson are directors with financial management expertise. The proportion shared by the INEDs satisfies the requirements of the relevant rules and regulations.

All directors are management officers and outstanding persons with wide experiences in the financial industry. They have abundant professional expertise to fully understand our businesses and the necessary skills to deal with our business matters. Each of them is prudent, objective, diligent and has devoted sufficient time and efforts to handle the Group's affairs.

Non-executive directors (including INEDs) provide the Group with diversified expertise and experience. Their views and participation in the meetings of the Board and the Board Committees bring objective and independent judgments and advices on issues relating to the Group's strategies, performances, conflicts of interest and management processes, which ensure that the interests of all shareholders are taken into account.

With the assistance of the Nomination Committee, the Board reviews its structure, size and composition (including skills, expertise and experiences) on an annual basis. The Board considers the composition and proportion of its members rational and appropriate, which can fully leverage on balance of powers such that the interests of the Company and the shareholders will be protected to the maximum extent.

All the existing directors (including non-executive director and INEDs) of the Company have been appointed through formal letters of appointment setting out the key terms and conditions of their appointment.

Pursuant to the Articles of Association of the Company, all directors, including the Chairman and the Chief Executive Officer, shall retire by rotation at least once every three years at annual general meetings and be eligible for re-election. All new directors appointed by the Board are subject to re-election by shareholders at the next general meeting. At every annual general meeting of the Company, re-election of each director (including INED) has been assigned as a separate resolution for shareholder's voting.

Mr. Tang Shuangning, Dr. Liu Jun and Mr. Chen Shuang are also directors of China Everbright Holdings Company Limited, the controlling shareholder of the Company. If any substantial shareholder or director has a potential conflict of interest in a matter to be considered by a general meeting or the Board, the relevant directors shall abstain from voting and a Board meeting attended by INEDs who have no material interest in the matter shall be held to discuss and vote on the same. Save as disclosed above, there are no relationships (including financial, business, family or other material/relevant relationship(s)) among the Board members.

Board Diversity

The Board recognizes the importance of having a diverse Board in enhancing the board effectiveness and corporate governance. A diverse Board will include and make good use of differences in the skills, industry knowledge and experience, education, race, age, gender, background and other qualities of directors. These differences will be taken into account in determining the optimum composition of the Board and when possible should be balanced appropriately.

The Nomination Committee of the Company has the responsibility for identifying and nominating directors for the approval by the Board. It takes the responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required on the Board and assessing the extent to which the required skills are represented on the Board and overseeing the Board succession, and also responsible for reviewing and reporting to the Board in relation to Board diversity.

Board appointments will be based on merit and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board, including age and gender. Selection of female candidates to join the Board will be, in part, dependent on the pool of female candidates with the necessary knowledge, experience, skills and educational background. The final decision will be based on merit and contribution the chosen candidate will bring to the Board.

The Board considers that Board diversity, including gender diversity, is a vital asset to the business.

At present, the Board has not set any measurable objectives to implement the Board diversity policy. However, the Board will consider and review the Board diversity policy and setting of any measurable objects (if applicable) from time to time.

Directors' Liability Insurance

The Company has in place an appropriate directors' and officers' liability insurance policy for each member of the Board to cover their liabilities on damages arising out of corporate activities. The coverage and the sum insured under the policy are reviewed on an annual basis.

Responsibilities of the Board

The Board is at the core of the Company's corporate governance framework, and there is a clear division of responsibilities between the Board and the Management. The Board is responsible for providing high-level guidance and effective oversight of the Management. In general, the Board:

- approves the Group's long term strategy and monitors the implementation thereof;
- reviews and approves the annual business plan and financial budget;
- approves the annual and interim results;
- reviews and monitors risk management and internal control of the Group;
- ensures good corporate governance and compliance; and
- monitors performance of the Management.

The Board authorises the Management to carry out the approved strategies. The Management is responsible for the day-to-day operation of the Group and is required to report to the Board regularly. The Board has formulated the Terms of Reference of the Board and the Mandate of the Senior Management and the Management Decision Committee, which set out the circumstances under which the Management should report to and obtain prior approval by the Management from the Board before making decisions or entering into any commitments on behalf of the Group. The Board regularly reviews the Mandate, and will update and amend the Mandate when appropriate.

Division of Responsibilities between the Chairman and the Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer are held by Mr. Tang Shuangning and Mr. Chen Shuang respectively so as to comply with the Code, whilst their roles are distinct and are clearly established and stipulated in their terms of reference. In short, the Chairman leads the Board in order to ensure that the Board discharges its formal responsibilities and conforms to good corporate governance practices and procedures. Besides, as the Chairman of the Board, he is also responsible for making sure that all directors are properly informed of important issues which the Company is focusing on and that all directors receive accurate, timely and clear information. The Chairman also leads the Board in formulating business objectives and their related strategies. He is also responsible for organizing the business of the Board, setting its agenda and ensuring its effectiveness with the assistance of the Company Secretary. The Chairman facilitates the effective contribution of the directors and the effective communication with the shareholders. During the period, Mr. Zang Qiutao and Dr. Liu Jun as the Deputy Chairman of the Board assists the Chairman in overseeing and giving guidance to the Management in order to enhance the functions of the Board. The Chief Executive Officer is responsible for leading the Management, who implements and executes the important policies and development strategies approved by the Board with the assistance of the Management. The Chief Executive Officer is also directly responsible for the day-to-day operation of the Group and regularly reports to the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Terms of Reference of the Board, which are published on the Company's website www.everbright165.com and the website of the Stock Exchange, contain the terms of reference of the Board as updated from time to time. The Terms of Reference of the Board clearly define the terms of reference of the Board as well as all the Board Committees. The Board Committees make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances within the power delegated by the Board. Designated secretaries are assigned to all Board Committees to provide professional company secretarial services to the latter in order to ensure that they have adequate resources to discharge their responsibilities properly and effectively. According to the Terms of Reference of the Board, the Board and the Board Committees review and evaluate their respective work processes and effectiveness on an annual basis. The list of directors and the roles and functions of all directors are clearly set out in the Terms of Reference of the Board. The Board shall also promptly update and revise the Terms of Reference according to its needs, and the updated Terms of References of the Board will also be uploaded timely to the Company's website and the website of the Stock Exchange for public inspection.

Training and Support for Directors

The Listing Rules require directors to understand their responsibilities as directors of listed companies. To ensure that newly appointed directors have adequate understanding on the responsibilities as directors of listed companies as well as the operations and business of the Group, the Board has set up an induction system for new directors. The Company Secretary will conduct such induction to each of the new directors following their appointments becoming effective, which include description of directors' duties, the Listing Rules, introduction of corporate governance structure and our businesses. To ensure that all existing directors have a regular update on their knowledge, so as to form informed recommendations and advices to the Board, the Board has established a guideline on directors' training. In addition to arranging appropriate trainings to existing directors on an annual basis, the Company issues monthly circulars to Board members, contents of which include the monthly financial statements of the Group, together with reports to the directors about latest information on the Company's operation, investor relations reports, and training material to directors relating to their responsibilities. The training material is mainly used to provide Board members on significant changes in the regulatory requirements applicable to both the directors and the Company, the latest development in the industry and the latest development of corporate governance practices in a timely manner, which can update and review their knowledge and skills associated with directors' duties. The Company Secretary also arranges meetings between Board members and front-line business teams in a timely manner, which enables the Board members to enhance better understanding of the front-line business development of the Company. In 2014, the Board members conducted meetings with business teams and attended the Everbright Investment Conference 2014 held in Xiamen at the end of October to comprehend the business operation and the recent development in the industry. Furthermore, the Company also encourages all Board members to actively participate in continuing training programmes. In addition to arranging trainings to existing directors regularly, the Board members are also encouraged to participate in professional training programmes as they consider appropriate, with a view to develop and update their knowledge and skills.

Apart from the above training offered by the Company, based on the training records provided to the Company by the directors, the directors also participated in the following trainings during 2014:

Directors	Type of trainings
<i>Executive Directors</i>	
Tang Shuangning	A, C
Liu Jun	A, B, C
Chen Shuang	A, B, C
Tang Chi Chun, Richard	A, C
Jiang Yuanzhi	A, C
<i>Non-executive Director</i>	
Wang Weimin	A, C
<i>Independent Non-executive Directors</i>	
Seto Gin Chung, John	A, C
Lin Zhijun	A, C
Chung Shui Ming, Timpson	A, C

A: attending seminars and/or conferences and/or forums

B: delivering talks at seminars and/or conferences and/or forums

C: reading information, newspapers, journals and materials relating to the responsibilities of directors, economy, fiscal, financial, investments and business of the Company

Remuneration of Directors and Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2014 is set out below:

Remuneration Bands (HK\$)	Number of persons
HK\$4,000,001 to HK\$4,500,000	2
HK\$4,500,001 to HK\$5,000,000	1
HK\$5,000,001 to HK\$5,500,000	2
HK\$5,500,001 to HK\$6,000,000	1
HK\$9,000,001 to HK\$9,500,000	1

Further particulars regarding directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in notes 8 of the financial statements.

CORPORATE GOVERNANCE REPORT (CONTINUED)

A total of 4 Board meetings were held during the year. The schedule for the regular meetings of the Board and the Board Committees was prepared and approved by the Board at the end of the previous year. Formal notices were sent to all directors at least 14 days before the meeting shall be held officially. In general, the Board agenda and meeting materials were dispatched to all Board or relevant committee members for review at least 3 working days before the meetings. The agenda had been prepared after sufficient consultation with the Board/Board Committee members and the Management and was then approved by the respective chairmen. The Company Secretary is responsible for submitting the papers of Board meetings and relevant information to the directors, who have to capture the related information timely and further obtain more if necessary or seek independent professional advice accordingly. The minutes of the Board/Board Committees contain detailed records of all the issues considered and the decisions made by the directors. The minutes, upon reviewed by all the Board members, are properly kept by the office of the Company Secretary. The Board can also seek the advices and services from the Company Secretary or the secretaries of the respective Board Committees. The Company Secretary is also responsible for ensuring compliance of the procedures of the Board as well as the applicable laws, rules and regulations. Apart from the regular Board meetings, the Company Secretary also arranges a meeting for the Chairman and the Deputy Chairman of the Board to meet all INEDs in the absence of the executive directors and the management. Individual attendance records of the relevant directors in 2014 are set out in the table at the end of this report.

The directors have to spend substantial amount of time for the meetings of the Board and the Board Committees, including reading the papers before the meetings, allowing sufficient discussion of the issues in the meeting and giving in-depth understanding to the follow-up issues under the agenda after the meeting. The Company also required the directors to disclose to the Company each year the number and nature of offices held in public companies or organisations and other significant commitments, with an indication of the time involved. The Board considered all directors had devoted sufficient time and efforts to deal with matters of the Group.

Board Committees

Taking into account the market practices and international best practices in corporate governance, the Board established 5 Board Committees to carry out its responsibilities. They are the Executive Committee, the Audit and Risk Management Committee, the Nomination Committee, the Remuneration Committee and the Strategy Committee. In addition, the Board will, if necessary, authorise an independent board committee comprising all INEDs to review, approve and monitor the connected transactions (including continuing connected transactions) in accordance with the requirements of the relevant laws and regulations. The Terms of Reference of the Board clearly define the terms of reference of the Board Committees. The Board Committees can make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances within the power as delegated by the Board. The Board committees submit their reports on their work semiannually. As mentioned, the Terms of Reference of the Board, which set out the terms of references of all the Board Committees, are published in details on the Company's website and the website of the Stock Exchange.

Executive Committee

The Executive Committee, which was established in 2005, is the organ for making significant business decisions of the Company. Upon the delegation by the Board, the Executive Committee makes decisions regarding major issues as proposed by the Board through interactive communications from time to time concerning monitoring over the Group's business objectives, business development plans and major business projects. The Executive Committee currently comprises 4 members: Dr. Liu Jun (Deputy Chairman of the Board), Mr. Chen Shuang (Chief Executive Officer), Mr. Tang Chi Chun, Richard (Chief Financial Officer) and Mr. Jiang Yuanzhi (Chief Investment Officer). Dr. Liu Jun, the Deputy Chairman of the Board, is the Chairman of the Executive Committee. In 2014, the Executive Committee approved a number of major issues through written resolutions.

Audit and Risk Management Committee

The Audit and Risk Management Committee, which was established in 1999 and formerly known as the Audit Committee, mainly assists the Board in fulfilling its responsibilities relating to the supervision of the financial statements, internal control, internal audit and external audit of the Group. The written terms of reference of the Audit and Risk Management Committee, which were prepared with reference to “A Guide for Effective Audit Committees” published by the Hong Kong Institute of Certified Public Accountants and updated with reference to the requirement of the Code, were approved and properly authorized by the Board. The Terms of Reference of the Audit and Risk Management Committee is available for inspection at the Company’s website. In short, the Audit and Risk Management Committee mainly assists the Board in performing its role in the Group in the following areas, among others:

- ensuring that the financial reports are accurate and comply with the appropriate accounting standards, and that the reporting procedures of the Company’s financial reports are carried out;
- ensuring that the scope and guidance of the internal and external audits are sufficient;
- considering the qualifications and independence of external auditors and the fees for the year (including non-audit services);
- ensuring that appropriate risk management and internal control measures are in place and followed;
- reviewing and dealing with the Company’s internal audit functions, the effectiveness of the Company’s corporate governance structure and its implementation;
- overseeing the Company to abide by any applicable laws and to comply with regulations of the relevant regulators and to maintain its business ethics;
- making recommendations to the Board where necessary, and to carry out duties within the delegated authority of the Board;
- meeting the auditors, at least annually, in the absence of the Management, to discuss matters relating to any issues arising from the audit and any other matters the auditors may wish to raise; and
- reviewing arrangements that employees of the Company can use, in confidences, to raise concerns about possible improprieties in matters of financial reporting, internal control or other matters.

The work performed by the Audit and Risk Management Committee in 2014 included the review and, where applicable, approval of:

- the Group’s financial statements for the year ended 31 December 2013 and the annual results announcement thereof, which were recommended to the Board for approval;
- the Group’s interim financial statements for the six months ended 30 June 2014 and the interim results announcement thereof, which were recommended to the Board for approval;
- the audit report and management letter submitted by the external auditors;
- the quarterly risk assessment report submitted by the Chief Risk Officer;
- the quarterly internal audit report submitted by the Internal Audit and Compliance Department;
- the re-appointment of external auditors, and the audit fees payable to external auditors for the annual audit and interim review;
- the Group’s internal audit plan and key areas of the internal audit work focus for 2014; and
- Whistleblowing Policy related matter.

CORPORATE GOVERNANCE REPORT (CONTINUED)

In addition, pursuant to paragraphs C.2 and C.3.3 of the Code, the Audit and Risk Management Committee conducted an annual review of the effectiveness of the internal control systems of the Group with the assistance of the Internal Audit Department. The internal control review of the Group covered all material aspects, including financial, operational and compliance controls as well as risk management. Upon completion of the review, the Audit and Risk Management Committee considered that the key areas of the Group's internal control systems were reasonably implemented and were able to prevent material misstatements or losses, safeguard the Group's assets, maintain appropriate accounting records, ensure compliance with applicable laws and regulations, and generally the internal control requirements of the Code have been fulfilled. Such views were recommended to the Board. Please refer to the section headed "Internal Control" for detailed information about the review.

The Audit and Risk Management Committee comprises 3 members, and all members including the chairman are INEDs. It is chaired by Dr. Chung Shui Ming, Timpson, who has professional qualifications and wide experiences in financial business. As to the remaining members, Mr. Seto Gin Chung, John has wide experiences in financial business. Dr. Lin Zhijun has appropriate professional qualifications and experiences in financial matters, whilst a total of 6 Audit and Risk Management Committee meetings were held during the year with an attendance rate of 100%. Individual attendance records of the relevant members of the Audit and Risk Management Committee in 2014 are set out in the table in the last part of this report.

Nomination Committee

The Nomination Committee, which was established in 2005, is responsible for assisting the Board in nominating the right candidates for directorship and senior management positions as well as for evaluating the competence of the candidates to ensure that they are in line with the Group's overall development directions. The Nomination Committee assists the Board in fulfilling its supervisory role over the Group in the following areas, among others:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to assess the independence of INEDs;
- to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer; and
- to make recommendation to the Board on the appointment or re-appointment of senior management.

Based on the successful experiences in the recruitment of directors and senior management, the Nomination Committee first takes into account the existing skills, knowledge and experiences of the Board and Board Committees, and the business requirements of the Group in order to determine the key requirements for the candidates and objective criteria for selection. Such criteria include relevant expertise, integrity, industry experiences and independence.

The Nomination Committee currently has 4 members comprising Dr. Lin Zhijun, Mr. Seto Gin Chung, John, Dr. Liu Jun and Dr. Chung Shui Ming, Timpson, for which Dr. Lin Zhijun, an INED, is the chairman. The INEDs represent a majority of the committee members. Stability of the Board members, Committees members and senior management was maintained in 2014 and the Nomination Committee held two meetings in the year in relation to the appointment of Deputy Chairman of the Board, and the review of the structure, size and composition (including skills, experience and knowledge) of the Board and the Board Committees.

Remuneration Committee

The Remuneration Committee, which was established in 2005, is responsible for assisting the Board in overseeing the Group's human resources and remuneration policies. The Remuneration Committee assists the Board in fulfilling its supervisory role over the Group in the following areas, among others:

- to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to determine, with delegated responsibility, remuneration packages of individual executive directors and senior management; including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- to make recommendations to the Board on the remuneration of non-executive directors and INEDs;
- consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
- to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and
- to ensure that no director or any of his associates is involved in deciding his own remuneration.

The work performed by the Remuneration Committee in 2014 included the review and, where applicable, approval of:

- the performance appraisal of the executive directors and senior management for year 2013;
- the proposal on staff bonus (including the senior management) for year 2013 and salary adjustments for year 2014 for the Group;
- the incentive scheme of the Group; and
- the policies on performance appraisal of the Group's staff (including senior management), annual bonus and annual salary adjustments.

To ensure that the directors receive remuneration commensurate with the time and effort they dedicate to the Group, the Remuneration Committee, in proposing the remuneration of directors, makes reference to companies of comparable business type or scale, and the nature and quantity of work at both Board and Board Committees (including frequency of meetings and nature of agenda items) and determines expense allowance for directors to attend meetings and other allowances. The proposed remuneration will be put to shareholders for final approval at general meetings. The Remuneration Committee also determines the specific remuneration package of executive directors and senior management, including share options and benefits in kind. Currently the principal components of the Company's remuneration package for executive directors and senior management include the basic salary, discretionary bonus and other benefits in kind. A significant portion of the executive directors' or senior management's discretionary bonus is based on the Group's and the individual's performance during the year in order to achieve the appropriate compensation level. None of the directors is entitled to determine his/her own remuneration package. The Remuneration Committee reviews and approves the annual and long term performance targets for senior management by reference to corporate goals and objectives approved by the Board from time to time. The Remuneration Committee also reviews the performance of the senior management against the targets set on an ongoing basis, and reviews and approves the specific performance-based remuneration of the senior management. The Remuneration Committee will seek professional advice in appropriate circumstances.

CORPORATE GOVERNANCE REPORT (CONTINUED)

The remuneration received by each of the directors in 2014 was listed in note 8(a) to the financial statements in this report. The remuneration received by the senior officers was disclosed in this report according to the band of their remuneration. The fee for the existing directors of the Company, including the expense allowance for acting as member(s) of the Board Committees, shall be submitted to the general meeting every year for approval. For 2014, the remuneration approved by shareholders at the general meeting is as follows:

The director's fee for the year ended 31 December 2014 is HK\$150,000 for each INED who has served one full year and pro-rated for INED who has not served one full year. There is no standard fee for INEDs for acting as member(s) of the Remuneration Committee, Audit and Risk Management Committee, Nomination Committee and Strategy Committee. However, an expense allowance was paid to INEDs for attending the following meetings:

- (a) HK\$10,000 for attending the Board meeting;
- (b) HK\$5,000 for attending meeting of the Remuneration Committee, Nomination Committee and Strategy Committee; and
- (c) HK\$14,000 for the chairman of the Audit and Risk Management Committee attending its meeting and HK\$10,000 for other members.

There is no director's fee for the year ended 31 December 2014 for executive directors/non-executive directors.

There is no standard extra fee for executive directors/non-executive directors for acting as member(s) of the Remuneration Committee, Executive Committee, Nomination Committee and Strategy Committee. However, an expense allowance of HK\$10,000 was paid to an executive director/a non-executive director on each occasion he attended the directors' meetings; an expense allowance of HK\$5,000 was paid to an executive director/a non-executive director who attended each meeting of the Executive Committee, Remuneration Committee, Nomination Committee and Strategy Committee.

A basic allowance in a total amount of HK\$100,000 will be paid to each director every year on 1 July and prior to the Lunar New Year.

The Remuneration Committee currently has 4 members comprising Mr. Seto Gin Chung, John, Dr. Liu Jun, Dr. Lin Zhijun and Dr. Chung Shui Ming, Timpson, for which Mr. Seto Gin Chung, John, an INED, is the chairman. The INEDs represent a majority of the members of the Remuneration Committee. A total of 3 meetings were held by the Remuneration Committee during the year with an attendance rate of 100%. Individual attendance records of the relevant committee members in 2014 are set out in the table at the end of this report.

Strategy Committee

The Strategy Committee, which was established in 2006, is responsible for studying the long term strategy and planning of the Group and making recommendations to the Board for the middle and long term development strategies of the Group. The Strategy Committee is chaired by Mr. Seto Gin Chung, John, an INED, and currently has 7 members: Mr. Seto Gin Chung, John, Dr. Liu Jun, Mr. Chen Shuang, Mr. Jiang Yuanzhi, Mr. Wang Weimin, Dr. Lin Zhijun and Dr. Chung Shui Ming, Timpson. The Strategy Committee convenes meeting regularly each year with a focus to review the strategic positioning and development planning of the Group.

Independent Board Committee

An Independent Board Committee, comprising, Mr. Seto Gin Chung, John, Dr. Lin Zhijun, Dr. Chung Shui Ming, Timpson and Mr. Wang Weimin, was formed and a written resolution was resolved to advise independent shareholders of the Company on an off-market share repurchase by the Company and make recommendation on voting at the Company's extraordinary general meeting held on 21 February 2014.

Corporate Governance Functions

The Board is responsible for performing the corporate governance duties as set out below:

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Company;
2. to review and monitor the training and continuous professional development of directors and senior management;
3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
4. to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and
5. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

During the year under review, the Board has reviewed and/or issued the following documents related to the corporate governance policies and practices:

- Terms of Reference of the Board;
- Mandate; and
- Board Diversity Policy.

Board Evaluation

Each of the Board and Board Committees will conduct a self-assessment review of their own effectiveness from time to time and review and amend as appropriate their terms of reference and working rules according to the needs.

Directors' Securities Transactions

The Company has devised special rules governing securities dealing of directors in the "Code for Securities Transactions by Directors and Relevant Employees", which are no less exacting than the required standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules. Having enquired of all directors, the directors confirmed that they have complied with the required standards set out in the said manual and the Model Code throughout the year of 2014.

Constitutional Documents

During the year, there is no change in the Company's constitutional documents.

External Auditors

Pursuant to the responsibility delegated by the Board, the Audit and Risk Management Committee had reviewed and monitored the independence, objectivity and effectiveness of KPMG, the Group's external auditors, on their audit procedures, and the results were satisfactory. Upon the recommendation of the Audit and Risk Management Committee, at the Company's 2015 annual general meeting, the Board will propose that KPMG be re-appointed as auditors of the Group. Subject to the approval by the shareholders, the Board will authorize the Audit and Risk Management Committee to determine the remuneration for KPMG.

For 2014, the total fee charged by KPMG was HK\$12,405,000 including a non-audit services fee of HK\$3,841,000 for the review of the interim financial statements, internal control, risk assessment and other services. For 2013, the fee charged by KPMG for audit and non-audit services was HK\$10,860,000.

Internal Control

The Board has the responsibility of ensuring that the Group maintains sound and effective internal controls to safeguard the Group's assets. The internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage, but not completely eliminate, the risks of system failure; and to assist in achieving the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

The Internal Audit and Compliance Department reviews the effectiveness of the Group's internal control system in accordance with the annual internal audit plan approved by the Audit and Risk Management Committee. The scopes of these reviews cover all material controls including financial, operational and compliance controls, and the risk management system governing various business units and operation departments. The risks and controls are identified primarily through reviews of the statutory books, minutes, policies and procedure manuals, and interviews with the management. Based on the results of the risk and control identifications, the internal audit strategies are formulated and performed by the Internal Audit Department.

The results of the reviews for 2014 were reported to the Audit and Risk Management Committee and the Board on a quarterly basis.

The Board acknowledges it has the ultimate responsibility to ensure there are sound and effective financial controls and accounting functions. The Board delegates the Audit and Risk Management Committee with the responsibility of reviewing the adequacy of the resources of accounting and financial report functions, under the assistance of the Chief Financial Officer and the Internal Audit and Compliance Department. The scope of the review covers the staffing and back-up resources, their relevant working experiences and years served, recognised accounting professional qualifications, the adequacy of budget for training and the corresponding training. The results of the review were reported to the Audit and Risk Management Committee and the Board at the year end.

The Audit and Risk Management Committee and the Board consider that the material aspects of the Group's internal control systems are reasonably implemented and are able to prevent significant misstatements or losses, whilst safeguarding the Group's assets, maintaining appropriate accounting records and complying with applicable laws and regulations. Such internal control systems have basically fulfilled the requirements of the Code regarding internal control systems in general.

In addition, the Group has established and implemented the following internal control systems:

- The Management established an organisational structure with different hierarchies of duties, authorities and responsibilities of personnel; formulated written policies and procedures to check and balance the authorities of different departments; reasonably safeguarded the assets and the implementation of the internal control measures of the Group; and operated in compliance with laws and regulations under effective risk control.
- The Management formulated and continually monitored the implementation of the Group's development strategies, business plans and financial budgets. The accounting and management systems were also in place to provide the basis for evaluating the financial and operational performances.
- The Group formulated various risk management and human resource management policies. Specific units and personnel were responsible for identifying, assessing and managing each of the major risks types. These include reputation, strategic, legal, compliance, credit, market, operation, liquidity and interest rate risks.

- The Chief Risk Officer of the Group is responsible for the routine risk management work of the Group and for supporting and assisting the Management in defining and evaluating the risk exposures of the Group's businesses and conducting the co-ordination thereof. He assesses, identifies and records the risk structure of the Group and ensures the relevant business units are aware of such issues. The Chief Risk Officer regularly reports to the Audit and Risk Management Committee and the Management Decision Committee. The Risk Management Department assists the Chief Risk Officer in carrying out his duties.
- The Audit and Risk Management Committee reviews the letter of recommendation submitted by the external auditors to the Management in connection with the annual audit. The Internal Audit Department is responsible for ensuring that the recommendations are promptly followed, and will also periodically report the status of the implementation thereof to the Audit and Risk Management Committee and keep the Management informed with updated information.

Communication with Shareholders and Shareholders' Rights

Annual General Meeting

The Board attaches a high degree of importance to non-interrupted communications with shareholders, especially direct dialogue with them at the Company's annual general meetings. Shareholders are encouraged to actively participate in such meetings. Members of the Board, including the then Deputy Chairman and INEDs, and representatives of KPMG were present at the Company's 2014 annual general meeting held on 21 May 2014 to address to questions and comments raised by shareholders.

In addition, the Company also provided further information on the 2014 annual general meeting in a circular to shareholders. This includes background information to the proposed resolutions and information on the retirement and re-election of directors in order to enable all shareholders to understand their rights at the annual general meeting and to make decisions with sufficient information.

Extraordinary General Meeting

An extraordinary general meeting was held on 21 February 2014 to approve an off-market share repurchase by the Company. Members of the Independent Board Committee were presented at the meeting to answer questions and comments raised by shareholders.

Shareholders' Communication Policy

The Company always advocates that all its shareholders shall be provided with ready, equal and timely access to balanced and easy-to-understand information about the Company (including its financial summary, business introduction, corporate profile, introduction of corporate governance, business and contact information of investor relations), which allow the shareholders to exercise their rights in an informed manner, and also improve communications between the shareholders and the investment community with the Company.

The shareholders should direct their questions about their shareholdings to the Company's Share Registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong with contact number of 2980 1333. The Company shall ensure effective and timely dissemination of information to the shareholders and the investors at all times. The shareholders and investors should direct their questions to the Company's Corporate Communications and Investors Relations Department by email to ir@everbright165.com or by phone to 2528 9882.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Shareholders' Rights

The general meeting is the principal opportunity and ideal venue for shareholders to meet and exchange views on the Group's business with the directors and the management. The Board therefore encourages shareholders to attend the annual general meeting, exercise their right to speak and vote, and give valuable advice on improving the Group's operational and governance matters.

Shareholders are entitled to convene an extraordinary general meeting, make any proposals at shareholders' meetings and propose a person for election as a director. Please see the detailed procedures as follows:

- *the way in which shareholders can convene a general meeting:*

Shareholder(s) representing at least 5 per cent of the total voting rights of all shareholders having a right to vote at general meetings can make a request to call a general meeting pursuant to Section 566 of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) ("the New Companies Ordinance").

The request –

- (a) must state the general nature of the business to be dealt with at the meeting;
- (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
- (c) may consist of several documents in like form;
- (d) may be sent in hard copy form or in electronic form to the Company Secretary at the Company's registered office (46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong) or by way of email to ir@everbright165.com; and
- (e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the New Companies Ordinance, directors must call a general meeting within 21 days after the date on which they become subject to the requirement and the meeting so called must be held on a date not more than 28 days after the date of the notice convening the meeting. If the directors do not do so, the shareholders who requested the meeting, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a general meeting pursuant to Section 568 of the New Companies Ordinance, but the meeting must be called for a date not more than 3 months after the date on which the directors become subject to the requirement to call a general meeting. The Company will reimburse any reasonable expenses incurred by the shareholders requesting the meeting by reason of the failure of the directors duly to call a general meeting.

- *the procedures for making proposals at shareholders' meetings:*

The following shareholders are entitled to put forward a proposal (which may properly be put to the meeting) for consideration at a general meeting of the Company:

- (a) shareholders representing not less than 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the general meeting to which the requests relate; or
- (b) not less than 50 shareholders who have a right to vote on the resolution at the general meeting to which the requests relate.

The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company (46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong) not less than six weeks before the general meeting. The Company would take appropriate actions and make necessary arrangements, and the shareholders concerned would be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Section 615 and 616 of the New Companies Ordinance once valid documents are received.

- *the procedure for director's nomination and election by shareholders:*

If a shareholder wishes to propose a person other than a retiring director for election as a director at a general meeting, the shareholder should lodge at the registered office of the Company (46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong) by reference to the "Procedures for Shareholders to Propose a Person for Election as a Director" posted on the website of the Company, (a) a notice signed by such shareholder (other than the proposed person) duly qualified to attend and vote at the meeting of his/her intention to propose such person for election; and (b) a notice signed by the proposed person indicating his/her willingness to be elected. The period during which the aforesaid notices may be given will be at least seven days. Such period will commence on the day after the despatch of the notice of the general meeting for which such notices are given and end no later than seven days prior to the date of such general meeting. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under Article 122 of the Articles of Association of the Company once valid notices are received, and the shareholder concerned would be responsible for the expenses incurred in giving effect thereto. Shareholders are welcome to send any written enquiries to the Board for the attention of the Company Secretary either by post to the registered office of the Company at 46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong or by way of email to ir@everbright165.com. The Company Secretary would direct the enquiries received to appropriate Board member(s) or the Chairman of the Board Committee(s) who is in charge of the areas of concern referred therein for further handling. The Board, assisted by the Company Secretary, would make its best efforts to ensure that all such enquiries are addressed in a timely manner.

Investor Relations and Communication

The Company believes that communicating with the shareholders and investors by electronic means (in particular through the Company's website) is an efficient way of delivering information in a timely and convenient manner. An "Investor Relations" section is available on the Company's website at www.everbright165.com. Information published on the Company's website will be updated from time to time. Information released by the Company to the Stock Exchange is also posted on the Company's website immediately thereafter. Such information includes financial statements (annual report and interim report), results announcements, circulars, notices of general meetings, announcements and monthly return on movements in securities, etc.. The briefing materials provided in the annual general meeting and the result announcement of the Company will be posted on the website of the Company as soon as possible once the materials are published. The contents published by the Company regarding to all press releases, corporate profiles, corporate structure, biographical information of the Board and the management team, service philosophy and corporate social responsibility are posted on the website of the Company. Corporate communication will be provided to the shareholders in plain language and in both English and Chinese versions to facilitate shareholders' understanding. Web-casting service will be provided on the meetings announcing the interim and final results of the Company.

Investor briefings and one-on-one meetings, roadshows (both domestic and international), media interviews, marketing activities for investors and specialist industry forums etc will be available on a regular basis in order to facilitate communication between the Company, shareholders and the investment community.

Directors' Responsibilities in respect of Financial Statements

The following statement should be read in conjunction with the auditor's statement of its responsibilities as set out in the Independent Auditor's Report contained in the 2014 Annual Report of the Company. The statement sets out for the shareholders the respective responsibilities of the directors and the auditors in relation to the financial statements.

The directors are required by the Companies Ordinance in Hong Kong to prepare financial statements which give a true and fair view of the state of affairs of the Company. The financial statements should be prepared on a going concern basis unless it is inappropriate to do so. The directors have the responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the requirements of the Companies Ordinance in Hong Kong. The directors also have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The directors consider that in preparing the financial statements in the 2014 Annual Report, the Company has adopted appropriate accounting policies which have been consistently applied with the support of reasonable and prudent judgments and estimates, and that all accounting standards which they consider to be applicable have been followed.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Role of Independent Non-executive Directors

The Board believes that the INEDs play an important role in corporate governance. They provide the necessary checks and balances to ensure that the Group operates in a safe and sound manner and that its interests are protected. The INEDs also bring external experience and make judgment objectively. They are particularly important in performing a monitoring role. The Board considers all its INEDs to be independent in character and judgment. The Board has received written confirmation from the INEDs of their independence pursuant to the requirement under Rule 3.13 of the Listing Rules and considers all the INEDs to be independent.

The appointment of an INED is for a fixed term and subject to rotation in accordance with the Articles of Association of the Company and the Listing Rules. Every year, the Board reviews and assesses the independence of any INED who is in office for more than 9 years. The conclusion of his independence is stated in the circular of the annual general meeting to shareholders.

Company Secretary

The Company Secretary of the Company is the Head of the Legal, Compliance and Company Secretarial Department of the Group and a full time employee of the Company who is familiar with the daily operation of the Company. The Company Secretary is responsible for advising the Board on all corporate governance matters. The directors have access to the services provided by the Company Secretary and his department. He has the relevant professional qualifications as stipulated by the Listing Rules. The Company's Articles of Association state that the appointment and removal of the Company Secretary is a matter for the Board. The Company Secretary confirmed that for the year under review, he has taken no less than 15 hours of relevant professional training.

Attendance

The attendance of the directors at board meetings and various Board committee meetings as well as the general meetings of the Company in 2014 is set out below:

Directors/members	Board Meeting	Nomination Committee Meeting	Audit & Risk Management Committee Meeting	Remuneration Committee Meeting	Strategy Committee Meeting	General Meeting
Tang Shuangning	4/4	n/a	n/a	n/a	n/a	0/2
Zang Qiutao (Note 1)	3/3	1/1	n/a	2/2	n/a	2/2
Liu Jun (Note 2)	2/2	1/1	n/a	1/1	1/1	n/a
Chen Shuang	4/4	n/a	n/a	n/a	1/1	2/2
Tang Chi Chun, Richard	4/4	n/a	n/a	n/a	n/a	2/2
Jiang Yuanzhi	4/4	n/a	n/a	n/a	1/1	2/2
Wang Weimin	4/4	n/a	n/a	n/a	1/1	2/2
Seto Gin Chung, John	4/4	2/2	6/6	3/3	1/1	2/2
Lin Zhijun	4/4	2/2	6/6	3/3	1/1	2/2
Chung Shui Ming, Timpson	4/4	2/2	6/6	3/3	1/1	0/2

Note 1: Mr. Zang Qiutao resigned as the Deputy Chairman and executive director and a member of each of the Nomination Committee, Remuneration Committee and Strategy Committee of the Company on 27 August 2014.

Note 2: Dr. Liu Jun was appointed as the Deputy Chairman and executive director and a member of each of the Nomination Committee, Remuneration Committee and Strategy Committee of the Company on 27 August 2014.

DIRECTORS' REPORT

The board of directors hereby presents the Annual Report together with the audited financial statements of China Everbright Limited (“the Company”) and its subsidiaries (collectively “the Group”) for the year ended 31 December 2014.

Principal Activities

The Group is principally engaged in investment holdings and the provision of financial services. The principal activities of the subsidiaries are set out in note 15 to the financial statements.

Turnover and Contribution to Group Results

The turnover and contribution to operating results of the Group by activity and geographical location are set out in note 40 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2014 are set out on page 88 of this Annual Report.

The directors recommend the payment of a final dividend of HK\$0.33 per share for the year ended 31 December 2014 (2013: HK\$0.20 per share).

Major Customers and Suppliers

Turnover from operations represents the aggregate of service fee income, interest income, dividend income, gross rental income from investment properties and gross sale proceeds from disposal of trading securities of secondary market investments. Accordingly, it is not practical to state the percentage of the sales attributable to the Group's largest customers and percentage of the purchases attributable to the Group's largest suppliers.

None of the directors, their associates or any shareholder holding more than 5% of the Company's issued share capital has an interest in the share capital of any of the five largest suppliers.

Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 167 of this Annual Report.

Fixed Assets

Movements in fixed assets are set out in note 14 to the financial statements.

Properties

Particulars of major properties held by the Group as at 31 December 2014 are set out on page 168 of this Annual Report.

Subsidiaries and Associates

Details of the Company's principal subsidiaries and associates as at 31 December 2014 are set out in notes 15 and 16 to the financial statements respectively.

DIRECTORS' REPORT (CONTINUED)

Bank Loans

Particulars of bank loans of the Company and the Group as at 31 December 2014 are set out in note 24 to the financial statements.

Share Capital

As at 31 December 2014, the share capital of the Company comprised 1,685,253,712 shares. Details of the movement in share capital of the Company during the year are set out in note 29 to the financial statements. These movements include the automatic inclusion of the amounts standing to the share premium account and the capital redemption reserve in share capital as from 3 March 2014 in accordance with section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), as part of the transition to the no-par value regime.

Purchase, Sale or Redemption of Listed Securities

During the year, the Company bought back its shares on the Stock Exchange as follows:

Month	Number of shares of HK\$1.00 each bought back	Price per share		Aggregate consideration HK\$'000
		Lowest HK\$	Highest HK\$	
February 2014	34,846,000	10.12	10.12	352,641

The above shares were cancelled upon buy-back and accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium on buy-back was charged against retained profits. An amount equivalent to the nominal value of the shares cancelled was transferred from retained profits to the capital redemption reserve.

Reserves

Distributable reserves of the Company as at 31 December 2014 as calculated under the New Companies Ordinance amounted to approximately HK\$926,839,000 (2013: HK\$383,944,000). The movement in the Company's reserves are set out in note 30 to the financial statement.

Borrowings and Interest Capitalised

Bank loans and overdrafts repayable within one year or on demand are classified as current liabilities in the financial statements. Bank loans repayable over one year are classified as non-current liabilities. No interest was capitalised by the Group during the year.

Continuing Connected Transaction

During the year, there was no continuing connected transaction entered into by the Group which was required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") to be disclosed in the Annual Report of the Company.

Directors

The directors of the Company during the year and up to the date of this Annual Report are as follows:

Executive Directors:

Mr. Tang Shuangning, Chairman
Dr. Liu Jun, Deputy Chairman (appointed on 27 August 2014)
Mr. Chen Shuang, Chief Executive Officer
Mr. Tang Chi Chun, Richard, Chief Financial Officer
Mr. Jiang Yuanzhi, Chief Investment Officer
Mr. Zang Qintao (resigned on 27 August 2014)

Non-executive Director:

Mr. Wang Weimin

Independent Non-executive Directors:

Mr. Seto Gin Chung, John
Dr. Lin Zhijun
Dr. Chung Shui Ming, Timpson

According to Articles 120 and 121 of the Company's Articles of Association, one-third of the directors (who have been longest in office) shall retire from office by rotation at every annual general meeting of the Company provided that every director shall retire once every three years. A retiring director shall be eligible for re-election.

In addition, according to Article 87 of the Company's Articles of Association, any director appointed by the board either to fill a casual vacancy or as an addition to the board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the meeting.

In accordance with Articles 120 and 121, Mr. Chen Shuang, Mr. Wang Weimin and Mr. Seto Gin Chung, John, being directors who have been longest in office since their last re-election, shall retire by rotation. In addition, in accordance with Articles 87, Dr. Liu Jun, being a new Director appointed by the Board during the year, shall retire from office and, being eligible, will offer himself for re-election at the Annual General Meeting. All of them being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' REPORT (CONTINUED)

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2014, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (as defined by Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under section 352 of the SFO are as follows:

1a. Long position in shares of the Company:

Name of director	Total	Personal interest	Family interest	Corporate interest	% of total issued Shares
Tang Chi Chun, Richard	719,000	719,000	–	–	0.04

1b. Long position in shares of associated corporation of the Company, namely China Everbright International Limited ("CEIL"):

Name of director	Total	Personal interest	Family interest	Corporate interest	% of total issued Shares
Chen Shuang	100,000	100,000	–	–	0.00

2. Long position in underlying shares of equity derivatives of the Company: Nil

3. Long position in underlying shares of equity derivatives of associated corporations of the Company, namely China Aircraft Leasing Group Holdings Limited ("CALC"):

Name of directors	Capacity/nature of interest	Number of underlying shares held	Approximately % of issued shares
Chen Shuang	beneficial owner	200,000 (Note)	0.03%
Tang Chi Chun, Richard	beneficial owner	200,000 (Note)	0.03%

Note: These interests represented the interests in underlying shares in respect of the share options granted by CALC to each non-executive director and independent non-executive director of CALC pursuant to its Post-IPO Share Option Scheme.

As at 31 December 2014, save as disclosed herein, none of the directors and chief executives of the Company had interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO as recorded in the register of directors' and chief executives' interests and short positions.

Directors' Interests in Contracts of Significance

No contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, existed at the end of the year or at any time during the year.

Directors' Service Contracts

No director offering for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not terminable by the employing company within one year without payment of compensation other than the normal statutory compensation.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, holding companies or fellow subsidiaries a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Competing Interest

As at the date of this annual report, and as far as the directors are aware, none of the directors or their respective associates had any interest in a business which competes or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interest with the Group.

Substantial Shareholders' and Other Persons' Interest and Short Positions in Shares and Underlying Shares

The Company has been notified of the following interests in the Company's issued shares at 31 December 2014 amounting to 5% or more of the ordinary shares in issue:

	Capacity	Nature of interest	Long position in ordinary shares held and percentage of total issued shares	Short position in ordinary shares held and percentage of total issued shares	Lending pool in ordinary shares held and percentage of total issued shares
Central Huijin Investment Limited ("Huijin Limited") (note (1))	Interest of controlled corporation	Corporate interest	838,306,207 Approximately 49.74%	–	–
China Everbright Group Ltd. ("China Everbright Group") (note (2))	Interest of controlled corporation	Corporate interest	838,306,207 Approximately 49.74%	–	–

Notes :

- (1) Huijin Limited is indirectly wholly-owned by the State Council of the People's Republic of China and holds 55.67% equity interest of China Everbright Group.
- (2) China Everbright Group holds 100% of the issued shares of China Everbright Holdings Co. Ltd. ("CE Hong Kong"). CE Hong Kong holds (1) 100% of the issued shares of Datten Investments Limited ("Datten") which in turn holds 100% of the issued shares of Honorich Holdings Limited ("Honorich") and (2) 100% of the issued shares of Everbright Investment and Management Limited ("EIM"), respectively. Out of the 838,306,207 ordinary shares, 832,273,207 ordinary shares are held by Honorich. The remaining 6,033,000 ordinary shares are held by EIM. Accordingly, China Everbright Group is deemed to be interested in 832,273,207 ordinary shares held by Honorich and 6,033,000 ordinary shares held by EIM.
- (3) The Company entered into a Repurchase Contract on 24 February 2014 whereas the Company acquired 34,846,000 ordinary shares from substantial shareholder, CE Hong Kong. The shares being bought back were cancelled after the completion of the share buy-back and accordingly, the number of ordinary shares held by CE Hong Kong was reduced from 873,152,207 to 838,306,207 (representing 49.74% of the issued ordinary shares of the Company).

Save as disclosed above, as at 31 December 2014, the directors were not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' REPORT (CONTINUED)

Corporate Governance

The Company believes that upholding good corporate governance measures is important to ensure effective internal control and to protect the long term interest of the shareholders, customers, staff and the Company. The Company strictly complies with the applicable laws and regulations and codes and guidelines of the regulatory authorities, and strives to follow the best international and local corporate governance practices and to develop and improve the corporate governance practices of the Company.

For further details, please refer to the section on "Corporate Governance Report".

Auditors

The financial statements have been audited by KPMG, who will retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Audit and Risk Management Committee

During the year, the Audit and Risk Management Committee comprised Dr. Chung Shui Ming, Timpson, Mr. Seto Gin Chung, John and Dr. Lin Zhijun. The Committee is chaired by Dr. Chung Shui Ming, Timpson. All members of the Committee are independent non-executive directors.

The Audit and Risk Management Committee and the Management have reviewed the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group for the year ended 31 December 2014. The terms of reference of the Audit and Risk Management Committee and a summary of the duties discharged in 2014 have been set out in the section on "Corporate Governance Report".

Retirement Schemes

The Company provides retirement benefits to all local eligible employees under an approved defined contribution provident fund ("the ORSO Scheme"). The ORSO Scheme is administered by trustees, the majority of whom are independent, with its assets held separately from those of the Company. The ORSO Scheme is funded by contributions from employees and employers at 5% each based on the monthly salaries of employees. Forfeited contributions may be used to reduce the existing level of contribution by the Company.

Since 1 December 2000, the Group has also operated a Mandatory Provident Fund Scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the ORSO Scheme. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a monthly relevant income cap of HK\$30,000.

The employees of the subsidiaries of the Group established in the People's Republic of China are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a percentage of their payroll to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to these schemes charged to the consolidated income statement during the year ended 31 December 2014 amounted to approximately HK\$2 million.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

Other Information

Final Dividend

The Board has resolved to recommend the payment of a final dividend of HK\$0.33 per share for the year ended 31 December 2014 (2013: HK\$0.20 per share). Together with the interim dividend of HK\$0.15 per share (already paid), the aggregate dividend for the year is HK\$0.48 per share (2013: HK\$0.31 per share).

The final dividend, subject to shareholders' approval at the forthcoming annual general meeting, is expected to be paid on or about Wednesday, 24 June 2015 to those shareholders whose names appeared on the register of members of the Company on Monday, 8 June 2015.

Closure of Register of Members

The register of members of the Company will be closed from Thursday, 21 May 2015 to Wednesday, 27 May 2015, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for attendance of the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 20 May 2015.

The register of members of the Company will also be closed from Thursday 4 June 2015 to Monday, 8 June 2015, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 3 June 2015.

Loan Facilities with Covenants Relating to Specific Performance of the Controlling Shareholder

The Company entered into a facility letter on 27 December 2012 as further amended, modified and supplemented on 20 November 2013 pursuant to which an independent third party bank agreed to grant a term loan facility of up to US\$100 million (or equivalent in HK\$) for a term up to 27 December 2015. Under the said facility letter, it will be an event of default if China Everbright Holdings Company Limited ("CEHCL") ceases to be the single largest shareholder of the Company. Upon the occurrence of the above event, the said facilities together with all accrued interest and any other amounts accrued under the said facilities may become immediately due and payable.

On 6 November 2013, the Company entered into a facility letter pursuant to which an independent third party bank agreed to grant (i) a revolving loan and term loan of up to HK\$300 million (or its equivalent in the United States dollars) and (ii) an uncommitted revolving loan and term loan of up to HK\$1.2 billion (or its equivalent in the United States dollars) for a period of three years from the signing date of the said facility letter. Under the said facility letter, it will be an event of default if CEHCL ceases to have the single largest shareholding interest in the Company. Upon the occurrence of the above event, the said facilities together with all accrued interest and any other amounts accrued under the said facilities may become immediately due and payable.

DIRECTORS' REPORT (CONTINUED)

On 12 September 2014, the Company entered into a facility agreement pursuant to which a syndicate of banks agreed to grant a four-year transferable term loan facility in an aggregate principal amount of US\$150,000,000 (equivalent to approximately HK\$1,164,000,000). Under the said facility agreement, it will be an event of default if CEHCL (i) does not or ceases to beneficially own, directly or indirectly, at least 45% of the total issued share capital of the Company or (ii) is not or ceases to be the largest controlling shareholder of the Company. If an event of default under the said facility agreement occurs, the agent acting for the lending banks may, and shall if so directed by two-thirds of the lending banks, by written notice to the Company terminate the facilities and/or declare that all or part of the loans made under the facilities together with accrued interest and all other amounts accrued or outstanding under the said facility agreement be immediately due and payable.

On 30 September 2014, the Company entered into a facility agreement pursuant to which an independent third party bank agreed to grant a term loan of up to 150 million Singapore dollars (equivalent to approximately 918 million Hong Kong dollars) for a term not exceeding 3 years. Under the said facility agreement, it will be an event of default if (i) CEHCL ceases to beneficially own, directly or indirectly, not less than 45% of the total issued share capital of the Company; or (ii) CEHCL ceases to be beneficially wholly-owned, directly or indirectly, by a state body of the People's Republic of China. If an event of default under the said facility agreement occurs, the bank may by notice to the Company terminate the facilities and/or declare that all or part of the loans made under the facilities together with accrued interest and all other amounts accrued or outstanding under the said facility agreement be immediately due and payable.

On 15 December 2014, the Company entered into a supplemental facility letter with an independent third party bank pursuant to which the bank agreed to grant a renewed committed revolving loan and/or standby letters of credit of up to US\$50 million (or its equivalent in HK\$) to the Company for a term up to 31 December 2015. Under the said supplemental facility letter, it will be an event of default if CEHCL ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities under the said supplemental facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 15 December 2014, the Company entered into another facility letter pursuant to which an independent third party bank agreed to grant a committed revolving loan of up to US\$220 million (or its equivalent in HK\$ or RMB) to the Company with maturity date falling 12 months from the date of first drawdown. Under the said facility letter, it will be an event of default if CEHCL ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

As at 31 December 2014, the circumstances giving rise to the obligations under Rules 13.18 of the Listing Rules continued to exist.

By order of the Board
China Everbright Limited
Tang Shuangning
Chairman

Hong Kong, 30 March 2015

DIRECTORS AND SENIOR MANAGEMENT

Director

Mr. Tang Shuangning

Chairman

Mr. Tang Shuangning, aged 60, the Chairman of the Board of the Group. Mr. Tang is the representative of the 12th National People's Congress and the Vice-chairman of the Agriculture and Rural Affairs Committee of the 12th National People's Congress. Mr. Tang is also the Chairman of China Everbright Group Ltd., China Everbright Holdings Company Limited and China Everbright Bank Company Limited (stock code: SH 601818, HK 6818). He is also a director of Everbright Securities Company Limited (stock code: SH 601788) and Sun Life Everbright Insurance Company Limited and the Chairman of China Everbright International Limited (stock code: HK 257). He serves as the Vice Chairman of the China Society for Finance and Banking and the Consultant of the China Society for Investment. Prior to joining the China Everbright Group, Mr. Tang was the Vice Chairman of the China Banking Regulatory Commission, the Director-General of the Banking Supervision Department I, the Director-General of the Currency, Gold and Silver Bureau and the Director-General of the Credit Management Division of the People's Bank of China. He holds a Master's Degree in Economics from China North-east University of Finance & Economics. Mr. Tang has extensive knowledge and experience in banking and finance management. He joined the Board in July 2007.

Dr. LIU Jun

Deputy Chairman

Dr. LIU Jun, aged 43, is the Deputy Chairman of the Board of the Group and the Chairman of the Executive Committee, as well as a member of the Remuneration Committee, the Nomination Committee and the Strategy Committee of the Group. Dr. Liu is the Deputy General Manager of China Everbright Group Ltd., the Vice-chairman of China Everbright Holdings Company Limited. Dr. Liu is the Chairman of Sun Life Everbright Life Insurance Company Limited. He is also the Vice-chairman of China Everbright International Limited (stock code: HK 257). Dr. Liu is a member of the Eleventh Committee of the All-China Youth Federation, a standing member of the Fourth Committee of the Youth Federation of the Central Government, the Vice President of the Second Committee of All-China Financial Youth Federation, and the Chairman of Financial Derivatives Professional Committee of National Association of Financial Market Institutional Investors. He holds a Master's Degree in Business Administration from Northeastern State University of Oklahoma U.S.A. and a Doctorate's Degree in Business Administration from the Hong Kong Polytechnic University. He holds the title of Senior Economist. He was formerly the Executive Vice President of China Everbright Bank Company Limited. He joined the Board in August 2014.

Mr. Chen Shuang

Chief Executive Officer

Mr. Chen Shuang, aged 47, is a member of the Executive Committee and the Strategy Committee of the Board, the Chief Executive Officer and the Chairman of the Management Decision Committee of the Group. He is responsible for the overall operation of the Group. Mr. Chen is also an executive director and deputy general manager of China Everbright Holdings Company Limited, an independent director of Noah Holdings Limited (stock code: NOAH.N) and the Chairman and Non-executive director of China Aircraft Leasing Group Holdings Limited (stock code: HK 1848). Mr. Chen was a director of Everbright Securities Company Limited (stock code: SH 601788) from August 2007 to October 2014. He was a supervisor of China Everbright Bank Company Limited (stock code: SH 601818, HK 6818) from December 2007 to October 2014. He was an independent non-executive director of China Nonferrous Mining Corporation Limited (stock code: HK 1258) from June 2012 to August 2014. He is currently a non-official member of Financial Services Development Council, the Honorary Chairman of Chinese Financial Association of Hong Kong, the Vice-Chairman of Chinese Securities Association of Hong Kong and the visiting professor of East China University of Political Science and Law. Mr. Chen holds a Master of Laws Degree from East China University of Political Science and Law and a Diploma in Legal Studies from the School of Professional and Continuing Education of the University of Hong Kong. He is a qualified lawyer in the PRC and a senior economist. Prior to joining China Everbright Group, Mr. Chen was the Chief of the Legal Department of Bank of Communications. He has over 22 years of extensive experience in commercial banking and investment banking. He joined the Board in August 2004.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Tang Chi Chun, Richard

Chief Financial Officer

Mr. Tang Chi Chun, Richard, aged 53, is the Chief Financial Officer of the Group. He has overall responsibility for supervising the financial resources planning, allocation and control. Mr. Tang is a member of Executive Committee of the Board. Mr. Tang is a Non-executive director of China Aircraft Leasing Group Holdings Limited (stock code: HK 1848). He was a director of Everbright Securities Company Limited (stock code: SH 601788) from February 2008 to January 2011. Mr. Tang is a Certified Public Accountant and is a graduate of the Accountancy Department, at the Hong Kong Polytechnic. He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a founding member of Hong Kong Business Accountants Association. He has over 20 years of experience in audit, investment, accounting and finance. Since 1990, Mr. Tang had been engaged as department head of the financial and business operations of various international financial institutions. He joined the Group in September 2005 and joined the Board in July 2007.

Mr. Jiang Yuanzhi

Executive Director

Mr. Jiang Yuanzhi, aged 47, is the Chief Investment Officer of the Group, and a member of the Executive Committee and the Strategy Committee of the Company. Mr. Jiang was the Deputy President of China Everbright Bank Shenzhen Branch prior to joining our Group. He was formerly the General Manager of the Investment Banking Department of China Construction Bank Shenzhen Branch, the Chief Representative of China Construction Bank New York Representative Office and the Assistant General Manager of the International Business Department of China Construction Bank Guangdong Branch. He holds a Master's Degree in Business Administration from New York University Stern Business School and a Master's Degree in British Literature from Shandong University. Mr. Jiang has extensive knowledge and experience in banking and finance management. Mr. Jiang joined the Board in June 2010.

Mr. Wang Weimin

Non-executive Director

Mr. Wang Weimin, aged 55, is a non-executive director of the Company, and a member of the Strategy Committee of the Company. Mr. Wang is also the Vice President of Everbright Securities Company Limited. He was the Vice Section Chief of the Stock Trading Section of Chengdu branch of Bank of Communications, the Manager of the Stock Trading Section of Chengdu branch of Hai Tong Securities, the Manager of Human Resources Section of Hai Tong Securities and the General Manager of the Stock Trading Section of the headquarter of Hai Tong Securities. Mr. Wang holds a Master's Degree in Business Administration for Senior Managers from Shanghai Jiaotong University. Mr. Wang has extensive knowledge and rich experience in securities, financial and corporate management. Mr. Wang joined the Board in June 2008.

Mr. Seto Gin Chung, John

Independent Non-executive Director

Mr. Seto Gin Chung, John, aged 66, is an independent non-executive director and the Chairman of the Strategy Committee and Remuneration Committee of the Company. He is also a member of the Audit and Risk Management Committee and Nomination Committee. Mr. Seto is a director of Pacific Eagle Asset Management Limited. He is also an independent non-executive director of Kowloon Development Company Limited (stock code: HK 34) and vice chairman and independent non-executive director of Hop Hing Group Holding Limited (stock code: HK 47). Mr. Seto was a non-executive director of Sateri Holdings Limited (stock code: HK 1768) from 2010 to 2013. He was an independent director of Everbright Securities Company Limited, a company incorporated in PRC, from 2005 to 2007. He was the Chief Executive Officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a non-executive director of Hong Kong Exchanges and Clearing Limited (stock code: HK 388) from 2000 to 2003, a council member of the Stock Exchange of Hong Kong from 1994 to 2000, and was the first vice chairman of the Stock Exchange of Hong Kong from 1997 to 2000. He holds a Master of Business Administration degree from New York University, USA and has over 36 years of experience in the securities and futures industry. Mr. Seto joined the Board in April 2003.

Dr. Lin Zhijun

Independent Non-executive Director

Dr. Lin Zhijun, aged 60, is an independent non-executive director and the Chairman of the Nomination Committee of the Company. He is also a member of the Audit and Risk Management Committee, Remuneration Committee and Strategy Committee. Dr. Lin is the Dean of the School of Business in Macau University of Science and Technology. During August 1998 to December 2014, he was a Professor and Head of the Department of Accountancy and Law in Hong Kong Baptist University. He is also an independent non-executive director of Sinotruk (Hong Kong) Limited (Stock Code: HK 3808) and SpringLand International Limited (stock code: HK 1700). Dr. Lin was an independent non-executive director of Zhengzhou Coal Mining Machinery Group Company Limited (stock code: HK 564) from February 2012 to April 2014. All are listed on the Stock Exchange of Hong Kong Limited. Dr. Lin holds a Master's degree in Science in Accounting from University of Saskatchewan in Canada and a Doctorate's degree in Economics (Accounting) from Xiamen University. Dr. Lin worked as a Visiting Professor in The University of Hong Kong and Tenured Professor in the Faculty of Management of Lethbridge University in Canada. Dr. Lin worked at the Toronto office of an international accounting firm (now known as "Deloitte") in 1982-1983 and he had also been a professional consultant to an international law firm. Dr. Lin is also a member of the American Institute of Certified Public Accountants, the Chinese Institute of Certified Public Accountants and the Australian Institute of Certified Management Accountants. He is a member of various educational accounting associations including the American Accounting Association, the International Association for Accounting Education and Research and the Hong Kong Association for Accounting Education. Dr. Lin is also an author of a series of professional articles and books. Dr. Lin joined the Board in September 2005.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Dr. Chung Shui Ming, Timpson

Independent Non-executive Director

Dr. Chung Shui Ming, Timpson, aged 63, is a member of the National Committee of the 12th Chinese People's Political Consultative Conference. He is also the Chairman of the Advisory Committee on Arts Development. Besides, Dr. Chung is an Independent Non-Executive Director of China Unicom (Hong Kong) Limited (stock code: HK 762), Glorious Sun Enterprises Limited (stock code: HK 393), Henderson Land Development Company Limited (stock code: HK 12), Miramar Hotel and Investment Company, Limited (stock code: HK 71), China Overseas Grand Oceans Group Limited (stock code: HK 81), China Construction Bank Corporation (stock code: HK 939) and Jinmao (China) Investments Holdings Limited (stock code: HK 6139). Dr. Chung is also an Independent Director of China State Construction Engineering Corporation Limited (stock code: SH 601668). From March 2006 to March 2013, Dr. Chung served as an independent non-executive director of Nine Dragons Paper (Holdings) Limited (stock code: HK 2689). From September 2006 to January 2013, Dr. Chung served as an independent director of China Everbright Bank Company Limited (stock code: SH 601818, HK 6818). Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of the Hong Kong Special Administrative Region, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority and a member of the Disaster Relief Fund Advisory Committee. Dr. Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree in business administration from the Chinese University of Hong Kong. Dr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Dr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants. Dr. Chung joined the Board in August 2012.

Senior Management

Mr. Tsang Sui Cheong, Frederick

Mr. Tsang Sui Cheong, Frederick, aged 55, is the Chief Risk Officer of the Group and a member of the Management Committee. He is in charge of the group's risk matters. Mr. Tsang is a Chartered Financial Analyst and has been a director of The Hong Kong Society of Financial Analysts Limited since 2001. Currently, Mr. Tsang is a member of the Securities and Futures Appeals Tribunal, as well as a member of the Hong Kong Securities and Futures Commission's (SFC) Advisory Committee. He is a holder of Bachelor's degree in Arts and Master's degree in Arts, majored in Economic and Finance. Mr. Tsang joined the Group in February 2000. He has over 30 years of experience in the financial industry.

Mr. Yin Lianchen

Mr. Yin Lianchen, aged 49, is the Chief Investment Officer of the Group and a member of the Management Decision Committee, in charge of the Macquarie Everbright Infrastructure Fund and Shandong Hi-Speed Everbright Industrial Fund. Mr. Yin was the Officer of the Beijing Head office of China Everbright Group Limited, prior to joining our Group. He was formerly the Vice President of Beijing Yonder Environment Engineering Company Limited and the Chief Representative of China of Moody's KMV. He was the General Manager of the Human Resource and Corporate Administration Department, the Director of Corporate Communications Department and Managing Director of the Insurance Brokerage Department successively of the Group from 2002 to 2006. He was also worked for several key positions in People's Bank of China Headquarter from 1990 to 2001. Mr. Yin holds a Bachelor Degree of Management and Master Degree of Accounting from Tianjin Nankai University. Mr. Yin has rich experience in financial and corporate management. Mr. Yin joined the Group in March 2011.

Ms. Wong Tung Hung

Ms. Wong Tung Hung, aged 46, is the Chief Administration Officer of the Group and a member of Management Decision Committee, mainly responsible for management of human resources, information technology and corporate administration of the Group. She has extensive human resources and administration experience in both China and Hong Kong and has been working in the Group for more than 17 years. Ms. Wong holds a Bachelor degree in Arts from Fudan University. Prior to joining the Group, Ms. Wong worked in several well-known mass media in both China and Hong Kong.

Mr. Yang Ping

Mr. Yang Ping, age 45, is the Chief Investment Officer and the member of Management Decision Committee of the Company. He is in charge of Asset Management business of Secondary Market Investment. Previously, he was responsible for the establishment, investment and management of Macquarie Everbright Greater China Infrastructure Fund and Everbright Ashmore China Real Estate Fund. Before joining China Everbright Limited, he served as Head of the Research Institute of China Southern Securities Co. Ltd. and a Private Equity fund in China, where he was responsible for macro-industry & company research, investment of the PE fund and achieved excellent performance. The restructuring project Xiang Zhong Yi (now renamed as Hunan Investment) conducted by Mr. Yang was the first ST listed company “whole restructuring” case in China and was ranked Top Ten Influential Restructuring Case by Security News in 1999. He received a PhD degree in Economics from The Shanghai Academy of Social Sciences and Bachelor degree of Law from East China University of Political Science and Law. Mr. Yang has over 17 years’ experience in securities research and asset management. Mr. Yang joined the Group in December 2007.

Company Secretary

Mr. Chan Ming Kin, Desmond

Mr. Chan Ming Kin, Desmond, aged 45, is the General Counsel and Company Secretary of the Group and in charge of Legal, Compliance and Company Secretarial Department. He is a member of the Board of Directors of Everbright Securities Company Limited (stock code: SH 601788). Mr. Chan holds a Bachelor of Laws degree and a Postgraduate Certificate in Laws of the University of Hong Kong. He also holds a Master of Corporate Governance degree of the Hong Kong Polytechnic University. As a qualified solicitor in Hong Kong, Mr. Chan has more than 19 years experience in private practice and as an in-house counsel. Mr. Chan is also a Fellow of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

INDEPENDENT AUDITOR'S REPORT



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA EVERBRIGHT LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Everbright Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 88 to 166, which comprise the consolidated and Company balance sheets as at 31 December 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
Turnover	4	6,622,673	8,157,205
Operating income	4	1,687,610	1,161,872
Other net income	4	1,312,332	1,137,504
Staff costs	5	(274,362)	(281,188)
Depreciation expenses	14	(21,973)	(20,625)
Impairment loss on available-for-sale securities		(191,374)	(21,150)
Impairment loss on amount due from an investee company		(12,125)	(2,016)
Impairment loss on debtors, deposits and prepayments		(154,000)	(57,000)
Other operating expenses		(547,424)	(252,485)
Profit from operations	6	1,798,684	1,664,912
Finance costs	7	(220,712)	(108,460)
Share of profits less losses of associates, as per the associates' financial statements	16(b)	1,068,934	121,581
Share of profits less losses of joint ventures, as per the joint ventures' financial statements	17(b)	152,222	93,522
Gain on deemed disposal of interest in a joint venture	16(b)	139,654	–
Adjustments to share of profits less losses to conform with the Group's accounting policies	2(b)	33,385	28,085
Profit before taxation		2,972,167	1,799,640
Income tax	9	(88,896)	(51,742)
Profit for the year		2,883,271	1,747,898
Profit attributable to equity shareholders of the Company		2,559,688	1,346,548
Non-controlling interests		323,583	401,350
Profit for the year		2,883,271	1,747,898
Basic and diluted earnings per share	13	HK\$1.514	HK\$0.783

The notes on pages 95 to 166 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 11.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Profit for the year		2,883,271	1,747,898
Other comprehensive income for the year (after tax and reclassification adjustments):			
Items that will not be reclassified subsequently to income statement			
– Share of other comprehensive income of a joint venture, as per the joint venture's financial statements		–	(8,471)
Items that may be reclassified subsequently to income statement			
– Net movement in investment revaluation reserve of available-for-sale securities		5,003,018	(493,782)
– Share of other comprehensive income of associates, as per the associates' financial statements		442,948	356,558
– Share of other comprehensive income of joint ventures, as per the joint ventures' financial statements		(1,410)	–
– Adjustments to share of other comprehensive income of associates and joint ventures to conform with the Group's accounting policies		(172,549)	(36,277)
– Exchange reserve		(292,932)	72,755
	12	4,979,075	(109,217)
Total comprehensive income for the year		7,862,346	1,638,681
Attributable to:			
Equity shareholders of the Company		7,220,633	1,173,839
Non-controlling interests		641,713	464,842
Total comprehensive income for the year		7,862,346	1,638,681

The notes on pages 95 to 166 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Notes	Group		Company	
		31 December 2014 HK\$'000	31 December 2013 HK\$'000	31 December 2014 HK\$'000	31 December 2013 HK\$'000
Non-current assets					
Fixed assets	14	565,022	574,979	18	33
Investments in subsidiaries	15(a)	-	-	3,526,492	2,961,656
Amounts due from subsidiaries	15(b)	-	-	6,491,478	4,493,548
Amounts due from investee companies	19	523,070	159,469	-	-
Investments in associates	16(a)	12,459,124	10,684,673	1,784,192	1,784,192
Investments in joint ventures	17(a)	574,328	721,404	-	-
Available-for-sale securities	18	19,008,521	13,042,551	9,558,192	5,709,762
Financial assets designated at fair value through profit or loss	19	7,102,424	3,328,790	-	-
Advances to customers	20	782,334	241,765	-	-
		41,014,823	28,753,631	21,360,372	14,949,191
Current assets					
Financial assets designated at fair value through profit or loss	19	468,938	-	-	-
Advances to customers	20	4,109,403	2,294,352	-	-
Amounts due from subsidiaries	15(b)	-	-	5,353,532	872,688
Amount due from an investee company		-	9,542	-	-
Amount due from an associate	16(d)	19,321	19,818	-	-
Amounts due from joint ventures	17(c)	3,995	4,435	-	-
Debtors, deposits and prepayments	21	1,194,684	1,558,192	31,577	124,562
Trading securities	22	1,357,918	649,822	-	-
Cash and cash equivalents	23	4,465,289	3,764,978	62,461	6,124
		11,619,548	8,301,139	5,447,570	1,003,374
Current liabilities					
Amounts due to subsidiaries	15(c)	-	-	(675,015)	(298,237)
Amount due to an investee company	15(d)	(78,969)	(80,339)	-	-
Amount due to a joint venture	17(d)	(494)	(2,197)	-	-
Trading securities	22	(327,637)	(256,921)	-	-
Bank loans	24	(4,996,065)	(2,009,663)	(3,745,565)	(452,232)
Amount due to a fellow subsidiary and shareholder	25	(500,000)	(500,000)	-	-
Creditors, deposits received and accrued charges	26	(1,025,892)	(749,835)	(5,707)	(7,263)
Financial liabilities designated at fair value through profit or loss		-	(7,268)	-	-
Other financial liabilities	33(b)	(3,234,796)	-	-	-
Notes payable	27	(27,000)	(47,000)	-	-
Provision for taxation	28(a)	(207,078)	(302,561)	-	-
		(10,397,931)	(3,955,784)	(4,426,287)	(757,732)
Net current assets		1,221,617	4,345,355	1,021,283	245,642
Total assets less current liabilities		42,236,440	33,098,986	22,381,655	15,194,833

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

	Notes	Group		Company	
		31 December 2014 HK\$'000	31 December 2013 HK\$'000	31 December 2014 HK\$'000	31 December 2013 HK\$'000
Non-current liabilities					
Amount due to a subsidiary		-	-	-	(378,791)
Bank loans	24	(3,589,936)	(1,085,274)	(3,538,285)	(516,843)
Notes payable	27	(30,000)	-	-	-
Deferred tax liabilities	28(b)	(425,918)	(284,799)	(147,431)	(97,051)
		(4,045,854)	(1,370,073)	(3,685,716)	(992,685)
NET ASSETS		38,190,586	31,728,913	18,695,939	14,202,148
CAPITAL AND RESERVES					
Share capital: nominal value	29	-	1,720,100	-	1,720,100
Other statutory capital reserves		-	7,897,997	-	7,897,997
Share capital and other statutory capital reserves	29	9,618,097	9,618,097	9,618,097	9,618,097
Other reserves	30	25,356,033	19,085,890	9,077,842	4,584,051
Total equity attributable to equity shareholders of the Company		34,974,130	28,703,987	18,695,939	14,202,148
Non-controlling interests		3,216,456	3,024,926	-	-
TOTAL EQUITY		38,190,586	31,728,913	18,695,939	14,202,148

Approved and authorised for issue by the Board of Directors on 30 March 2015 and signed on behalf of the Board by:

Tang Shuangning
Director

Chen Shuang
Director

The notes on pages 95 to 166 from part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to equity shareholders of the Company											Non-controlling interests	Total equity
	Notes	Share capital	Share premium	Option premium reserve	Investment revaluation reserve	Capital redemption reserve	Goodwill reserve	Capital reserve	Exchange reserve	Retained earnings	Total		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
As at 1 January 2013		1,720,562	7,890,967	688	5,769,065	6,568	(668,499)	182,900	1,689,274	11,520,477	28,112,002	1,844,277	29,956,279
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	715,807	715,807
Transfer of available-for-sale securities by the Company to Social Security Fund	31(viii)	-	-	-	(99,260)	-	-	-	-	(30,712)	(129,972)	-	(129,972)
Share repurchased		(462)	-	-	-	462	-	-	-	(4,587)	(4,587)	-	(4,587)
Dividends paid	11	-	-	-	-	-	-	-	-	(447,295)	(447,295)	-	(447,295)
Profit for the year		-	-	-	-	-	-	-	-	1,346,548	1,346,548	401,350	1,747,898
Other comprehensive income for the year		-	-	554	(510,996)	-	-	-	337,733	-	(172,709)	63,492	(109,217)
As at 31 December 2013 and 1 January 2014		1,720,100	7,890,967	1,242	5,158,809	7,030	(668,499)	182,900	2,027,007	12,384,431	28,703,987	3,024,926	31,728,913
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	(450,183)	(450,183)
Transfer of available-for-sale securities by the Company to Social Security Fund	31(viii)	-	-	-	(5,895)	-	-	-	-	(2,115)	(8,010)	-	(8,010)
Share repurchased	29 (b)	(34,846)	-	-	-	34,846	-	-	-	(352,641)	(352,641)	-	(352,641)
Transition to no-par value regime on 3 March 2014	29 (a)	7,932,843	(7,890,967)	-	-	(41,876)	-	-	-	-	-	-	-
Dividend paid	11	-	-	-	-	-	-	-	-	(589,839)	(589,839)	-	(589,839)
Profit for the year		-	-	-	-	-	-	-	-	2,559,688	2,559,688	323,583	2,883,271
Other comprehensive income for the year		-	-	-	4,952,575	-	-	-	(291,630)	-	4,660,945	318,130	4,979,075
As at 31 December 2014		9,618,097	-	1,242	10,105,489	-	(668,499)	182,900	1,735,377	13,999,524	34,974,130	3,216,456	38,190,586

The notes on pages 95 to 166 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

	Notes	2014 HK\$'000	2013 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	39	(2,982,224)	(62,307)
INVESTING ACTIVITIES			
Purchase of fixed assets		(6,650)	(16,458)
Proceeds from disposal of fixed assets		–	20
Proceeds from partial disposal of a joint venture		31,263	5,956
Decrease/(increase) in deposits pledged		208,537	(667,576)
Purchase of available-for-sale securities		(2,657,426)	(1,914,042)
Purchase of financial assets designated at fair value through profit or loss		(3,937,566)	(1,588,511)
Increase in other financial liabilities		3,102,639	–
Investment in an associate		(58,773)	(229,695)
Proceeds from losing control of subsidiaries		407,494	–
Proceeds from acquisition of subsidiaries net of cash acquired		77,877	–
Investment in joint ventures		(182,952)	(192,179)
Proceeds from disposal of available-for-sale securities		1,627,578	1,544,885
Proceeds from disposal of financial assets designated at fair value through profit or loss		271,006	127,220
Proceeds from disposal of an associate		–	39,127
Bank interest received		51,458	50,636
Dividends from investments in securities		665,112	573,705
Dividend from an associate		28,402	132,188
Dividend from a joint venture		30,450	9,228
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(341,551)	(2,125,496)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(3,323,775)	(2,187,803)
FINANCING ACTIVITIES			
Issue of shares in subsidiaries to non-controlling shareholders		456,597	875,045
Redemption of shares by non-controlling shareholders		(9,914)	(153,912)
Shares repurchased		(352,641)	(4,587)
Proceeds from bank loans		8,839,297	3,035,382
Proceeds from loan from a fellow subsidiary and shareholder		–	1,000,000
Repayment of loan from a fellow subsidiary and shareholder		–	(500,000)
Proceeds from notes payable		10,000	–
Repayment of bank loans		(3,348,233)	(991,638)
Repurchase of notes payable		–	(209,903)
Dividend paid to non-controlling shareholders		(734,453)	(5,318)
Dividends paid		(589,839)	(447,295)
NET CASH INFLOW FROM FINANCING ACTIVITIES		4,270,814	2,597,774
NET INCREASE IN CASH AND CASH EQUIVALENTS		947,039	409,971
CASH AND CASH EQUIVALENTS			
Beginning of year		2,833,707	2,401,106
Exchange rate adjustments		(38,191)	22,630
End of year		3,742,555	2,833,707
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash – general accounts	23	4,465,289	3,764,978
Deposits pledged	23	(722,734)	(931,271)
End of year	23	3,742,555	2,833,707

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2014

Net cash acquired in obtaining Control of a Subsidiary

During the year, the Group obtained control of a subsidiary. The fair value of assets acquired and liabilities assumed were as follows:

	2014 HK\$'000
Net assets acquired:	
Cash at bank	188,324
Accrued charges	(33)
Net assets acquired:	188,291
Share of net assets by non-controlling interests	(83,978)
Goodwill on acquisition	6,134
Consideration paid in cash	110,447
Less: Cash and cash equivalents of subsidiary acquired	(188,324)
Net cash acquired in obtaining control of a subsidiary	(77,877)

Losing Control of Subsidiaries

During the year, the Group lost control of several subsidiaries and recognised the remaining interests as investments in associates which were exempted from applying the equity method and were recognised as financial assets designated at fair value through profit or loss. The fair value of assets and liabilities disposed of were as follows:

	2014 HK\$'000
Proceeds from losing control of subsidiaries	407,953
Less: Cash of subsidiaries	(459)
Net proceeds from losing control of subsidiaries	407,494
Less: Other debtors and prepayment	(507,405)
Add: Creditors, deposit received and accrued charges	630
	(99,281)
Add: Associates exempted from applying the equity method and were recognised as a financial assets designated at fair value through profit or loss	100,099
Gain on losing control of subsidiaries	818

The notes on pages 95 to 166 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Activities

China Everbright Limited (the “Company”) is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. The Company issued various announcements in respect of the restructuring (the “Restructuring”) of the holding companies of the Company on 1 August 2014, 10 November 2014, 25 November 2014 and 8 December 2014. Upon completion of the Restructuring, the directors of the Company consider China Investment Corporation, a company incorporated in PRC, to be the ultimate holding company of the Company and Honorich Holdings Limited, a company incorporated in the British Virgin Islands, to be the immediate holding company of the Company. Neither of them provides financial statements for public use.

The principal activity of the Company is investment holding. The Company, through its subsidiaries and associates, is principally engaged in investment activities and the provision of financial services.

2. Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and joint ventures.

The measurement basis used in preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2(h));
- financial instruments classified as trading, financial assets designated at fair value through profit or loss, available-for-sale securities or financial liabilities designated at fair value through profit or loss (note 2(f)); and
- derivative financial instruments (note 2(g)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(b) Basis of preparation of the financial statements *(continued)*

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 41.

The adjustments made to the financial information of associates and joint ventures to conform them to the Group's accounting policies are disclosed separately in the consolidated income statement and consolidated statement of comprehensive income.

Management of the Group believes that such presentations are more informative to users of the financial statements.

(c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests are presented as financial liabilities in the consolidated balance sheet.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(c) Subsidiaries and non-controlling interests *(continued)*

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see note 2(d)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)).

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as, when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Involvement with unconsolidated structured entities is disclosed in Note 36.

(d) Associates and joint ventures

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note 2(l)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(d) Associates and joint ventures *(continued)*

When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund and similar entities, such investment is measured at fair value through profit or loss in the Group's consolidated balance sheet.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the Company's balance sheet, investments in associates and joint venture are stated at cost less impairment losses (see note 2(l)).

(e) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)). In respect of associates or joint ventures, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or joint venture and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (note 2(l)).

On disposal of a cash generating unit, an associate or a joint venture during the year, any attributable amount of purchased goodwill is included in the calculation of the gain or loss on disposal.

Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against goodwill reserves. Such goodwill is released from goodwill reserves to retained earnings when all or part of the business to which the goodwill is related to is disposed.

(f) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Trading debt and equity securities are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified debt and equity securities that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Investments in debt and equity securities are designated at fair value through profit or loss upon initial recognition when these financial instruments are managed, evaluated and reported internally on a fair value basis, or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(f) Other investments in debt and equity securities *(continued)*

Debt and equity securities under this category are carried at fair value and are not generally allowed to be reclassified into or out of this category while held or issued. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

Other investments in debt and equity securities are classified as available-for-sale securities and are initially recognised at fair value plus attributable transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve, except for impairment losses (see note 2(l)). As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the consolidated balance sheet at cost less impairment losses (see note 2(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(s)(iv) and (v), respectively.

When these investments are derecognised or impaired (see note 2(l)), the cumulative gain or loss previously is reclassified from equity to profit or loss. Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(h) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 2(k)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated at fair value at the end of the reporting period. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 2(s)(iii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(k)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(k).

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(i) Other property and equipment

The following items of property and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(l)):

- interests in leasehold land held for own use;
- buildings held for own use which are situated on leasehold land, where the fair value could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 2(k)); and
- other items of equipment comprising leasehold improvements, furniture, fixtures and equipment, and motor vehicles.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Depreciation

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

- Interest in leasehold land held for own use is depreciated over the unexpired term of lease
- Buildings situated on leasehold land are depreciated over the shorter of unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of purchase
- Leasehold improvements 5 years
- Furniture, fixtures and equipment 5 years
- Motor vehicles 5 years

Where parts of an item of property and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(k) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

- Property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 2(h)).

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(k) Leased assets *(continued)*

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 2(h)).

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect of the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(l) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that had been recognised in the investment revaluation reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.
- Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in the investment revaluation reserve.
- Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- Property and equipment (other than properties carried at revalued amount);
- Pre-paid interests in leasehold land classified as being held under an operating lease;
- Intangible assets;
- Investments in subsidiaries, associates and joint ventures in the Company's balance sheet; and
- Goodwill.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(m) Accounts receivable and other receivables

Accounts receivable and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less impairment losses for bad and doubtful debts (see note 2(l)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(l)).

(n) Accounts payable and other payables

Accounts payable and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) Employee benefits

(i) *Short term employee benefits and contributions to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movement in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(q) Income tax *(continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

Dividend and interest income received by the Company or the Group may be subject to withholding tax imposed in the country of origin. Dividend and interest income is recorded gross of such taxes and the corresponding withholding tax is recognised as tax expense.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Consultancy and management fee income*

Consultancy and management fee are recognised when services are rendered.

(ii) *Sale of trading securities*

Gains or losses on sale of trading securities are recognised on a trade date basis when the relevant transactions are executed.

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) *Dividend income*

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend. Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(t) Translation of foreign currencies *(continued)*

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

NOTES TO THE FINANCIAL STATEMENTS

2. Significant Accounting Policies *(continued)*

(w) Segment reporting *(continued)*

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3. Changes in Accounting Policies

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The impacts of these developments are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit which recoverable amount is based on fair value less costs of disposal. The expanded disclosure are set out in note 16.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

4. Turnover, Operating Income and Other Net Income

Turnover from operations represents the aggregate of service fee income, interest income, dividend income, gross rental income from investment properties and gross sale proceeds from disposal of trading securities of secondary market investments.

Operating income and other net income recognised during the year are as follows:

	2014 HK\$'000	2013 HK\$'000
Operating income		
Consultancy and management fee income	409,860	303,542
Interest income on financial assets not at fair value through profit or loss		
– bank deposits	51,458	50,636
– advances to customers	350,404	207,946
– unlisted debt securities	52,335	24,265
Dividend income		
– listed investments	399,185	182,974
– unlisted investments	316,606	391,236
Net realised gain/(loss) on trading securities		
– equity securities	59,449	27,133
– debt securities	2,603	(261)
– derivatives	5,394	(2,690)
Net unrealised gain/(loss) on trading securities		
– equity securities	55,683	11,957
– debt securities	(22,653)	(38,150)
– derivatives	1,930	193
Gross rental income	5,356	3,091
	1,687,610	1,161,872
Other net income		
Net realised gain on disposal of available-for-sale securities	519,698	758,754
Net realised gain/(loss) on disposal of financial assets designated at fair value through profit or loss	32,474	(445)
Net realised gain on disposal of financial liabilities designated at fair value through profit or loss	–	5,131
Net unrealised gain on financial assets designated at fair value through profit or loss	685,366	368,464
Gain on losing control of subsidiaries	818	–
Gain on disposal of fixed assets	–	20
Reversal of impairment loss on amount due from an investee company	–	62,661
Realised gain on disposal of an associate	–	960
Realised gain on disposal of a joint venture	–	5,956
Realised loss on note payable	–	(101,363)
Net exchange gain	285	4,954
Net surplus on revaluation of investment properties	5,500	2,470
Others	68,191	29,942
	1,312,332	1,137,504

NOTES TO THE FINANCIAL STATEMENTS

5. Staff Costs

	2014 HK\$'000	2013 HK\$'000
Salaries, bonuses and allowances	251,820	261,298
Staff welfare and insurance	11,173	11,740
Staff training and recruitment	9,407	6,387
Pension costs – mandatory provident fund and defined contribution plans	1,962	1,763
	274,362	281,188

6. Profit from Operations

Profit from operations is stated after charging the following:

	2014 HK\$'000	2013 HK\$'000
Operating lease rentals in respect of rented premises	7,658	5,503
Auditors' remuneration	8,564	8,449
Impairment loss on goodwill	9,751	–

7. Finance Costs

	2014 HK\$'000	2013 HK\$'000
Interest on bank loans	220,712	108,460

Effective interest rate of bank loans was approximately 2.84% per annum (note 37(c)) as of 31 December 2014.

NOTES TO THE FINANCIAL STATEMENTS

8. Directors' and Five Highest Paid Individuals' Emoluments

(a) Directors' emoluments:

Directors' remuneration disclosed pursuant to section 78 of schedule 11 to the new Hong Kong Companies Ordinance (Cap.622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32) is as follows:

For the year ended 31 December 2014

	Directors' fee HK\$'000	Salaries, allowances and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2014 Total HK\$'000
<i>Executive directors</i>					
Tang Shuangning	-	140	-	-	140
Liu Jun (note 1)	-	85	-	-	85
Zang Qiutao (note 2)	-	95	-	-	95
Chen Shuang	-	2,048	7,000	-	9,048
Tang Chi Chun, Richard	-	1,583	4,100	17	5,700
Jiang Yuanzhi	-	1,348	2,900	-	4,248
<i>Non-executive director</i>					
Wang Weimin	-	145	-	-	145
<i>Independent non-executive directors</i>					
Seto Gin Chung, John	150	230	-	-	380
Lin Zhijun	150	230	-	-	380
Chung Shui Ming, Timpson	150	254	-	-	404
	450	6,158	14,000	17	20,625

Note 1: Dr. Liu Jun was appointed as the Deputy Chairman and executive director and a member of each of the Nomination Committee, Remuneration Committee and Strategy Committee of the Company on 27 August 2014.

Note 2: Mr. Zang Qiutao resigned as the Deputy Chairman and executive director and a member of each of the Nomination Committee, Remuneration Committee and Strategy Committee of the Company on 27 August 2014.

NOTES TO THE FINANCIAL STATEMENTS

8. Directors' and Five Highest Paid Individuals' Emoluments (continued)

(a) Directors' emoluments: (continued)

For the year ended 31 December 2013

	Directors' fee HK\$'000	Salaries, allowances and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2013 Total HK\$'000
<i>Executive directors</i>					
Tang Shuangning	–	120	–	–	120
Zang Qiutao	–	150	–	–	150
Chen Shuang	–	2,028	7,500	–	9,528
Tang Chi Chun, Richard	–	1,563	4,100	15	5,678
Jiang Yuanzhi	–	1,328	2,900	–	4,228
<i>Non-executive director</i>					
Wang Weimin	–	125	–	–	125
<i>Independent non-executive directors</i>					
Ng Ming Wah, Charles*	44	78	–	–	122
Seto Gin Chung, John	120	220	–	–	340
Lin Zhijun	120	220	–	–	340
Chung Shui Ming, Timpson	120	230	–	–	350
	404	6,062	14,500	15	20,981

* Mr. Ng Ming Wah, Charles retired as Independent Non-executive Directors of the Company on 15 May 2013.

NOTES TO THE FINANCIAL STATEMENTS

8. Directors' and Five Highest Paid Individuals' Emoluments *(continued)*

(b) Five highest paid individuals' emoluments

	2014 HK\$'000	2013 HK\$'000
Salaries and other emoluments	8,200	7,800
Bonuses	26,000	27,660
Retirement scheme contributions	116	111
	34,316	35,571

	2014	2013
Number of directors	2	2
Number of employees	3	3
	5	5

Their emoluments were within the following bands:

	Number of individuals	
	2014	2013
HK\$5,000,001 to HK\$5,500,000	1	2
HK\$5,500,001 to HK\$6,000,000	1	1
HK\$6,500,001 to HK\$7,000,000	1	–
HK\$7,000,001 to HK\$7,500,000	1	–
HK\$9,000,001 to HK\$9,500,000	1	–
HK\$9,500,001 to HK\$10,000,000	–	2
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office (2013: HK\$Nil).

Bonus payment is determined pursuant to incentive schemes and relevant policies of the Group.

NOTES TO THE FINANCIAL STATEMENTS

9. Income Tax

The provision for Hong Kong profits tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is calculated at the appropriate current rates of taxation in the relevant countries.

The amount of taxation charged to the consolidated income statement represents:

	2014 HK\$'000	2013 HK\$'000
Current taxation		
– Hong Kong profits tax	(19,078)	(12,323)
– Overseas taxation	(122,343)	(86,946)
– Over provision in respect of Hong Kong profits tax in prior years	102,905	49,760
Deferred taxation		
– Deferred taxation relating to the origination and reversal of temporary differences	(50,380)	(2,233)
Income tax expense	(88,896)	(51,742)

Reconciliation between tax expense and accounting profit at applicable tax rate:

	2014 HK\$'000	2013 HK\$'000
Profit before taxation	2,972,167	1,799,640
Calculated at the rates applicable to profits in the tax jurisdictions concerned	643,718	338,806
Tax effect of income not subject to taxation	(597,548)	(345,977)
Tax effect of expenses not deductible for taxation purpose	95,212	73,513
Tax effect of utilisation of previously unrecognised losses	(2,266)	(9,104)
Tax effect of tax losses and other deductible temporary differences not recognised	52,685	44,264
Over provision in respect of prior years	(102,905)	(49,760)
Income tax expense	88,896	51,742

NOTES TO THE FINANCIAL STATEMENTS

10. Profit Attributable to Shareholders

Net profit for the year of the Company of approximately HK\$1,487,490,000 (2013: net profit of approximately HK\$448,375,000) has been dealt with in the financial statements of the Company.

11. Dividends

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2014 HK\$'000	2013 HK\$'000
– Interim dividend declared and paid of HK\$0.15 (2013: HK\$0.11) per share	252,788	189,211
– Final dividend proposed after the balance sheet date of HK\$0.33 (2013: HK\$0.20) per share	556,134	337,051
	808,922	526,262

The directors proposed a final dividend of HK\$0.33 per share for the year ended 31 December 2014 (2013: HK\$0.20 per share). The proposed dividends are not reflected as dividend payable in the financial statements.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2014 HK\$'000	2013 HK\$'000
– Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.20 (2013: HK\$0.15) per share	337,051	258,084

NOTES TO THE FINANCIAL STATEMENTS

12. Other Comprehensive Income

(a) Tax effects relating to each component of other comprehensive income

	2014			2013		
	Before tax	Tax	Net of tax	Before tax	Tax	Net of tax
	amount	expense	amount	amount	expense	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net movement in investment revaluation reserve of available-for-sale securities	5,093,757	(90,739)	5,003,018	(374,271)	(119,511)	(493,782)
Share of other comprehensive income of associates, as per the associates' financial statements	442,948	-	442,948	356,558	-	356,558
Share of other comprehensive income of a joint venture, as per the joint venture's financial statements	(1,410)	-	(1,410)	(8,471)	-	(8,471)
Adjustments to share of other comprehensive income of associates and joint ventures to conform with the Group's accounting policies	(172,549)	-	(172,549)	(36,277)	-	(36,277)
Exchange reserve	(292,932)	-	(292,932)	72,755	-	72,755
	5,069,814	(90,739)	4,979,075	10,294	(119,511)	(109,217)

(b) Reclassification adjustments relating to components of other comprehensive income

	2014	2013
	HK\$'000	HK\$'000
Available-for-sale securities:		
Changes in fair value recognised during the year	5,331,342	243,822
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	(519,698)	(758,754)
– impairment losses	191,374	21,150
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	5,003,018	(493,782)

13. Earnings Per Share

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the year ended 31 December 2014 is based on the profit attributable to equity shareholders of the Company of HK\$2,559,688,000 (2013: HK\$1,346,548,000) and the weighted average number of 1,690,409,011 shares (2013: 1,720,409,827 shares) in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS

14. Fixed Assets

(a) Group

	Interests in leasehold land held for own use under operating leases	Buildings held for own use carried at cost	Investment properties	Leasehold improvements	Furniture, fixtures, equipment and motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:						
As at 1 January 2013	456,583	76,851	56,630	37,511	44,672	672,247
Additions	-	-	-	83	16,375	16,458
Disposals	-	-	-	(287)	(2,035)	(2,322)
Surplus on revaluation	-	-	2,470	-	-	2,470
Exchange adjustments	-	-	-	-	152	152
As at 31 December 2013	456,583	76,851	59,100	37,307	59,164	689,005
Representing:						
Cost	456,583	76,851	-	37,307	59,164	629,905
Professional valuation	-	-	59,100	-	-	59,100
	456,583	76,851	59,100	37,307	59,164	689,005
As at 1 January 2014	456,583	76,851	59,100	37,307	59,164	689,005
Additions	-	-	-	79	6,571	6,650
Disposals	-	-	-	-	(1,707)	(1,707)
Surplus on revaluation	-	-	5,500	-	-	5,500
Exchange adjustments	-	-	-	-	(172)	(172)
As at 31 December 2014	456,583	76,851	64,600	37,386	63,856	699,276
Representing:						
Cost	456,583	76,851	-	37,386	63,856	634,676
Professional valuation	-	-	64,600	-	-	64,600
	456,583	76,851	64,600	37,386	63,856	699,276

NOTES TO THE FINANCIAL STATEMENTS

14. Fixed Assets (continued)

(a) Group (continued)

	Interests in leasehold land held for own use under operating leases HK\$'000	Buildings held for own use carried at cost HK\$'000	Investment properties HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures, equipment and motor vehicles HK\$'000	Total HK\$'000
Accumulated depreciation:						
As at 1 January 2013	37,474	10,089	-	19,829	28,231	95,623
Charge for the year	6,933	1,794	-	5,339	6,559	20,625
Written back on disposal	-	-	-	(287)	(2,035)	(2,322)
Exchange adjustments	-	-	-	-	100	100
As at 31 December 2013 and at 1 January 2014	44,407	11,883	-	24,881	32,855	114,026
Charge for the year	6,933	1,795	-	4,918	8,327	21,973
Written back on disposal	-	-	-	-	(1,680)	(1,680)
Exchange adjustments	-	-	-	-	(65)	(65)
As at 31 December 2014	51,340	13,678	-	29,799	39,437	134,254
Net book value:						
As at 31 December 2014	405,243	63,173	64,600	7,587	24,419	565,022
As at 31 December 2013	412,176	64,968	59,100	12,426	26,309	574,979

NOTES TO THE FINANCIAL STATEMENTS

14. Fixed Assets (continued)

(b) Company

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:			
As at 1 January 2013	197	2,035	2,232
Disposal	–	(1,348)	(1,348)
As at 31 December 2013 and 2014	197	687	884
Accumulated depreciation:			
As at 1 January 2013	147	2,035	2,182
Charge for the year	17	–	17
Written back on disposal	–	(1,348)	(1,348)
As at 31 December 2013 and at 1 January 2014	164	687	851
Charge for the year	15	–	15
As at 31 December 2014	179	687	866
Net book value:			
As at 31 December 2014	18	–	18
As at 31 December 2013	33	–	33

- (c) The Group's interests in leasehold land and buildings and investment properties situated in Hong Kong and Mainland China were appraised as at 31 December 2014 by RHL Appraisal Limited, an independent professional valuer who have among their staff Fellows of Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. These properties were appraised on an open market basis and investment properties are carried in the balance sheet at market value.

As at 31 December 2014 had the Group's interests in leasehold land and buildings, which were carried at cost less accumulated depreciation, been carried at fair value, their carrying amount would have been HK\$1,094,266,000 (2013: HK\$1,067,911,000).

Investment properties of HK\$64,600,000 (2013: HK\$59,100,000) of the Group are rented out under operating leases, of which HK\$12,900,000 (2013: HK\$11,400,000) are rented to the ultimate holding company.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

NOTES TO THE FINANCIAL STATEMENTS

14. Fixed Assets (continued)

(d) The analysis of net book value of properties is as follows:

	Group 2014 HK\$'000	2013 HK\$'000
Held in Hong Kong		
– on long lease	284,507	286,860
– on medium-term lease	53,000	47,900
	337,507	334,760
Held outside Hong Kong		
– on medium-term lease	195,509	201,484
	195,509	201,484
	533,016	536,244

(e) Fair value measurement of properties

(i) *Fair value hierarchy*

The following table presents the fair value of the Group's properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified and determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

NOTES TO THE FINANCIAL STATEMENTS

14. Fixed Assets (continued)

(e) Fair value measurement of properties (continued)

(i) Fair value hierarchy (continued)

	Fair value at 31 December 2014 HK\$'000	Fair value measurements as at 31 December 2014 categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Group				
Recurring fair value measurement				
Investment properties:				
– Residential – Hong Kong	64,600	–	–	64,600

During the year ended 31 December 2014, there were no transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation technique(s)	Unobservable input(s)	Range
Investment properties	Direct comparison approach	Premium (discount) on characteristic of the properties	-45% to 35%

The fair value of investment properties is determined using direct comparison approach to value these properties in their respective existing states and uses on the market basis assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and others factors collectively. Higher premium for properties with better characteristic will result in a higher fair value measurement.

The movements during the period in the balance of these Level 3 fair value measurements are as follow:

	HK\$'000
Investment properties – Residential – Hong Kong:	
At 1 January 2014	59,100
Net surplus on revaluation of investment properties	5,500
At 31 December 2014	64,600

Net surplus on revaluation of investment properties is recognised in the line item "other net income" (note 4) on the face of the consolidated income statement.

All the gains recognised in profit or loss for the year arise from the properties held at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

15. Investments in Subsidiaries, Balances with Subsidiaries and an Investee Company

(a) Investments in subsidiaries

	Company	
	2014	2013
	HK\$'000	HK\$'000
Unlisted shares at cost	4,096,719	3,496,586
Less: impairment loss	(570,227)	(534,930)
	3,526,492	2,961,656

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group.

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
CEL Venture Capital (Shenzhen) Limited	The PRC	Not applicable	HK\$1,670,000,000	100%	Provision of investment advisory services and investment
CEL Management Services Limited	Hong Kong	Ordinary	HK\$2	100%	Provision of management services
CEL (Secretaries) Limited	Hong Kong	Ordinary	HK\$2	100%	Provision of secretarial services
China Everbright Assets Management Limited	Hong Kong	Ordinary	HK\$5,000,000	100% ¹	Provision of asset management services
Everbright Capital Management Limited	Hong Kong	Ordinary	HK\$7,000,000	100% ¹	Provision of asset management services
China Everbright Finance Limited	Hong Kong	Ordinary	HK\$100,000,000	100% ¹	Money lending
China Everbright Financial Investments Limited	Hong Kong	Ordinary	HK\$1,000,000	100% ¹	Investment
China Everbright Network Payment Limited	Hong Kong	Ordinary	HK\$346.86	42.59% ¹	Project investment
China Everbright Industrial Investment Holdings Limited	Cayman Islands	Ordinary	US\$10,000	100%	Investment
China Everbright Investment Management Limited	Hong Kong	Ordinary	HK\$1,000,000	100%	Provision of investment management services
China Special Opportunities Fund, L.P.	Cayman Islands	Limited Partnership	Not applicable	50% ¹	Investment

NOTES TO THE FINANCIAL STATEMENTS

15. Investments in Subsidiaries, Balances with Subsidiaries and an Investee Company (continued)

(a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
Everbright Ashmore (Hong Kong) Limited	Hong Kong	Ordinary	US\$1,000	81% ¹	Fund management
Everbright Ashmore Investment Management	Cayman Islands	Ordinary	US\$1,000	51% ¹	Fund management
Everbright Ashmore Real Estate Partners	Cayman Islands	Ordinary	US\$11,000	51% ¹	Fund management
Everbright Ashmore Services and Consulting Limited	Cayman Islands	Ordinary	US\$1,000	51% ¹	Fund management
Everbright New Industries Capital Company Limited	The PRC	Not applicable	RMB200,000,000	70%	Project investment
Everbright San Shan Capital Management Company Limited	The PRC	Not applicable	RMB30,000,000	51%	Provision of asset management services
Fortunecrest Investment Limited	British Virgin Islands	Ordinary	US\$1	100% ¹	Property investment
Goalfield Investments Limited	British Virgin Islands	Ordinary	US\$1	100% ¹	Investment
Janco Development Limited	Hong Kong	Ordinary	HK\$2	100%	Property investment
Solidpole Limited	Hong Kong	Ordinary	HK\$2	100%	Investment holding
SeaBright Asset Management Limited	Hong Kong	Ordinary	HK\$1,000,000	65%	Asset management
Trycom Management Limited	British Virgin Islands	Ordinary	US\$1	100%	Investment holding
CEL Machinery Investment Limited	Hong Kong	Ordinary	HK\$1	66.45% ¹	Investment
Windsor Venture Limited	British Virgin Islands	Ordinary	US\$1	100%	Investment holding
Well Logic Investment Limited	Hong Kong	Ordinary	HK\$2	100% ¹	Property investment
Everbright Absolute Return Fund	Cayman Islands	Ordinary	US\$100,000,000	100% ¹	Investment
China Everbright Asia Capital Limited	Cayman Islands	Ordinary	US\$12,800,000	100% ¹	Investment

NOTES TO THE FINANCIAL STATEMENTS

15. Investments in Subsidiaries, Balances with Subsidiaries and an Investee Company (continued)

(a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
深圳市光控投資諮詢有限公司	The PRC	Not applicable	RMB10,000,000	100% ¹	Provision of consultancy services
深圳市遠景新風投資諮詢有限公司	The PRC	Not applicable	RMB25,462,500	100% ¹	Project investment
深圳市衡遠投資發展有限公司	The PRC	Not applicable	RMB10,000,000	61% ¹	Project investment
Everbright Venture Capital Jiangyin Company Limited	The PRC	Not applicable	RMB359,000,000	48.7% ¹	Venture capital
光大匯益偉業投資管理(北京)有限公司	The PRC	Not applicable	RMB25,300,000	100% ¹	Project investment
光大控股(江蘇)投資有限公司	The PRC	Not applicable	US\$100,000,000	100%	Investment
宜興光控投資有限公司	The PRC	Not applicable	RMB600,000,000	100% ¹	Project investment
重慶光控股權投資管理有限公司	The PRC	Not applicable	RMB100,000,000	100% ¹	Fund management
光控廣域投資(上海)合夥企業(有限合伙)	The PRC	Limited Partnership	RMB270,000,000	50% ¹	Investment
光控(海門)創業投資有限公司	The PRC	Not applicable	US\$6,000,000	100%	Investment
光大控股(青島)投資有限公司	The PRC	Not applicable	US\$48,000,000	100%	Investment
成都光控西部創業投資有限公司	The PRC	Not applicable	RMB180,000,000	100% ¹	Investment
Winning Trend Investments Limited	British Virgin Islands	Ordinary	US\$1	100% ¹	Investment
上海光控嘉鑫股權投資管理有限公司	The PRC	Not applicable	RMB50,000,000	100% ¹	Fund management
成都光控安鑫股權投資基金管理有限公司	The PRC	Not applicable	RMB10,000,000	100% ¹	Fund management
青島光控低碳新能股權投資有限公司	The PRC	Not applicable	RMB455,000,000	76.90% ¹	Investment
青島光控新產業股權投資管理有限公司	The PRC	Not applicable	RMB10,000,000	100% ¹	Investment
光大控股(青島)融資租賃有限公司	The PRC	Not applicable	US\$15,000,000	100% ¹	Investment
上海光控股權投資管理有限公司	The PRC	Not applicable	RMB10,000,000	100% ¹	Fund management

NOTES TO THE FINANCIAL STATEMENTS

15. Investments in Subsidiaries, Balances with Subsidiaries and an Investee Company (continued)

(a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
China Everbright Structured Investment Management Limited	Hong Kong	Ordinary	HK\$5,000,000	100% ¹	Investment
Diamond Gate Group Limited	British Virgin Islands	Ordinary	US\$1	100% ¹	Investment holding
CEL Israel Holdings Limited	British Virgin Islands	Ordinary	US\$1	100% ¹	Investment holding
CEL Catalyst China Israel General Partner Limited	Cayman Islands	Ordinary	US\$100	100% ¹	Fund management
CEL Israel Equity Management Limited	British Virgin Islands	Ordinary	US\$1	100% ¹	Investment
Champion Castle Investments Limited	Hong Kong	Ordinary	HK\$1	100% ¹	Investment holding
China Everbright Global Investment Advisors Company Limited	Hong Kong	Ordinary	HK\$5,000,000	100% ¹	Provision of advisory services
Precious Healthcare Limited	Hong Kong	Ordinary	HK\$1	100% ¹	Investment
Success Life Science Limited	Hong Kong	Ordinary	HK\$1	100% ¹	Investment
Greenhouse Century Limited	British Virgin Islands	Ordinary	US\$1	100% ¹	Investment
Everbright Hero GP Limited	Cayman Islands	Ordinary	US\$1	100% ¹	Fund management
Everbright Hero, L.P.	Cayman Islands	Ordinary	Not applicable	90.16% ¹	Investment
光控投資管理(上海)有限公司	The PRC	Not applicable	US\$4,150,000	100% ¹	Provision of investment management services
光大融資租賃(上海)有限公司	The PRC	Not applicable	US\$50,000	100% ¹	Provision of leasing services

⁽¹⁾ Subsidiaries held indirectly.

(b) Amounts due from subsidiaries

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(c) Amounts due to subsidiaries

Amounts due to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

15. Investments in Subsidiaries, Balances with Subsidiaries and an Investee Company (continued)

(d) Amount due to an investee company

Amount due to an investee company is unsecured, interest free and has no fixed terms of repayment.

(e) Disposal of interests in certain subsidiaries without loss of control

In May 2014, the Group disposed interests in certain subsidiaries (approximately equal to 15% of each of their share capital) to an investment team as an incentive project bonus in accordance with an incentive agreement dated and announced on 25 May 2007.

The aggregate carrying amount of the interest in subsidiaries disposed of was HK\$162 million which was recognised as compensation expense in other operating expenses. Accordingly, the Group recognised an increase in non-controlling interest and a corresponding decrease in retained earnings of HK\$162 million.

16. Investments in Associates

(a) Investments in associates

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Investment cost	–	–	1,825,265	1,825,265
Share of net assets	13,388,600	11,441,258	–	–
Goodwill on acquisition	(591,037)	(591,037)	–	–
	12,797,563	10,850,221	1,825,265	1,825,265
Less: impairment loss	(338,439)	(165,548)	(41,073)	(41,073)
	12,459,124	10,684,673	1,784,192	1,784,192
Market value of shares listed in Mainland China	40,659,001	12,594,885	40,659,001	12,594,885
Market value of shares listed in Hong Kong	2,355,426	–	–	–

(b) As at 31 December 2014, particulars of principal associates of the Group are as follows:

Name of associate	Place of incorporation/ operation	Principal activities	Percentage of equity interest held by the Company
Everbright Securities Company Limited (“Everbright Securities”)	The PRC	Securities operations (note 1)	33.33%
Everbright Securities (International) Limited	British Virgin Islands	Securities operations (note 1)	49%*
China Aircraft Leasing Group Holdings Limited (“CALGH”)	Cayman Islands	Investment holding (note 2)	35.33%**
首譽光控資產管理有限公司 (formerly 首譽資產管理有限公司)	The PRC	Assets management (note 3)	35%**
重慶融科光控實業發展有限公司	The PRC	Investment holding (note 4)	24.99%**

* Held indirectly. The remaining 51% held by another associate of the Group – Everbright Securities.

** Held indirectly.

NOTES TO THE FINANCIAL STATEMENTS

16. Investments in Associates (continued)

(b) As at 31 December 2014, particulars of principal associates of the Group are as follows: (continued)

Note 1: Everbright Securities and Everbright Securities (International) Limited are the Group's strategic investments to capitalise the growth of securities markets in the Mainland China and Hong Kong.

Note 2: CALGH is an associate of the Group to capture opportunities arising from the rapid growth of aviation and commercial aviation financing, investment and leasing activities in the Mainland China.

CALGH was listed in the Hong Kong Stock Exchange on 11 July 2014 (the "Date") and accordingly, the Group's equity interests in CALGH were diluted to 35.33%. The gain on deemed disposal is amounted to HK\$140 million. The investment was reclassified from investments in joint ventures to investments in associates subsequent to the Date. The Group is subject to a lock-up provision which restricted the Group from selling equity security of CALGH on or before 10 January 2015.

Note 3: 首譽光控資產管理有限公司 is one of the Group's assets management companies. In August 2014, 首譽資產管理有限公司 changed its name as 首譽光控資產管理有限公司.

Note 4: 重慶融科光控實業發展有限公司 is one of the Group's investment holding companies.

For the year ended 31 December 2014, Everbright Securities has recorded an after tax profit of RMB2.14 billion (2013: RMB0.28 billion) and the Group's share of profit as per the associate's financial statements, under equity accounting method, amounted to HK\$870 million (2013: HK\$86 million). In addition to the remaining 49% stake of Everbright Securities (International) Limited, the Group is entitled to the result through its 33.33% share of Everbright Securities, which has a 51% stake in Everbright Securities (International) Limited.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

During the year, the Group has made an impairment of HK\$173 million on an associate, which was recorded as adjustments to share of profits less losses to conform with the Group's accounting policies in the consolidated income statement.

The recoverable amount of the investment in an associate engaging in brokerage business has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied to the cash flow projections is 16.5% (2013: 16.5%). The growth rate used to extrapolate the cash flows of the investment in an associate beyond the five-year period is 3% (2013: 3%).

Assumptions were used in the value-in-use calculation of the investment in an associate for 31 December 2014 and 31 December 2013. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing.

Discount rates – The discount rates used are before tax and reflect specific risks relating to the relevant units.

Revenue growth rates – The revenue growth rates used are ranging from 11.3% to 23%.

Discount for lack of control – A discount of lack of control of 20% was applied to the share of value-in-use of the investment in associate.

NOTES TO THE FINANCIAL STATEMENTS

16. Investments in Associates (continued)

(c) Supplementary financial information of principal associates

Supplementary financial information in respect of an individually material associate extracted from its financial statements is as follows:

	Everbright Securities	
	2014	2013
	HK\$'000	HK\$'000
Gross amounts of the associate		
Current assets	131,469,967	58,747,910
Non-current assets	12,268,488	9,754,635
Current liabilities	(99,552,683)	(37,621,267)
Non-current liabilities	(10,897,069)	(849,689)
Non-controlling interests	(1,014,471)	(979,341)
Equity attributable to equity shareholders of the associate	32,274,232	29,052,248
Operating income	8,326,705	5,056,989
Profit from operations	2,695,030	356,751
Other comprehensive income	1,225,018	533,332
Total comprehensive income	3,920,048	890,083
Dividend received from the associate	28,402	132,188
Reconciled to the Group's interests in the associate		
Gross amounts of net assets of the associate	32,274,232	29,052,248
Group's effective interest	33.33%	33.33%
Group's share of net assets of the associate	10,757,001	9,684,083
Carrying amount as per the associate's financial statements	10,757,001	9,684,083
Adjustments to share of profits less losses to conform with the Group's accounting policies	118,691	68,785
Carrying amount in the Group's consolidated financial statement	10,875,692	9,752,868

Aggregate information of associates that are not individually material:

	2014	2013
	HK\$'000	HK\$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	1,583,432	931,805
Aggregate amounts of the Group's share of those associates'		
Profit for the year	199,451	35,291
Other comprehensive income	–	–
Total comprehensive income	199,451	35,291

(d) Amount due from an associate

Amount due from an associate is unsecured, interest free and has no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

17. Investments in Joint Ventures

(a) Investments in joint ventures

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Share of net assets	574,328	699,093	–	–
Goodwill on acquisition	–	22,311	–	–
	574,328	721,404	–	–

(b) As at 31 December 2014, details of the Group's investments in joint ventures are as follows:

Name of joint venture	Place of incorporation/ operation	Principal activities	Particulars of issued capital	Percentage of equity interest held by the Company
Everbright Guolian Capital Company Limited	The PRC	Venture capital and investment advisory (note 1)	RMB320,000,000	50.0%*
山東高速光控產業投資基金管理有限公司	The PRC	Fund management (note 2)	RMB200,000,000	48.0%*
上海嘉寶安石置業有限公司	The PRC	Real estate development and leasing (note 3)	RMB294,300,000	28.8%*

* Held indirectly

Note 1: Everbright Guolian Capital Company Limited is a joint venture of the Group to provide investment advisory services to a joint venture fund in the Mainland China.

Note 2: 山東高速光控產業投資基金管理有限公司 is a joint venture of the Group to provide fund management service to an industrial sector investment fund in the Mainland China.

Note 3: 上海嘉寶安石置業有限公司 is a joint venture of the Group to invest in real estate development and leasing sectors in the Mainland China.

All of the above joint ventures are unlisted corporate entities whose quoted market price is not available as at 31 December 2014. They are accounted for using the equity method in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

17. Investments in Joint Ventures (continued)

(b) (continued)

Aggregate information of joint ventures that are not individually material:

	2014 HK\$'000	2013 HK\$'000
Aggregate carrying amount of individually not material joint ventures in the consolidated financial statements	574,328	721,404
Aggregate amounts of the Group's share of those joint ventures		
Profit for the year	152,222	93,522
Other comprehensive income	(1,410)	(8,471)
Total comprehensive income	150,812	85,051
Unrecognised share of losses of a joint venture	(3,730)	(100,781)

(c) Amounts due from joint ventures

Amounts due from joint ventures are unsecured, interest free and have no fixed terms of repayment.

(d) Amount due to a joint venture

Amount due to a joint venture is unsecured, interest free and has no fixed terms of repayment.

18. Available-For-Sale Securities

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
At fair value:				
Listed equity securities				
– in Hong Kong	343,691	409,169	–	–
– outside Hong Kong	11,039,415	6,211,906	9,558,192	5,709,762
Unlisted equity securities				
– in Hong Kong	428,511	403,911	–	–
– outside Hong Kong	5,940,378	5,375,160	–	–
Listed debt securities				
– in Hong Kong	575,308	–	–	–
– outside Hong Kong	99,316	–	–	–
Unlisted debt securities	61,558	94,087	–	–
At cost ⁽ⁱ⁾ :				
Unlisted equity securities	520,344	548,318	–	–
	19,008,521	13,042,551	9,558,192	5,709,762

The Group's investment in unlisted equity securities with a fair value of HK\$129,024,000 and listed equity securities with a fair value of HK\$854,551,000 are subject to a lock-up provision which restricted the Group from selling the equity securities on or before 5 June 2015 and 25 September 2015 respectively.

- (i) At 31 December 2014, the investments were measured at cost less impairment because the range of reasonable fair value measurement is significant and the probabilities of the various estimates within the range cannot be reasonably assessed.

NOTES TO THE FINANCIAL STATEMENTS

18. Available-For-Sale Securities (continued)

	Group 2014 HK\$'000	2013 HK\$'000
Fair value of available-for-sale securities that were individually determined to be impaired as at 31 December:		
Listed equity securities		
– in Hong Kong	65,169	15,811
– outside Hong Kong	7,970	9,330
Unlisted equity securities	232,034	88,675
	305,173	113,816

As at 31 December 2014, certain of the Group's available-for-sale equity securities were individually determined to be impaired on the basis of a significant or prolonged decline in their fair value below cost.

The Group held the following principal available-for-sale securities as at 31 December 2014:

Company name	Place of incorporation	Principal activities	Effective equity interest held by the Group
China Everbright Bank Company Limited ("Everbright Bank") ⁽ⁱ⁾	The PRC	Banking operations	3.51%

- (i) At 31 December 2014, the carrying value of interests in Everbright Bank exceeded 10% of total assets of the Group.

19. Financial Assets Designated at Fair Value Through Profit or Loss

	2014 HK\$'000	2013 HK\$'000
Non-current assets		
At fair value:		
Hong Kong listed equity securities	41,955	52,079
Overseas listed equity securities	2,000,993	68,490
Overseas unlisted equity securities/collective investment schemes	3,279,147	2,569,355
Overseas unlisted convertible preference shares	1,237,976	176,189
Overseas unlisted debt securities	542,353	462,677
	7,102,424	3,328,790
Current assets		
At fair value:		
Overseas unlisted equity securities/collective investment schemes	468,938	–

As at 31 December 2014, the Group's investment in overseas listed equity securities with a fair value of HK\$1,452,844,000 (2013: overseas unlisted equity securities with a fair value of HK\$672,012,000) is subject to a lock-up provision which restricted the Group from selling the equity securities on or before 21 January 2015.

As at 31 December 2014, the Group's overseas listed and unlisted equity securities amounting to a fair value of HK\$4,464,874,000 (2013: HK\$2,243,493,000) were investments in associates and joint ventures. These investments were exempted from applying the equity method and were recognised as financial assets designated at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

19. Financial Assets Designated at Fair Value Through Profit or Loss (continued)

As at 31 December 2014, balances of HK\$523,070,000 (2013: HK\$159,469,000) were due from these investee companies which were associates recognised as financial assets designated at fair value through profit or loss. The amounts due from these investee companies are unsecured, interest free and have no fixed terms of repayment.

In 2014, the Group purchased certain unlisted financial assets designated at fair value through profit or loss at a purchase price which was below the fair value at inception that would be determined at that date using a valuation technique. According to the Group's accounting policy, the difference yet to be recognised in profit or loss at the beginning and the end of the year is as follows:

	2014 HK\$'000
As at 1 January 2014	–
Addition for the year	544,939
As at 31 December 2014	544,939

20. Advances to Customers

	2014 HK\$'000	2013 HK\$'000
Non-current assets		
Term loans to customers		
– secured	194,478	–
– unsecured	587,856	241,765
	782,334	241,765
Current assets		
Term loans to customers		
– secured	2,641,242	2,035,205
– unsecured	1,468,161	259,147
	4,109,403	2,294,352

Certain term loans to customers are secured by unlisted securities, third parties guarantees or leasehold land and properties in Mainland China (note 37 (a)).

An aging analysis of advances to customers is as follows:

	2014 HK\$'000	2013 HK\$'000
Within 3 months	1,313,025	975,396
Over 3 months to 1 year	2,796,378	1,318,956
Over 1 year to 5 years	782,334	241,765
	4,891,737	2,536,117

NOTES TO THE FINANCIAL STATEMENTS

21. Debtors, Deposits and Prepayments

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Accounts receivable, net	935,518	1,157,139	50	123,451
Deposits, prepayments, interest and other receivables	470,166	458,053	31,527	1,111
Less: Allowance of doubtful debt	1,405,684 (211,000)	1,615,192 (57,000)	31,577 -	124,562 -
	1,194,684	1,558,192	31,577	124,562

Accounts receivable are mainly amounts due from brokers, collectable in cash within one month and divestment proceeds receivable.

As at 31 December 2014, the Group's receivable of HK\$426,432,000 (2013: HK\$426,386,000) was individually determined to be impaired. Allowance for doubtful debt of HK\$154,000,000 (2013: HK\$57,000,000) was recognised during the year.

22. Trading Securities

	2014 HK\$'000	2013 HK\$'000
Current Assets		
At fair value:		
Listed equity securities		
– in Hong Kong	570,018	98,022
– outside Hong Kong	387,184	150,135
Listed debt securities		
– in Hong Kong	4,379	-
– outside Hong Kong	47,174	36,302
Unlisted debt securities	345,926	355,003
Derivatives		
– listed	933	9,868
– unlisted	2,304	492
	1,357,918	649,822
Current Liabilities		
At fair value:		
Listed equity securities		
– in Hong Kong	(102,859)	(56,675)
– outside Hong Kong	(153,445)	(64,514)
Unlisted debt securities	(66,167)	(127,767)
Derivatives		
– listed	(1,529)	(7,276)
– unlisted	(3,637)	(689)
	(327,637)	(256,921)

NOTES TO THE FINANCIAL STATEMENTS

23. Cash and Cash Equivalents

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Cash on hand, savings and current accounts	2,116,974	2,229,567	15,920	6,124
Fixed deposits with banks	2,348,315	1,535,411	46,541	–
Cash and cash equivalents in the consolidated balance sheet	4,465,289	3,764,978	62,461	6,124
Less: Deposits pledged	(722,734)	(931,271)	–	–
Cash and cash equivalents in the consolidated cash flow statement	3,742,555	2,833,707	62,461	6,124

24. Bank Loans

As at 31 December 2014, the bank loans were repayable as follows:

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Within 1 year	4,996,065	2,009,663	3,745,565	452,232
After 1 year but within 5 years	3,538,285	1,025,720	3,538,285	516,843
After 5 years	51,651	59,554	–	–
	3,589,936	1,085,274	3,538,285	516,843
	8,586,001	3,094,937	7,283,850	969,075

As at 31 December 2014, the bank loans were secured as follows:

	2014 HK\$'000	2013 HK\$'000
Bank loans		
– secured	927,001	2,125,862
– unsecured	7,659,000	969,075
	8,586,001	3,094,937

As at 31 December 2014, the bank loans of the Group of HK\$927,001,000 (2013: HK\$2,125,862,000) were secured by fixed deposits and property situated in the Mainland China.

25. Amount due to a fellow subsidiary and shareholder

Amount due to an entity that is a fellow subsidiary and shareholder of the Company is unsecured, interest-bearing and has fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

26. Creditors, Deposits Received and Accrued Charges

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Creditors, deposits received and accrued charges	1,025,892	749,835	5,707	7,263

As at 31 December 2014, creditors, deposits received and accrued charges included bonus payable to staff.

27. Notes Payable

	2014 HK\$'000	2013 HK\$'000
Non-current liabilities		
Unlisted notes issued by the Group at fair value	30,000	–
Current liabilities		
Unlisted notes issued by the Group at fair value	27,000	47,000

As at 31 December 2014, the Group issued three notes to two independent third parties and the notes payable are interest bearing, two of them have fixed repayment terms while one of them is repayable on demand.

28. Income Tax in the Balance Sheet

(a) Current taxation in the consolidated balance sheet represents:

	2014 HK\$'000	2013 HK\$'000
Provision for Hong Kong profits tax for the year	19,078	12,323
Provision for PRC tax for the year	85,228	65,135
Provisional profits tax paid	(34,464)	(14,493)
	69,842	62,965
Balance of profits tax provision relating to prior years	137,236	239,596
	207,078	302,561

NOTES TO THE FINANCIAL STATEMENTS

28. Income Tax in the Balance Sheet (continued)

(b) Deferred taxation

(i) The Group

The movements on the deferred tax liabilities recognised in the consolidated balance sheet are as follows:

	Fair value adjustment for available-for-sale securities		Tax losses		Withholding tax on associate's profit		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	(187,748)	(68,237)	-	-	(97,051)	(94,818)	(284,799)	(163,055)
Charged to profit or loss	-	-	-	-	(50,380)	(2,233)	(50,380)	(2,233)
Charged to reserve	(90,739)	(119,511)	-	-	-	-	(90,739)	(119,511)
At 31 December	(278,487)	(187,748)	-	-	(147,431)	(97,051)	(425,918)	(284,799)

In accordance with the accounting policy set out in note 2(q), the Group has not recognised deferred tax assets, in respect of tax losses of approximately HK\$2,425 million (2013: approximately HK\$2,094 million), as it is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant entities. The tax losses do not expire under current tax legislation.

(ii) The Company

The movements on the deferred tax liabilities recognised in the Company's balance sheet are as follows:

Withholding tax on an associate's profit

	2014 HK\$'000	2013 HK\$'000
At 1 January	(97,051)	(94,818)
Charged to profit or loss	(50,380)	(2,233)
At 31 December	(147,431)	(97,051)

NOTES TO THE FINANCIAL STATEMENTS

29. Share Capital

(a) Share capital

	2014		2013	
	No. of shares ('000)	HK\$'000	No. of shares ('000)	HK\$'000
Authorised: (note 1)				
Ordinary shares of HK\$1.00 each (note 2)	-	-	2,000,000	2,000,000
Ordinary shares issued and fully paid:				
At 1 January	1,720,100	1,720,100	1,720,562	1,720,562
Shares repurchased under the predecessor Companies Ordinance	(34,846)	(34,846)	(462)	(462)
Transition to no-par value regime on 3 March 2014 (note 3)	-	7,932,843	-	-
At 31 December	1,685,254	9,618,097	1,720,100	1,720,100

Note 1: Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.

Note 2: In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

Note 3: In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Share repurchased

In February 2014, the Company repurchased its own ordinary shares on The Stock Exchange of Hong Kong Limited as follows:

Month/year	Number of shares repurchased	Price paid	Aggregate consideration
		per share HK\$	HK\$'000
February 2014	34,846,000	10.12	352,641

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. Pursuant to section 49H of the predecessor Hong Kong Companies Ordinance (Cap. 32), an amount equivalent to the par value of the shares cancelled of HK\$34,846,000 was transferred from share capital to the capital redemption reserve. The premium paid on the repurchase of the shares of HK\$352,641,000 was charged to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

29. Share Capital (continued)

(c) Capital Management

The Group's primary objectives in capital management are maximising shareholders' return, matching of business funding needs and maintaining the Group's ability to continue as a going concern. Management regularly, or as changes in circumstances warrant, reviews and manages its capital structure so as to maintain a proper balance amongst shareholder returns, leveraging and funding requirement.

Net assets for capital management is defined as liabilities generated from operations (includes other payables and trading securities liabilities), notes payable, interest bearing loans and unaccrued proposed dividends, less advances to customers, debtors, deposits and prepayments, trading securities assets and cash and cash equivalents. In view of the development of the Group's business strategies, management has considered trading securities assets also form part of the calculation of the net assets for capital management. Adjusted capital represents total equity less unaccrued proposed dividends. The net-assets-to-adjusted capital ratio at 31 December 2013 is restated to conform with the current definition. The net-assets-to-adjusted capital ratio at 31 December 2014 and 2013 was as follows:

	Notes	Group		Company	
		2014 HK\$'000	2013 HK\$'000 (Restated)	2014 HK\$'000	2013 HK\$'000
Current liabilities					
Amounts due to subsidiaries	15(c)	–	–	675,015	298,237
Creditors, deposits received and accrued charges	26	1,025,892	749,835	5,707	7,263
Trading securities	22	327,637	256,921	–	–
Bank loans	24	4,996,065	2,009,663	3,745,565	452,232
Amount due to a fellow subsidiary and shareholder	25	500,000	500,000	–	–
Notes payable	27	27,000	47,000	–	–
Financial liabilities designated at fair value through profit or loss		–	7,268	–	–
		6,876,594	3,570,687	4,426,287	757,732
Non-current liabilities					
Bank loans	24	3,589,936	1,085,274	3,538,285	516,843
Notes payable	27	30,000	–	–	–
Total debt		10,496,530	4,655,961	7,964,572	1,274,575
Add: Proposed dividends		556,134	337,051	556,134	337,051
Less:					
Amounts due from subsidiaries	15(b)	–	–	(11,845,010)	(5,366,236)
Advances to customers	20	(4,891,737)	(2,536,117)	–	–
Debtors, deposits and prepayments	21	(1,194,684)	(1,558,192)	(31,577)	(124,562)
Trading securities	22	(1,357,918)	(649,822)	–	–
Cash and cash equivalents	23	(4,465,289)	(3,764,978)	(62,461)	(6,124)
Net assets for capital management		(856,964)	(3,516,097)	(3,418,342)	(3,885,296)
Total equity		38,190,586	31,728,913	18,695,939	14,202,148
Less: Proposed dividends		(556,134)	(337,051)	(556,134)	(337,051)
Adjusted capital		37,634,452	31,391,862	18,139,805	13,865,097
Net-assets-to-adjusted capital ratio		(2.3%)	(11.2%)	(18.8%)	(28.0%)

NOTES TO THE FINANCIAL STATEMENTS

29. Share Capital (continued)

(c) Capital Management (continued)

As at 31 December 2014, the Group's liquidity has remained healthy. The addition of financial resources is mainly attributable to fruitful returns, through divestment and dividends, from investments. During the year, The Group has also made further investment over advances to customers, trading securities, available-for-sale securities and financial assets designated at fair value through profit or loss. To enhance shareholder returns, the Group continues to seek new investment opportunities while maintaining a healthy capital structure.

The Company is not subject to externally imposed capital requirements. Certain subsidiaries of the Company are subject to regulatory imposed capital and liquid capital requirements (see also note 37(b)). These subsidiaries have complied with those requirements at all time during both the current and prior financial years.

30. Reserves

The Company

	Notes	Share capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 January 2013		1,720,562	7,890,967	5,128,198	6,568	418,163	15,164,458
Dividends paid	11	-	-	-	-	(447,295)	(447,295)
Profit for the year		-	-	-	-	448,375	448,375
Other comprehensive income for the year		-	-	(828,831)	-	-	(828,831)
Shares repurchased	29(b)	(462)	-	-	462	(4,587)	(4,587)
Transfer of available-for-sale securities by the Company to Social Security Fund	31(viii)	-	-	(99,260)	-	(30,712)	(129,972)
As at 31 December 2013 and 1 January 2014		1,720,100	7,890,967	4,200,107	7,030	383,944	14,202,148
Dividends paid	11	-	-	-	-	(589,839)	(589,839)
Profit for the year		-	-	-	-	1,487,490	1,487,490
Other comprehensive income for the year		-	-	3,956,791	-	-	3,956,791
Shares repurchased	29(b)	(34,846)	-	-	34,846	(352,641)	(352,641)
Transition to no-par value regime on 3 March 2014		7,932,843	(7,890,967)	-	(41,876)	-	-
Transfer of available-for-sale securities by the Company to Social Security Fund	31(viii)	-	-	(5,895)	-	(2,115)	(8,010)
As at 31 December 2014		9,618,097	-	8,151,003	-	926,839	18,695,939

The movement in the Group's reserves has been disclosed in the consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS

31. Nature and Purpose of Reserves

(i) Share premium and capital redemption reserve

Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital (see note 29(a)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

(ii) Option premium reserve

The option premium reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share based payments.

(iii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in note 2(f).

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(v) Goodwill reserve

The goodwill reserve comprises goodwill on acquisitions that occurred prior to 1 January 2001. The reserve is dealt with in accordance with the accounting policies set out in note 2(e).

(vi) Capital reserve

The capital reserve comprises specific allocation of amount transferred from retained earnings due to regulatory requirements. It also includes the share of statutory reserve of associates.

(vii) Distributability of reserve

At 31 December 2014, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622), amounting to HK\$926,839,000 (2013: HK\$383,944,000). After the end of the reporting period the directors proposed a final dividend of HK\$0.33 per share (2013: HK\$0.20 per share), amounting to HK\$556,134,000 (2013: HK\$337,051,000) (note 11). This dividend has not been recognised as a liability at the end of the reporting period.

(viii) Transfer of available-for-sale securities by the Company to the Social Security Fund

Pursuant to regulations of the People's Republic of China ("PRC"), certain available-for-sale securities held by the Group were transferred to National Council for Social Security Fund, a government agency of the PRC at no consideration as the Group's ultimate holding Company is controlled by the Council of State, a government agency of the PRC. During the year, the transfer of shares at a fair value of HK\$8,010,000 (2013: HK\$129,972,000) were regarded as transactions with shareholders and accordingly the Group's share of the total costs of such investments transferred amounting to HK\$2,115,000 (2013: HK\$30,712,000) has been charged directly to equity.

NOTES TO THE FINANCIAL STATEMENTS

32. Maturity Profile

As at 31 December 2014

	Indefinite HK\$'000	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Total HK\$'000
Assets							
- Advances to customers	-	-	1,313,025	2,796,378	782,334	-	4,891,737
- Trading securities	960,313	-	389,275	8,330	-	-	1,357,918
- Available-for-sale securities	18,842,421	-	-	-	149,715	16,385	19,008,521
- Financial assets designated at fair value through profit or loss	6,560,071	-	-	468,938	542,353	-	7,571,362
- Cash and cash equivalents	-	2,116,974	2,348,315	-	-	-	4,465,289
	26,362,805	2,116,974	4,050,615	3,273,646	1,474,402	16,385	37,294,827
Liabilities							
- Bank loans	-	-	(1,538,670)	(3,457,395)	(3,538,285)	(51,651)	(8,586,001)
- Amount due to a fellow subsidiary and shareholder	-	-	(500,000)	-	-	-	(500,000)
- Other financial liabilities	-	(3,234,796)	-	-	-	-	(3,234,796)
- Trading securities	(327,637)	-	-	-	-	-	(327,637)
- Notes payable	-	(27,000)	-	-	(30,000)	-	(57,000)
	(327,637)	(3,261,796)	(2,038,670)	(3,457,395)	(3,568,285)	(51,651)	(12,705,434)

As at 31 December 2013

	Indefinite HK\$'000	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Total HK\$'000
Assets							
- Advances to customers	-	-	975,396	1,318,956	-	241,765	2,536,117
- Trading securities	258,517	-	332,681	58,624	-	-	649,822
- Available-for-sale securities	12,948,464	-	-	-	94,087	-	13,042,551
- Financial assets designated at fair value through profit or loss	2,866,113	-	-	151,269	311,408	-	3,328,790
- Cash and cash equivalents	-	2,229,567	869,311	666,100	-	-	3,764,978
	16,073,094	2,229,567	2,177,388	2,194,949	405,495	241,765	23,322,258
Liabilities							
- Bank loans	-	-	(629,739)	(1,379,924)	(1,025,720)	(59,554)	(3,094,937)
- Amount due to a fellow subsidiary and shareholder	-	-	(500,000)	-	-	-	(500,000)
- Financial liabilities designated at fair value through profit or loss	-	-	-	(7,268)	-	-	(7,268)
- Trading securities	(129,154)	-	(127,767)	-	-	-	(256,921)
- Notes payable	-	-	-	(47,000)	-	-	(47,000)
	(129,154)	-	(1,257,506)	(1,434,192)	(1,025,720)	(59,554)	(3,906,126)

NOTES TO THE FINANCIAL STATEMENTS

33. Related Party Transactions

(a) The following transactions were entered into with related parties during the year:

	2014 HK\$'000	2013 HK\$'000
Realised gain on disposal of available-for-sale securities from a fellow subsidiary	251,802	90,989
Rental income from:		
– a fellow subsidiary	240	240
– an associate	214	–
Management fee received from:		
– a joint venture	6,175	6,145
– an associate exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss	13,580	22,514
Loan interest income from:		
– an associate	12,232	–
– a joint venture	–	1,150
– an associate exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss	24,445	22,011
Consultancy and other service income from:		
– a joint venture	–	10,434
– an associate	15,506	–
Advisory income from associates	27,932	–
Interest expense to a fellow subsidiary and shareholder	13,584	15,621
Consultancy fee to an associate	3,603	3,432
Remuneration for key management personnel (including the Company's directors) which is included in "staff cost":		
– short-term employee benefits	39,024	46,715
– retirement scheme contributions	209	226

(b) Except as disclosed elsewhere in the financial statements, included in the balance sheets are the following balances with related parties:

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Amounts due from associates (included in debtors, deposits and prepayments)	18,960	172,010	50	123,614
Loans to associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss (included in advances to customers)	646,946	209,157	–	–
Amount due to an associate (included in other financial liabilities)	(3,234,796)	–	–	–

Amounts due from associates arose in the ordinary course of securities trading business, and is unsecured, interest bearing and repayable upon demand.

Loans to associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss is secured, interest-bearing and has fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

33. Related Party Transactions *(continued)*

(c) Transactions with other PRC state-owned entities

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations ("State-owned Entities"). Transactions with other State-owned Entities include but are not limited to: lending and deposit taking; insurance and redemption of bonds issued by other State-owned Entities; purchase, sale and leases of property and other assets; and rendering and receiving of utilities and other services.

The Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

- (d) None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in chapter 14A of the Listing Rules.

34. Contingent Liabilities

(a) Corporate guarantee and standby facility

	Note	2014 HK\$'000	2013 HK\$'000
Standby letter of credit issued to financial institutions in respect of banking facility granted to a subsidiary		–	1,440,875
Guarantee given to financial institutions in respect of banking facilities granted to subsidiaries	i	875,350	699,710
Standby facility given to a joint venture		–	310,104
		875,350	2,450,689

Note:

- i. The Group's subsidiaries have utilised HK\$875,350,000 of these banking facilities as at 31 December 2014 (2013: HK\$688,515,000).

NOTES TO THE FINANCIAL STATEMENTS

35. Commitments

(a) Capital commitment

As at 31 December 2014, the Group had capital commitments as follows:

	2014 HK\$'000	2013 HK\$'000
Contracted but not provided for	3,009,784	362,892
Authorised but not contracted for	1,524,430	–

(b) Operating lease commitments

Operating lease commitments as at 31 December 2014 amounted to approximately HK\$210,000 (2013: HK\$3,160,000) of which HK\$210,000 (2013: HK\$2,950,000) is payable in the next twelve months. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2014 HK\$'000	2013 HK\$'000
Not later than one year	210	2,950
Later than one year and not later than five years	–	210
	210	3,160

(c) Future operating lease arrangement

As at 31 December 2014, the Group had future aggregate minimum lease receipts under non-cancellable operating leases for investment properties as follows:

	2014 HK\$'000	2013 HK\$'000
Not later than one year	1,113	964
Later than one year and not later than five years	476	212
	1,589	1,176

NOTES TO THE FINANCIAL STATEMENTS

35. Commitments *(continued)*

(d) Off-balance sheet exposure

The fair values and the contractual or notional amounts of the Group's trading equity derivatives outstanding at 31 December 2014 are detailed as follows:

	Fair value assets/ (liabilities)		Contractual/ notional amounts	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Assets derivative contracts	3,237	10,360	227,094	878,754
Liabilities derivative contracts	(5,166)	(7,965)	119,048	784,106

The financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices of the underlying instruments relative to their terms.

Notional amounts of these financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amount of future cash flows involved or the current fair value of the instruments and, therefore, are not a representation of the Group's exposure to the credit or price risks.

36. Involvement with Unconsolidated Structured Entities

The table below describes the types of structured entities that the Group does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	To generate fees from managing assets on behalf of third party investors	<ul style="list-style-type: none"> Management fees
	These vehicles are financed through the issue of units to investors	<ul style="list-style-type: none"> Investments in units issued by the fund

As at 31 December 2014, the carrying value of interests held by the Group in unconsolidated structured entities amounted to HK\$1,956,163,000 (2013: HK\$1,401,179,000) and HK\$2,123,934,000 (2013: HK\$815,726,000) were recognised in financial assets designated at fair value through profit or loss and available-for-sale securities in the consolidated balance sheet respectively. The maximum exposure to loss is the carrying value of the assets held.

37. Financial Instruments

Risk management is of fundamental importance to the business operation of the Group. The major types of risk inherent in the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk. The Group's risk management objective is to maximise shareholders' value and to reduce volatility in earnings while maintaining risk exposures within acceptable limits.

The Group's work in the area of risk management is led by the Chief Risk Officer and is executed by the Risk Management Department. This functional structure can assess, identify and document the Group's risk profile and to ensure that the business units focus, control and systematically avoid potential risks in various business area. The following is a brief description of the Group's approach in managing these risks.

(a) Credit risk

The Group's credit risk is primarily attributable to advances to customers, trade and other receivables, debt investments and unlisted derivative financial instruments.

For advances to customers, the Group requires collateral from customers before advances are granted. The amount of advance permitted depends on the quality and value of collateral provided by the customer. Any subsequent change in value as well as quality, of collateral is closely monitored in order to determine whether any corrective action is required.

Trade and other receivables mainly arise from the Group's investment activities. Receivables from brokers and counterparties are normally repayable on demand. The Group has established procedures in the selection of brokers/counterparties with sound credit ratings and/or reputation.

Investments in debt instruments and unlisted derivative financial instruments are also governed by whether the issuers and the trade counterparties respectively have sound credit ratings.

The Group has well defined policies in place on the setting and approval of trading, credit and investment position limits in order to manage its credit risk exposure and concentration. As at the balance sheet date, the Group did not have a significant concentration of credit risk other than the provision of advances to customers which are secured by unlisted securities, leasehold land or third parties guarantees of HK\$2,836 million (2013: HK\$2,035 million).

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, on the balance sheet date deducting any impairment allowance. Except for the corporate guarantee set out in note 34(a), the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of the corporate guarantee at the balance sheet date amounted to HK\$875 million (2013: HK\$2,451 million).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from advances to customers are set out in notes 20 and 32.

NOTES TO THE FINANCIAL STATEMENTS

37. Financial Instruments (continued)

(b) Liquidity risk

The Group's policy is to regularly assess current and expected liquidity requirements and to ensure that it maintains reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

For subsidiaries with statutory liquidity requirements, the Group closely monitors their liquidity positions. To ensure strict compliance, the Group maintains adequate cash reserves to prepare for immediate fund injection if required. If there is a medium to long-term operational need, the management would also consider adjusting those subsidiaries' capital structure. Subsidiaries with external equity stakeholders are generally responsible for their own liquidity management.

The following table details the remaining contractual maturities on the balance sheet date of the Group's and the Company's financial liabilities which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance date) and the earliest date the Group and the Company can be required to pay:

The Group

	2014				2013			
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year HK\$'000	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year HK\$'000
Creditors, deposits received and accrued charges	1,025,892	1,025,892	1,025,892	-	749,835	749,835	749,835	-
Bank loans	8,586,001	8,916,028	5,166,665	3,749,363	3,094,937	3,278,216	2,138,764	1,139,452
Notes payable	57,000	60,553	28,995	31,558	47,000	47,000	47,000	-
Trading securities	327,637	327,637	327,637	-	256,921	256,921	256,921	-
Financial liabilities designated at fair value through profit or loss	-	-	-	-	7,268	7,268	7,268	-
Other financial liabilities	3,234,796	3,234,796	3,234,796	-	-	-	-	-
Amount due to a joint venture	494	494	494	-	2,197	2,197	2,197	-
Amount due to an investee company	78,969	78,969	78,969	-	80,339	80,339	80,339	-
Amount due to a fellow subsidiary and shareholder	500,000	503,792	503,792	-	500,000	513,582	513,582	-
	13,810,789	14,148,161	10,367,240	3,780,921	4,738,497	4,935,358	3,795,906	1,139,452

NOTES TO THE FINANCIAL STATEMENTS

37. Financial Instruments (continued)

(b) Liquidity risk (continued)

The Company

	2014				2013			
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year HK\$'000	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year HK\$'000
Creditors, deposits received and accrued charges	5,707	5,707	5,707	-	7,263	7,263	7,263	-
Amounts due to subsidiaries	675,015	675,015	675,015	-	677,028	677,028	298,237	378,791
Bank loan	7,283,850	7,570,414	3,890,667	3,679,747	969,075	1,004,166	477,149	527,017
	7,964,572	8,251,136	4,571,389	3,679,747	1,653,366	1,688,457	782,649	905,808
Financial guarantees issued: Maximum amount guaranteed (note 34(a))	875,350	875,350	875,350	-	2,450,689	2,450,689	2,450,689	-

(c) Interest rate risk

The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range. Most of the Group's interest-bearing assets and liabilities are on a floating rate basis with maturity of one to six years.

The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises from treasury management, customer financing and investment portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. Interest rate risk is managed by the Treasury Department under the delegated authority of the Board of Directors. The instruments used to manage interest rate risk include time deposits and interest rate linked derivatives, if necessary.

The Group is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In respect of the Group's interest-bearing financial instruments, the Group's policy is to transact in financial instruments that mature or reprice in the short term, i.e. no longer than 12 months. Accordingly, the Group would be subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

In respect of interest-bearing financial assets and financial liabilities at variable interest rates, the following table indicates their effective interest rate at the balance sheet date. At 31 December 2014, it is estimated that a general increase/decrease of 0.5% in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained earnings, by HK\$21,955,213/HK\$25,852,799 (2013: increase of HK\$1,081,642/HK\$1,457,936 for increase/decrease of 0.5% in interest rate).

NOTES TO THE FINANCIAL STATEMENTS

37. Financial Instruments (continued)

(c) Interest rate risk (continued)

The above increase or decrease in interest rate represent the management's assessment of a reasonable change in interest rates over the period until the next annual balance sheet date. It also assumes that all other variable remains constant. The analysis is performed on the same basis for 2013.

The Group's interest bearing assets and liabilities are substantially at variable interest rate basis.

	2014		2013	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
Assets				
Advances to customers	6.24%	587,856	7.47%	435,580
Cash and cash equivalents	0.83%	4,465,289	1.14%	3,764,978
Total interest bearing assets		5,053,145		4,200,558
Liabilities				
Bank loans	2.84%	8,586,001	5.75%	3,094,937
Amount due to a fellow subsidiary and shareholder	2.74%	500,000	2.72%	500,000
Notes payable	3.50%	57,000	3.50%	47,000
Total interest bearing liabilities		9,143,001		3,641,937

(d) Currency risk

The Group's exposure to exchange risk primarily stems from holdings of monetary assets and liabilities denominated in currencies, other than Hong Kong dollars and net investment in foreign subsidiaries and associates. As most of the Group's monetary assets and liabilities and net investment in foreign subsidiaries and associates are denominated in Hong Kong dollars, United States dollars, Singapore dollars or Renminbi, management does not consider there to be any significant currency risk.

Overall, the Group monitors its currency exposure closely and would consider hedging significant currency exposure should the need arise.

NOTES TO THE FINANCIAL STATEMENTS

37. Financial Instruments (continued)

(d) Currency risk (continued)

At the balance sheet date, the Group's exposure to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate is tabled below:

	2014			2013		
	In USD HK\$'000	In RMB HK\$'000	In SGD HK\$'000	In USD HK\$'000	In RMB HK\$'000	In SGD HK\$'000
Fixed assets	1,189	-	-	-	441	-
Investments in associates	620,940	10,875,692	-	-	9,752,868	-
Investments in joint ventures	-	-	-	423,529	-	-
Available-for-sale securities	1,299,049	11,599,728	-	655,224	7,306,034	-
Financial assets designated at fair value through profit or loss	1,546,464	1,493,373	1,593,134	908,814	689,805	-
Advances to customers	1,258,383	194,480	-	644,737	-	-
Amounts due from investee companies	488,395	-	-	14,221	-	-
Amount due from a joint venture	-	-	-	198	-	-
Debtors, deposits and prepayments	783,757	8,247	-	1,067,183	9,518	-
Trading securities	3,138	-	-	-	34,942	-
Cash and cash equivalents	515,302	1,324,891	-	484,755	876,366	-
Bank loans	(3,899,085)	-	(880,845)	(969,075)	-	-
Creditors, deposits received and accrued charges	(85,918)	(124,891)	-	(154,958)	(6,361)	-
Provision for taxation	-	(1,596)	-	-	-	-
Deferred tax liabilities	-	(147,431)	-	-	(97,051)	-
Net exposure arising from recognised assets and liabilities	2,531,614	25,222,493	712,289	3,074,628	18,566,562	-

An analysis of the estimated change in the Group's profit before tax and other components of consolidated equity in response to reasonably possible changes in the exchange rates to which the Group has significant exposure at the balance sheet date is presented in the following table.

	2014			2013 (Restated)		
	Increase/ (decrease) in exchange rates	Effect on profit before tax HK\$'000	Effect on other components of equity HK\$'000	Increase/ (decrease) in exchange rates	Effect on profit before tax HK\$'000	Effect on other components of equity HK\$'000
United States Dollars, USD	1% (1%)	6,104 (6,104)	19,212 (19,212)	1% (1%)	19,957 (19,957)	10,790 (10,790)
Renminbi, RMB	1% (1%)	27,471 (27,471)	224,754 (224,754)	1% (1%)	15,072 (15,072)	170,593 (170,593)
Singapore Dollars, SGD	1% (1%)	7,123 (7,123)	- -	1% (1%)	- -	- -

The above analysis assumes the change in exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk in existence at that date while all other variables remain constant. The stated changes also represent management's assessment of reasonably possible changes in exchange rates until the next annual balance sheet date. The Hong Kong dollar and the United States dollar peg is assumed to stay materially unaffected by any fluctuation of the United States dollar against other currencies. The analysis is performed on the same basis for 2013.

NOTES TO THE FINANCIAL STATEMENTS

37. Financial Instruments (continued)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 22), available-for-sale securities (see note 18), financial assets designated as fair value through profit or loss (see note 19) and financial liabilities designated as fair value through profit or loss. Other than unlisted securities held for medium to long-term strategic purposes, all of these investments are listed.

The Group's listed investments are mainly listed on the Stock Exchange of Hong Kong, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Decisions to buy or sell trading securities rest with assigned investment team professionals and each investment portfolio is governed by specific investment and risk management guideline. Independent daily monitoring of each portfolio against the corresponding guideline is carried out by the Risk Management Department. Listed investments held in the available-for-sale securities and financial assets designated as fair value through profit or loss portfolio have been chosen based on their medium to long-term growth potential and are monitored regularly for performance against expectations.

The performance of the Group's unquoted investments is assessed, based on the information available to the Group, periodically against performance of listed entities of comparable size and nature of businesses.

The following table shows the approximate changes in the Group's profit after tax (and retained earnings) in response to reasonable change in the value of the relevant listed and unlisted equity investment. The analysis is performed on the same basis as in 2013:

	Increase/ (Decrease) in equity price	2014 Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity of equity HK\$'000	Increase/ (Decrease) in equity price	2013 Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity of equity HK\$'000
Listed equity investments	10% (10%)	266,677 (273,991)	1,011,563 (1,004,249)	10% (10%)	24,071 (26,586)	506,935 (596,936)
Unlisted equity investments	5% (5%)	202,052 (215,238)	335,383 (319,213)	5% (5%)	117,647 (125,427)	298,781 (291,001)

NOTES TO THE FINANCIAL STATEMENTS

37. Financial Instruments (continued)

(f) Offsetting financial assets and financial liabilities

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amounts of recognised financial assets HK\$'000	Gross amounts of recognised financial liabilities set off in the balance sheet HK\$'000	Net amounts of financial assets presented in the balance sheet HK\$'000	Related amounts not set off in the balance sheet HK\$'000	Net Amount HK\$'000
As at 31 December 2014					
Trading securities	726,094	-	726,094	(310,793)	415,301
Debtors, deposit and prepayments	370,797	-	370,797	-	370,797
As at 31 December 2013 (restated)					
Trading securities	453,758	-	453,758	(204,383)	249,375
Debtors, deposit and prepayments	325,754	-	325,754	(791)	324,963

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amounts of recognised financial liabilities HK\$'000	Gross amounts of recognised financial assets set off in the balance sheet HK\$'000	Net amounts of financial liabilities presented in the balance sheet HK\$'000	Related amounts not set off in the balance sheet HK\$'000	Net Amount HK\$'000
As at 31 December 2014					
Trading securities	327,637	-	327,637	(310,793)	16,844
Creditors, deposit received and accrued charges	55,701	-	55,701	-	55,701
As at 31 December 2013 (restated)					
Trading securities	204,383	-	204,383	(204,383)	-
Creditors, deposit received and accrued charges	791	-	791	(791)	-

Reconciliation to the net amount of financial assets and financial liabilities presented in the balance sheet

	Net amount HK\$'000	Carrying amounts in the balance sheet HK\$'000	Financial assets not in scope of offsetting disclosure HK\$'000	Note
As at 31 December 2014				
Trading securities	726,094	1,357,918	631,824	22
Debtors, deposit and prepayments	370,797	1,194,684	823,887	21
As at 31 December 2013				
Trading securities	453,758	649,822	196,064	22
Debtors, deposit and prepayments	325,754	1,558,192	1,232,438	21

	Net amount HK\$'000	Carrying amounts in the balance sheet HK\$'000	Financial liabilities not in scope of offsetting disclosure HK\$'000	Note
As at 31 December 2014				
Trading securities	327,637	327,637	-	22
Creditors, deposit received and accrued charges	55,701	1,025,892	970,191	26
As at 31 December 2013				
Trading securities	204,383	256,921	52,538	22
Creditors, deposit received and accrued charges	791	749,835	749,044	26

NOTES TO THE FINANCIAL STATEMENTS

38. Fair Values of Financial Instruments

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group uses an independent valuer to perform valuations of financial instruments, including available-for-sale equity securities and financial assets designated at fair value through profit or loss which are categorised into Level 3 of the fair value hierarchy. The team reports directly to the Chief Financial Officer and the Audit and Risk Management Committee. A valuation report with analysis of changes in fair value measurement is prepared by the team at each interim and annual reporting date, and is reviewed and approved by the Chief Financial Officer. Discussion of the valuation process and results with the Chief Financial Officer and the Audit and Risk Management Committee is held twice a year to coincide with the reporting dates.

As at 31 December 2014

	Group				Company		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000	Level 1 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurement							
Assets							
Available-for-sale securities	12,119,288	-	6,889,233	19,008,521	9,558,192	-	9,558,192
Financial assets designated at fair value through profit or loss	2,042,948	-	5,528,414	7,571,362	-	-	-
Trading securities	1,056,368	301,550	-	1,357,918	-	-	-
	15,218,604	301,550	12,417,647	27,937,801	9,558,192	-	9,558,192
Liabilities							
Notes payable	-	-	(57,000)	(57,000)	-	-	-
Trading securities	(257,833)	(69,804)	-	(327,637)	-	-	-
	(257,833)	(69,804)	(57,000)	(384,637)	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

38. Fair Values of Financial Instruments (continued)

As at 31 December 2013

	Group				Company		
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000	Level 1 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurement							
Assets							
Available-for-sale securities	6,715,161	-	6,327,390	13,042,551	5,709,762	-	5,709,762
Financial assets designated at fair value through profit or loss	120,570	672,011	2,536,209	3,328,790	-	-	-
Trading securities	553,222	79,777	16,823	649,822	-	-	-
	7,388,953	751,788	8,880,422	17,021,163	5,709,762	-	5,709,762
Liabilities							
Financial liabilities designated at fair value through profit or loss	-	-	(7,268)	(7,268)	-	-	-
Notes payable	-	-	(47,000)	(47,000)	-	-	-
Trading securities	(256,232)	(689)	-	(256,921)	-	-	-
	(256,232)	(689)	(54,268)	(311,189)	-	-	-

As at 31 December 2014, one of the financial assets designated at fair value through profit or loss with a fair value of HK\$1,452,844,000 (31 December 2013: HK\$672,012,000) was previously using an adjusted quoted market price. As unadjusted quoted price is available in active market, the fair value measurement of this equity security was accordingly transferred from Level 2 to Level 1 of the fair value hierarchy.

As at 31 December 2014, the fair value of one of the available-for-sales securities with a fair value of HK\$854,551,000 (2013: HK\$295,467,000) was previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As unadjusted quoted price is available in active market, the fair value measurement of this equity security was accordingly transferred from level 3 to level 1 of the fair value hierarchy. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation techniques and inputs used in level 2 fair value measurements

The fair value of unlisted debt securities and derivatives in level 2 is determined using broker quotes.

NOTES TO THE FINANCIAL STATEMENTS

38. Fair Values of Financial Instruments (continued)

Information about Level 3 fair value measurements

As at 31 December 2014

Valuation techniques	Significant unobservable inputs	Range	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss HK\$'000	Favourable/ (unfavourable) impact on other comprehensive income HK\$'000
Market comparable companies	Discount for lack of marketability	20% to 45%	5% (5%)	(911) 911	(102,552) 102,552
	Market multiples	2 to 66	5% (5%)	1,264 (1,264)	177,536 (177,536)
Term and Reversion approach	Adjusting factor on characteristic of the properties	0.88 to 0.89	5% (5%)	– –	12,816 (12,816)
Market approach	Adjusting factor on characteristic of the properties	0.84 to 1.05	5% (5%)	– –	10,803 (10,803)

As at 31 December 2013

Valuation techniques	Significant unobservable inputs	Range	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss HK\$'000	Favourable/ (unfavourable) impact on other comprehensive income HK\$'000
Market comparable companies	Discount for lack of marketability	20% to 45%	5% (5%)	(3,582) 3,582	(86,481) 86,481
	Market multiples	1 to 34	5% (5%)	4,793 (4,793)	165,444 (165,444)
Residual approach	Premium /(discount) on characteristic of the properties	(35%) to 43%	5% (5%)	3,880 (3,880)	24,013 (24,013)
Replacement cost approach	Premium /(discount) on characteristic of the properties	(42%) to 54%	5% (5%)	827 (827)	7,728 (7,728)

NOTES TO THE FINANCIAL STATEMENTS

38. Fair Values of Financial Instruments (continued)

Information about Level 3 fair value measurements (continued)

The fair value of unquoted equity investments is estimated using an appropriate combination of (1) discount cash flow method to devolve the future value of the business into a present market value, (2) deducing from prices recently paid for similar assets and the financial indicators of the transacted assets such as net book value and net operating profit, (3) applying, if possible, price to earnings (“P/E”) ratios, price to book (“P/B”) ratios, enterprise value to earnings before interest, taxes, depreciation and amortisation (“EV/EBITDA”) ratios and enterprise value to sales (“EV/Sales”) ratios for similar listed companies adjusted to reflect the specific circumstances of the investments, (4) applying residual approach to deduct the estimated construction cost, interest and developer’s profit from the gross development value, and (5) applying replacement cost approach to estimate the market value for the existing use of the land, plus the current cost of replacement of the improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

The fair value of convertible notes is estimated discounting future cash flows. Future cash flows are estimated based on management’s best estimate of the amount it would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions. The discount rate used is a market rate for a similar instrument at the balance sheet date. The fair value of an option contract is determined by applying an option valuation model such as the Black-Scholes valuation model. Inputs are based on market related data at the balance sheet date.

The movement during the year in the balance of Level 3 financial instruments is as follows:

	Group					Company
	Trading securities	Available-for-sale securities	Financial assets	Financial liabilities	Notes payable	Available-for-sale securities
			designated at fair value through profit or loss	designated at fair value through profit or loss		
HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	
At 1 January 2013	-	4,618,222	1,926,794	(97,495)	(155,540)	108,540
Purchased	57,203	1,783,941	1,428,407	-	-	-
Net unrealised gain or loss recognised in other comprehensive income	-	540,597	-	-	-	-
Net unrealised gain or loss recognised in profit or loss	(40,380)	-	102,375	(191)	-	-
(Sales)/repurchased	-	(615,370)	(451,949)	90,418	108,540	(108,540)
Reclassification	-	-	(469,418)	-	-	-
At 31 December 2013 and 1 January 2014	16,823	6,327,390	2,536,209	(7,268)	(47,000)	-
Purchased/(issued)	-	1,879,601	3,287,994	-	(10,000)	-
Net unrealised gain or loss recognised in other comprehensive income	-	1,069,783	-	-	-	-
Net unrealised gain or loss recognised in profit or loss	-	-	(102,682)	-	-	-
(Sales)/repurchased	(16,823)	(1,080,087)	(193,107)	7,268	-	-
Reclassification	-	(1,307,454)	-	-	-	-
At 31 December 2014	-	6,889,233	5,528,414	-	(57,000)	-

NOTES TO THE FINANCIAL STATEMENTS

39. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit before taxation to net cash outflow from operating activities:

	2014 HK\$'000	2013 HK\$'000
Profit before taxation	2,972,167	1,799,640
Interest income on bank deposits	(51,458)	(50,636)
Interest expenses	220,712	108,460
Dividend income	(715,791)	(574,210)
Share of profits less losses of joint ventures	(115,779)	(82,279)
Share of profits less losses of associates	(1,138,762)	(160,909)
Gain on deemed disposal of interest in a joint venture	(139,654)	–
Depreciation expenses	21,973	20,625
Realised loss on note payable	–	101,363
Realised gain on disposal of a joint venture	–	(5,956)
Realised gain on disposal of an associate	–	(960)
Net realised (gain)/loss on disposal of financial asset designated at fair value through profit or loss	(32,474)	445
Net realised gain on disposal of financial liabilities designated at fair value through profit or loss	–	(5,131)
Net unrealised gain on financial asset designated at fair value through profit or loss	(685,366)	(368,464)
Gain on losing control of subsidiaries	(818)	–
Net realised gain on disposal of available-for-sale securities	(519,698)	(758,754)
Net surplus on revaluation of investment properties	(5,500)	(2,470)
Gain on disposal of fixed assets	–	(20)
Impairment loss on available-for-sale securities	191,374	21,150
Impairment loss on amount due from an investee company	12,125	2,016
Reversal of impairment loss on amount due from an investee company	–	(62,661)
Impairment loss of goodwill	9,751	–
Cash inflow/(outflow) before working capital changes	22,802	(18,751)
Increase in advances to customers	(2,355,620)	(78,341)
Decrease/(increase) in debtors, deposits and prepayments	431,987	(408,963)
Decrease/(increase) in amounts due from joint ventures	440	(3,758)
Decrease/(increase) in amount due from an associate	497	(19,818)
(Increase)/decrease in trading securities	(637,380)	235,218
Increase in creditors, deposits received and accrued charges	276,343	353,832
(Increase)/decrease in amount due from an investee company	(365,503)	9,542
Decrease in amount due to a joint venture	(1,703)	–
Increase in amount due to an investee company	–	79,579
Hong Kong profits tax (paid)/refund	(19,167)	6,664
Overseas profits tax paid	(113,921)	(110,759)
Interest paid	(220,999)	(106,752)
Net cash outflow from operating activities	(2,982,224)	(62,307)

40. Segment Information

The Group manages and conducts the majority of its business activities by business units. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments:

- Primary Market Investment – including:
 - Private Equity Funds – investment in unlisted equity securities and/or equity derivatives with meaningful equity position for participating in the ongoing management of these companies, and with an ultimate objective of capital gain on investee's equity listing or, in some circumstances, prior to listing;
 - Venture Capital Funds – invests primarily in sectors, such as new energy and new materials, energy-saving and environmental friendly services, bio-pharmaceuticals and healthcare, digital information and high-end manufacturing, as well as traditional manufacturing which is supported by hi-tech and advanced skills, with an ultimate objective of providing one-stop services for the investee companies including investment, financing, management and listing, enabling better returns for investors; and
 - Sector Focus Funds – sector focus specific long term investment in projects and equities, also targeting the management of investment funds focusing on real estate, infrastructure, medical & healthcare and resources assets (including low carbon and new energy industries).
- Secondary Market Investment – provides a diversified range of financial services including asset management, investment management and investment advisory activities which employ a wide range of investment strategies including market neutral, absolute returns, bond fund and equity fund. Investment return on the Group's own capital seeded into those fund is included herewith.
- Structured Financing and Investment – mainly invests in private equity, pre-IPO financing and structured financing for listed companies and its major shareholders by using its proprietary capital. It uses foreign currencies and/or Renminbi flexibly to facilitate the onshore and offshore financial needs of its target companies or individuals. Investment professionals in the team follow simple and clear investment philosophies by adopting a conservative, diversified and flexible investment approach that attains above-market returns on capital with below-average levels of business risk.
- Strategic Investment and Treasury – the Group's treasury management operations, and medium and long term investments which are carried out under senior management's directions.
- All other segments – which do not meet the threshold to be reportable and include the Group's investment in properties and certain financial assets and liabilities created from corporate investments.

Segment results are measured in accordance with HKFRS as profit/(loss) before taxation less non-controlling interests' share of profit/(loss).

Inter-segment transactions are priced by reference to normal commercial rates and/or cost recovery basis. Revenues of all other segments mainly include gross rental income, inter-segment service income and investment gain/(loss) from notes payable and certain corporate available-for-sale securities.

NOTES TO THE FINANCIAL STATEMENTS

40. Segment Information (continued)

(a) Business segments

For the year ended 31 December 2014:

	Primary Market Investment HK\$'000	Secondary Market Investment HK\$'000	Structured Financing & Investment HK\$'000	Strategic Investment & Treasury HK\$'000	Reportable segment total HK\$'000	All other segments HK\$'000	Total HK\$'000
REVENUE							
Operating income from external customers	550,730	185,422	431,484	378,674	1,546,310	141,300	1,687,610
Other net income from external customers	1,020,374	9,847	115,200	251,802	1,397,223	(84,891)	1,312,332
Total operating income and other net income	1,571,104	195,269	546,684	630,476	2,943,533	56,409	2,999,942
RESULTS AND RECONCILIATION OF SEGMENT RESULTS							
Segment results before non-controlling interests	1,038,741	60,508	175,921	607,595	1,882,765	(20,762)	1,862,003
Unallocated head office and corporate expenses							(284,031)
Share of profits less losses of associates, as per the associates' financial statements							1,068,934
Share of profits less losses of joint ventures, as per the joint ventures' financial statements							152,222
Gain on deemed disposal of interest in a joint venture							139,654
Adjustments to share of profits less losses to conform with the Group's accounting policies							33,385
Profit before taxation							2,972,167
Less: non-controlling interests	(318,740)	-	12,395	-	(306,345)	(17,238)	
Segments results	720,001	60,508	188,316	607,595	1,576,420	(38,000)	
Interest income	29,020	46,005	246,308	24,960	346,293	107,904	454,197
Finance costs	173	6,277	84,364	15,304	106,118	114,594	220,712
Depreciation expenses	1,260	1,578	684	-	3,522	18,451	21,973
Impairment loss on available-for-sale securities	138,169	4,620	-	-	142,789	48,585	191,374

NOTES TO THE FINANCIAL STATEMENTS

40. Segment Information (continued)

(a) Business segments (continued)

For the year ended 31 December 2013:

	Primary Market Investment HK\$'000	Secondary Market Investment HK\$'000	Structured Financing & Investment HK\$'000	Strategic Investment & Treasury HK\$'000	Reportable segment total HK\$'000	All other segments HK\$'000	Total HK\$'000
REVENUE							
Operating income from external customers	546,851	56,242	328,250	161,922	1,093,265	68,607	1,161,872
Other net income from external customers	822,117	(3,267)	101,261	90,989	1,011,100	126,404	1,137,504
Total operating income and other net income	1,368,968	52,975	429,511	252,911	2,104,365	195,011	2,299,376
RESULTS AND RECONCILIATION OF SEGMENT RESULTS							
Segment results before non-controlling interests	1,164,957	(51,788)	259,055	229,522	1,601,746	149,671	1,751,417
Unallocated head office and corporate expenses							(194,965)
Share of profits less losses of associates, as per the associates' financial statements							121,581
Share of profits less losses of joint ventures, as per the joint ventures' financial statements							93,522
Adjustments to share of profits less losses to conform with the Group's accounting policies							28,085
Profit before taxation							1,799,640
Less: non-controlling interests	(382,412)	-	(22,023)	-	(404,435)	3,085	
Segments results	782,545	(51,788)	237,032	229,522	1,197,311	152,756	
Interest income	40,998	19,870	161,838	28,596	251,302	31,545	282,847
Finance costs	124	4,058	60,986	17,266	82,434	26,026	108,460
Depreciation expenses	706	1,542	581	-	2,829	17,796	20,625
Impairment loss on available-for-sale securities	8,124	13,026	-	-	21,150	-	21,150

NOTES TO THE FINANCIAL STATEMENTS

40. Segment Information (continued)

(a) Business segments (continued)

Other Information

As at 31 December 2014

	Primary Market Investment HK\$'000	Secondary Market Investment HK\$'000	Structured Financing & Investment HK\$'000	Strategic Investment & Treasury HK\$'000	Reportable segment total HK\$'000	All other segments HK\$'000	Sub-total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment assets	11,203,533	2,909,739	5,726,296	11,949,804	31,789,372	7,048,748	38,838,120	-	38,838,120
Investments in associates									12,459,124
Investments in joint ventures									574,328
Amounts due from investee companies									523,070
Amount due from an associate									19,321
Amounts due from joint ventures									3,995
Unallocated head office and corporate assets									216,413
Total assets									52,634,371
Segment liabilities	319,443	342,127	5,097,996	501,402	6,260,968	3,795,078	10,056,046	-	10,056,046
Amount due to a joint venture									494
Amount due to an investee company									78,969
Provision for taxation									207,078
Deferred tax liabilities									425,918
Unallocated head office and corporate liabilities									3,675,280
Total liabilities									14,443,785
Additions to non-current segment assets during the year	2,049	-	75	-	2,124	4,524	6,648	-	6,648

NOTES TO THE FINANCIAL STATEMENTS

40. Segment Information (continued)

(a) Business segments (continued)

Other Information (continued)

As at 31 December 2013

	Primary Market Investment HK\$'000	Secondary Market Investment HK\$'000	Structured Financing & Investment HK\$'000	Strategic Investment & Treasury HK\$'000	Reportable segment total HK\$'000	All other segments HK\$'000	Sub-total HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment assets	9,832,084	1,409,318	3,548,839	7,389,392	22,179,633	3,066,220	25,245,853	(1,811)	25,244,042
Investments in associates									10,684,673
Investments in joint ventures									721,404
Amounts due from investee companies									169,011
Amount due from an associate									19,818
Amounts due from joint ventures									4,435
Unallocated head office and corporate assets									211,387
Total assets									37,054,770
Segment liabilities	111,128	264,598	1,183,496	744,758	2,303,980	1,122,789	3,426,769	(1,811)	3,424,958
Amount due to a joint venture									2,197
Amount due to an investee company									80,339
Provision for taxation									302,561
Deferred tax liabilities									284,799
Unallocated head office and corporate liabilities									1,231,003
Total liabilities									5,325,857
Additions to non-current segment assets during the year	276	-	873	-	1,149	15,226	16,375	-	16,375

NOTES TO THE FINANCIAL STATEMENTS

40. Segment Information (continued)

(b) Geographical segments

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, interests in associates and joint ventures ("Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the Specified non-current assets is based on the physical location of the asset. For interests in associates and joint ventures, the geographical location is based on the location of operations.

	For the year ended 31 December 2014			For the year ended 31 December 2013		
	Mainland			Mainland		
	Hong Kong HK\$'000	China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	China HK\$'000	Total HK\$'000
Segment revenue						
Operating income	726,044	961,566	1,687,610	520,679	641,193	1,161,872
Other net income	887,533	424,799	1,312,332	397,862	739,642	1,137,504
	1,613,577	1,386,365	2,999,942	918,541	1,380,835	2,299,376

	For the year ended 31 December 2014			For the year ended 31 December 2013		
	Mainland			Mainland		
	Hong Kong HK\$'000	China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	China HK\$'000	Total HK\$'000
Specified non-current assets	1,522,620	12,075,854	13,598,474	1,062,943	10,918,113	11,981,056

41. Accounting Estimates and Judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the financial statements in the periods where the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Group's reporting to differ. The Group believes that the assumptions that have been made are appropriate and that the financial statements therefore present the financial position and results fairly, in all material respects. Management has discussed with the Audit and Risk Management Committee the development, selection and disclosure of the Group's significant accounting policies and estimates and the application of these policies and estimates.

NOTES TO THE FINANCIAL STATEMENTS

41. Accounting Estimates and Judgements *(continued)*

(a) Sources of estimation uncertainty

(i) *Unlisted investments*

The fair value of unlisted available-for-sale securities and other non-trading securities are significantly affected by the combination of valuation methodologies employed, the parameters used and, if required, the related comparable companies chosen. The valuation methodologies and the source of parameters adopted by the Group are discussed in note 38.

(ii) *Advances to customers*

Advances to customers are reviewed periodically to assess whether impairment losses exist. The Group makes judgement as to whether there is any objective evidence that an advance is impaired, i.e. whether there is a decrease in estimated future cash flows. If management has determined, based on their judgement, that objective evidence for impairment exists, expected future cash flows are estimated based on historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

(iii) *Derivative instruments*

The Group has certain derivatives of which the fair value is determined by valuation models that involve significant unobservable inputs. A high degree of management judgement and estimation is required in determination of fair value. Note 38 contain information about the assumptions and the risk factors relating to valuation of derivatives where direct market prices are not available.

(iv) *Tax provision*

The Group's taxation provision is based on management's assessment of the estimated assessable profits for the year taking into consideration tax legislations in Hong Kong and the relevant overseas jurisdictions.

(b) Critical accounting judgements in applying the Group's accounting policies

(i) *Involvement with unconsolidated structured entities*

Disclosures of interests in unconsolidated structured entities provide information on involvement in these entities which exposes the Group to variability of returns from the performance of the other entity. Involvement is considered on a case-by-case basis, taking into account the nature of the entity's activity. This could include holding debt and equity instruments, or the provision of structured derivatives, but excludes involvement that exist only because of typical customer supplier relationships, such as market-making transactions to facilitate secondary trading or senior lending in the normal course of business.

NOTES TO THE FINANCIAL STATEMENTS

42. Banking Facilities and Pledge of Assets

Aggregate banking facilities of the Group as at 31 December 2014 amounted to approximately HK\$9,497 million (2013: approximately HK\$5,874 million). The Group has utilised approximately HK\$8,586 million (2013: HK\$4,536 million) of these facilities.

As at 31 December 2014, fixed deposits of HK\$722,734,000 (2013: HK\$931,271,000) were pledged to secure banking facilities (note 23).

Pursuant to the prime brokerage agreements entered with the prime brokers of a fund held by the Group, cash and securities deposited with the prime brokers are secured against liabilities to the prime brokers. As at 31 December 2014, assets deposited with the prime brokers include HK\$600,779,395 (2013: HK\$453,414,000) and HK\$220,093,611 (2013: HK\$324,407,000) which form part of the Group trading securities and debtors respectively.

43. Non-adjusting Post-balance Sheet Events

Subsequent to 31 December 2014, several announcements were made by the Company to disclose information about the discloseable transaction in relation to the acquisition of all of the issued and outstanding shares of Burke E. Porter Machinery Company (the "Acquisition").

The Company announced that all the conditions precedent in relation to the closing set forth in the Stock Purchase Agreement (as supplemented and amended by the supplemental agreement dated 27 February 2015) have been fulfilled and the closing took place on 9 March 2015 (US time) pursuant to the terms of the Stock Purchase Agreement (as supplemented and amended by the supplemental agreement dated 27 February 2015). The total consideration of the Acquisition at closing did not exceed US\$105 million. Upon completion of the Acquisition, Burke E. Porter Machinery Company became a wholly-owned subsidiary of CEL Auto Investment S.à r.l which is a subsidiary of the Company.

The Acquisition did not affect the Group' financial position as of 31 December 2014.

* For identification purposes only

NOTES TO THE FINANCIAL STATEMENTS

44. Approval of Financial Statements

The financial statements on pages 88 to 166 were approved and authorised for issue by the Board of Directors on 30 March 2015.

45. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the year ended 31 December 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, <i>Defined benefit plans: Employee contributions</i>	1 July 2014
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, <i>Accounting for acquisitions of interests in joint operations</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

FINANCIAL SUMMARY

Results

	For the years ended				31.12.2014 HK\$'000
	31.12.2010 HK\$'000	31.12.2011 HK\$'000	31.12.2012 HK\$'000	31.12.2013 HK\$'000	
Turnover	2,214,071	3,089,975	4,050,657	8,157,205	6,622,673
Operating profit after finance costs	1,342,033	901,382	1,412,858	1,556,452	1,577,972
Gain on deemed disposal of interest in a joint venture	–	–	–	–	139,654
Share of adjusted profits less losses of associates and joint ventures	829,919	617,584	168,701	243,188	1,254,541
Profit before taxation	2,171,952	1,518,966	1,581,559	1,799,640	2,972,167
Income tax	(112,805)	(184,964)	(213,837)	(51,742)	(88,896)
Profit after taxation before discontinued operations	2,059,147	1,334,002	1,367,722	1,747,898	2,883,271
Discontinued operations	107,810	522,447	–	–	–
Profit for the year	2,166,957	1,856,449	1,367,722	1,747,898	2,883,271
Attributable to:					
Equity shareholders of the Company	1,927,207	1,922,705	1,141,555	1,346,548	2,559,688
Non-controlling interests	239,750	(66,256)	226,167	401,350	323,583
	2,166,957	1,856,449	1,367,722	1,747,898	2,883,271
Earnings per share (HK\$)	1.19	1.116	0.663	0.783	1.514

Assets and Liabilities

	As at				31.12.2014 HK\$'000
	31.12.2010 HK\$'000	31.12.2011 HK\$'000	31.12.2012 HK\$'000	31.12.2013 HK\$'000	
Total assets	33,941,660	31,100,416	32,258,079	37,054,770	52,634,371
Total liabilities	(3,770,189)	(2,827,688)	(2,301,800)	(5,325,857)	(14,443,785)
Non-controlling interests	(2,030,848)	(1,807,391)	(1,844,277)	(3,024,926)	(3,216,456)
Shareholders' fund	28,140,623	26,465,337	28,112,002	28,703,987	34,974,130

PARTICULARS OF MAJOR PROPERTIES

Location	Site area/Gross floor area	Tenure	Use
Hong Kong			
46th Floor, Far East Finance Centre, 16 Harcourt Road	Gross floor area of 10,800 sq. ft.	Government lease for 75 years from 23rd July 1980, renewable for another 75 years	Commercial
40th Floor, Far East Finance Centre, 16 Harcourt Road	Gross floor area of 10,800 sq. ft.	Government lease for 75 years from 23rd July 1980, renewable for another 75 years	Commercial
Flat A, 27/F, 1 Star Street, Wanchai	Gross floor area of 655 sq. ft.	Government lease for 75 years from 22nd August 1928 (extended for another 75 years)	Residential
Flat H, 6th Floor, Tower 10, South Horizons, Ap Lei Chau	Gross floor area of 1,096 sq. ft.	Government lease from 28th January 1988 to 31st March 2040	Residential
Flat G, 40th Floor and the Roof Terrace, Tower 17, South Horizons, Ap Lei Chau	Gross floor area of 2,195 sq. ft.	Government lease from 28th January 1988 to 31st March 2040	Residential
Flat H, 22nd Floor, Tower 21, South Horizons, Ap Lei Chau	Gross floor area of 1,107 sq. ft.	Government lease from 28th January 1988 to 31st March 2040	Residential
Car Parking Space Nos. 230 and 241 on Podium Level 1, Phase II, Car Parking Space No. 9 on Podium Level 2, Phase III, South Horizons, Ap Lei Chau	Not applicable	Government lease from 28th January 1988 to 31st March 2040	Carpark
Mainland China			
Units 1-17, 8th Floor, Industrial Bank Building, 4013 Shennan Road, Futian District, Shenzhen	Gross floor area of 1,241.25 sq.m.	Land use right for 50 years from 27th December 2000	Commercial
Unit 1300, Level 13, China Overseas International Center, 28 Ping'anli West Street, Xicheng District, Beijing	Gross floor area of 1,474.42 sq.m.	Land use right for 50 years from 7th March 2004	Commercial
Level 25, 21 Century Center, No. 210 Century Road, Pudong New District, Shanghai	Gross floor area of 1,976.23 sq.m.	Land use right for 50 years from 25th February 1997	Commercial

CORPORATE INFORMATION

Board of Directors

Tang Shuangning	Chairman
Liu Jun	Deputy Chairman
Chen Shuang	Chief Executive Officer
Tang Chi Chun, Richard	Chief Financial Officer
Jiang Yuanzhi	Chief Investment Officer
Wang Weimin [#]	
Seto Gin Chung, John [*]	
Lin Zhijun [*]	
Chung Shui Ming, Timpson [*]	

[#] Non-executive Director

^{*} Independent Non-executive Directors

Company Secretary

Chan Ming Kin, Desmond

Registered Office

46th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Bankers

China Everbright Bank Company Limited
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank (Asia) Corporation Limited
Bank of Communications Company, Limited
Shanghai Pudong Development Bank Company, Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

Legal Advisors

Grandall Legal Group (Shanghai) Office

Share Registrars

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

Auditors

KPMG

Website Address

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