



**READY FOR  
THE RIGHT MOMENT**  
蓄勢待發

Annual Report 2012  
Stock Code : 165

# Everbright's macro asset management platform has been improving after five years of transition

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Our asset management products range from private equity funds, venture capital funds and sector focus funds, to structured financing and investment products as well as mezzanine funds, to hedge funds and bond investment funds.

Everbright's platform capitalises on the gradual opening of China's financial market, which is expanding into two-way stream of inbound foreign direct investment and Chinese investment overseas. Our operational model allows it to be easily adopted for new products that are subject to less constraint in the mainland than ever.



## Cover story

“Ready for the right moment” is the theme for the 2012 annual report of Everbright. During these years, faced with the volatile fluctuation in the financial markets, we managed to accurately capitalise on the change in the deployment of economic and financial strategies within the region. We thus achieved a healthy and practical transformation in our business strategies. As of to-date, we are fully equipped with the energy and the persistence for a next better stage in future. Everything is onset for the right opportunities to emerge.

## 2012 Results Highlights

### Restructuring of macro asset management business completed

Three core business segments comprising Primary Market Investment, Secondary Market Investment and Structured Financing & Investment were formed. Everbright also actively drives the rapid development of its aircraft leasing business.

### Ongoing expansion in scale of business

- The number of funds under management increased to **14**. Various new investment products included a medical and healthcare fund, QDII Trust Scheme for bond investments, hedge funds and a mezzanine fund.
- Total capital raised from the funds increased from HK\$16.8 billion to more than **HK\$23 billion**.
- The number of projects invested by the funds increased by 15 to **49**.
- The number of aircrafts in operation increased to **16**, and procurement for **36** new Airbus were placed.

### Operation highlights

- Profit before tax of the Hong Kong operations amounted to HK\$1.41 billion, an increase of **57%**, exclusive of the gain derived from the sale of a 51% stake in Everbright Securities (International) in 2011.
- Structured Financing & Investment Business recorded profit before taxation of **HK\$710 million**, and became an important profit centre.
- Shareholders' equity increased by 6.2% to **HK\$28.1 billion**, going from strength to strength despite the sluggish performance of the financial market last year.
- The interest bearing gearing ratio was maintained at a very low level of **3.6%**.

## 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.

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## About Everbright



China Everbright Limited (“Everbright”, stock code: 165), 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) and third largest shareholder of Everbright Bank (stock code: 601818) 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 & Investment. Moreover, being a substantial shareholder of China Aircraft Leasing Company Limited, 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 focus 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.

## Restructuring the businesses in Hong Kong

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In line with the change in the external environment and our own corporate development, Everbright made appropriate adjustments to its business structure, whilst its macro asset management strategy remained intact.

### **A restructured cross-border macro asset management platform in 2012** .....

Three core business segments comprising Primary Market Investment, Secondary Market Investment and Structured Financing & Investment were formed in 2012. Everbright also actively drives the rapid development of its aircraft leasing business. In addition, by continuously leveraging the advantages of the 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.



**Diversified fund management  
and investment businesses**

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## Primary Market Investment

This is the most mature and scalable operation at Everbright, it includes venture capital funds, private equity funds and sector focus funds that focus on investing and capitalising on non-listed enterprises and industries with long-term growth potential in China.

## Secondary Market Investment

It focuses on the investment opportunities of listed securities, providing more options to clients for flexible allocation of assets. Main products include bond investment funds and hedge funds.

## Structured Financing & Investment

It deploys business opportunities for “financing & investments” in the mid-to-short term with the support of the abundant financial resources of Everbright and the extensive business channels in the fields of primary and secondary market investments. A Renminbi Mezzanine Fund was already established, and it is initiating an offshore Mezzanine Fund in US dollars.

## Aircraft Leasing

As the substantial shareholder of China Aircraft Leasing Company Limited, Everbright actively drives the rapid development of the aircraft leasing business in China and emerging markets. At present, major models are the Boeing 737 and Airbus 320 and 330, which are leased to sizable state-owned airlines in China.

## 2012 Overview

### Business Achievements

2012 01 02 03 04 05 06 07 08



- Everbright Ashmore Real Estate Fund established its sub-fund business denominated in Renminbi and new assets of more than RMB3 billion were added during the year



- China Aircraft Leasing Company Limited, a jointly controlled entity of Everbright, introduced China Aerospace Investment Holdings Ltd. as a strategic investor and announced that it had purchased 36 new Airbus
- Jiawei, an investment project, was listed on the A-share market of China
- Global Market Group, an investment project, was listed in London

- The formation of the operation teams and the building of the information platform were completed. Two hedge funds were established and commenced trading

- Participated in the privatisation of Focus Media and finally completed the privatisation of Yucheng
- A Mezzanine Fund was established and raised capital of RMB800 million in the first phase

### CSR and Social Activities

2012 01 02 03 07



- Everbright entered into cooperation with Caritas Family Crisis Support Centre, and sponsored The Everbright Project regarding issues of the middle class in Hong Kong for the third consecutive year



- The Chinese Financial Association of Hong Kong organised a spring reception and investment forum. Its chairman, Chen Shuang is the Chief Executive Officer of the Company



- Everbright sponsored the 2012 Corporate Governance Forum for Chinese listed companies at Shanghai



- Everbright was awarded "Caring Company" and "Caring Organisation" for the second consecutive year



- Everbright supported the holding of a charity concert "Strings Journey with Chu Yi-Bing Cello Ensemble & Lu Siqing" by the Central Conservatory of Music (HK) Foundation



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- Macquarie Everbright Infrastructure Fund invested US\$100 million in the Zhejiang Wanna Environmental Protection project
- Everbright was selected as a constituent stock of the Hang Seng Mainland 100 Index in Hong Kong



- A QDII Trust Scheme for bond investments in Greater China was established and successfully raised RMB1 billion



- 2012 Everbright Investment Conference was first held in Sanya



- Everbright celebrated its 15th anniversary with a gala dinner
- A medical and healthcare fund was established and it invested in the BGI project
- Everbright was selected as a constituent stock of both the Hang Seng China-Affiliated Corporations Index and Hang Seng High Dividend Yield Index

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- A volunteer team was established by the Everbright Charitable Foundation to visit to elderly homes and schools for special-needs children



- Chinese Financial Association of Hong Kong, held its annual general meeting and celebrated its fourth anniversary. Chen Shuang, the Chief Executive Officer of the Company was appointed to the Chairman of the association.



- Everbright donated HK\$1 million to Lifeline Express and held a charity gala dinner jointly with Lifeline Express to celebrate their 15th anniversary



- Everbright entered into cooperation with Social Workers Across Borders and kicked off "Project Companion – Professional Social Workers in Greater China Scheme"

## Performance Highlights

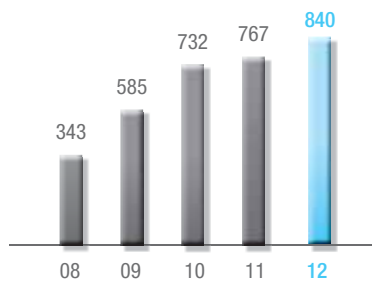
	2012	2011	Changes
<b>(HK\$ million)</b>			
Operating income	840	678	24%
Profit of direct operating business	1,413	902	57%
Profit before taxation of major business segments			
Primary Market Investment	289	708	(59%)
Secondary Market Investment	10	(245)	–
Structured Financing & Investment	707	404	75%
Aircraft Leasing	40	11	264%
Share of profits less losses of associates (as per the associates' financial statements)*	415	627	(34%)
Gain on the disposal of Everbright Securities (International), a subsidiary	–	512	–
Profit attributable to equity shareholders	1,142	1,923	(41%)
<b>(HK\$)</b>			
Basic earnings per share	0.663	1.116	(41%)
Dividend per share for the full year	0.26	0.45	(42%)
– Interim	0.11	0.15	(27%)
– Final	0.15	0.30	(50%)

\* Net profit sharing HK\$150 million

	2012	2011	Changes
<b>Key financial ratios</b>			
Interest-bearing gearing ratio	3.6%	5.8%	(2.2%)
Return on shareholders' equity	4.06%	7.26%	(3.2%)

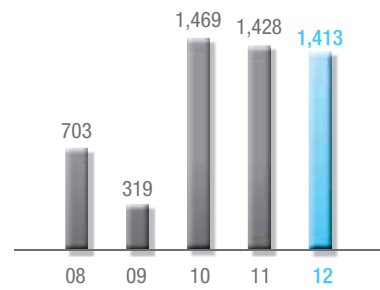
### Operating income

(HK\$ million)



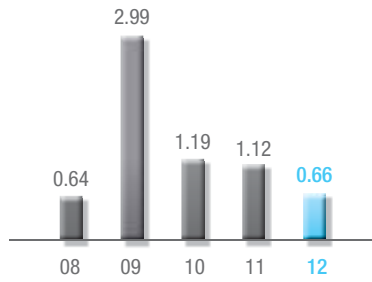
### Profit from operations (Hong Kong Business)

(HK\$ million)



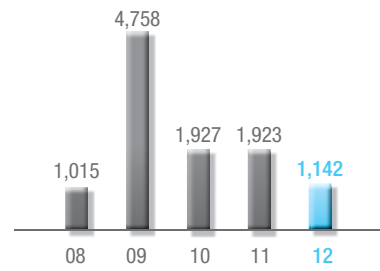
### Basic Earnings Per Share

(HK\$)



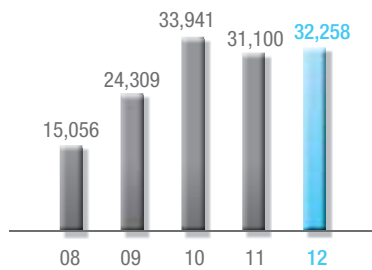
### Profit Attributable to Equity Shareholders of the Company

(HK\$ million)



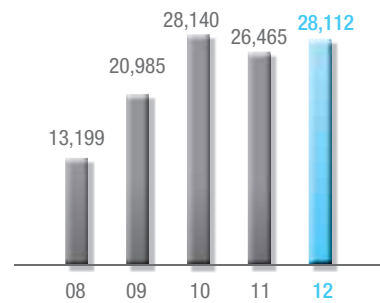
### Total Assets

(HK\$ million)



### Total Equity Attributable to Equity Shareholders of the Company

(HK\$ million)





## Maximised returns through perfectly timed investments

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The sustainable development of China as well as the reform and opening up of its financial industry create unprecedented opportunities for Everbright's unique cross-border macro asset management platform.

## Chairman's Statement

The development in global and domestic economies became sophisticated in 2012.

Tang Shuangning  
Chairman



The global economic situation in 2012 was complicated. Faced with this, we made the strategic business decision to optimise Everbright's operational efficiency and maximise investment returns by seizing opportunities. During the year we were able to leverage the strengths of the domestic market with our well-constructed cross-border macro asset management platform, structurally adjusting our primary and secondary market investment businesses and expanding our assets under management in the process. As at the end of 2012, the Group managed a total of 14 funds with a funding scale of over HK\$23 billion and a fair value of over HK\$23.9 billion. We enhanced the secondary market investment business by rebuilding the hedge fund platform and enriching its product offerings, building a foundation for balanced future development. We also made good progress with investments and divestments. In 2012 we added 15 investment projects and HK\$6.7 billion in investment funding. Despite a weaker A-share market in mainland China, we made prudent assessments and retained mature projects to maximise future returns.

During the year the Group reported profit attributable to equity shareholders of the Company of HK\$1.14 billion, with cash on hand of HK\$2.66 billion and total equity attributable to shareholders of the Company of HK\$28.1 billion. The interest-bearing gearing ratio was maintained at 3.6%. The Group's improved financial foundation and strengthened risk management capabilities give it a solid basis for growth.

Everbright Securities, of which we hold 33.33% interest, delivered solid profit and maintained its market-leading position. Everbright Bank, of which we hold a 4.51% stake, reported record-

breaking total assets of RMB2 trillion. It also saw substantial profit growth during the year while maintaining asset quality as it prepares for H-share listing. The parent company, Everbright Group, was undergoing its restructuring during the year. Meanwhile, the consolidated financial enterprises under the Everbright Finance Holding Group are seeking opportunities related to the country's financial reform, which promise to benefit Everbright's well-established business.

Elsewhere, the world is still struggling to recover from the global economic downturn. Imbalance between the East and West, as well as uncertainties in the U.S., Europe and Japan, all add to the volatility of the current market. In China, the economy poses challenges but also opportunities. The new round of reform and structural adjustment will definitely mark a new era for the industry. In view of the changing domestic and overseas environments, we believe Everbright will successfully navigate the unfavourable conditions, improve its internal management efficiency and accelerate its sustainable business growth. We are confident about the future.

I would like to take this opportunity to express my sincere gratitude to our management and staff, shareholders, members of the Board, communities of China and Hong Kong and regulators for their valuable support. We are unwavering in our commitments to bring China Everbright Group to the next level, seize market opportunities to generate shareholders' return, and practice the highest standards of corporate responsibility.

Tang Shuangning  
Chairman

Hong Kong, 26 March 2013





# A holistic business platform helps Everbright hit its target, every time

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Our goal of transforming Hong Kong into the offshore Renminbi assets centre has also helped Everbright expand the “Cross-border Macro Asset Management” business.

## Management Discussion and Analysis

**The structural adjustment of our business platform optimised the resource allocation and strengths of each business segment.**

In 2012, the global economy remained sluggish largely due to the European debt crisis. China's economy underwent a structural adjustment and there were severe fluctuations in world financial markets in the first half of the year. But in the second half of the year, the position in Europe became much more stable. Following the launch of QE3 in the United States, signs of improvement were seen in the US economy, the effects of policies adopted to stabilise China's economy also gradually became apparent and there was a strong rebound in other international financial markets. With holdings in a number of investment and asset management businesses, the enormously volatile markets posed a significant challenge for the Company and its subsidiaries ("the Group" or "Everbright"), in terms of business expansion and risk management capabilities.

To accommodate business development needs, the Group made adjustments to its "3+2" business structure in 2012, while keeping the macro asset management strategy unchanged. The Direct Investment, Asset Investment and Asset Management divisions that formed the "3" were restructured into three key segments, namely Primary Market Investment, Secondary Market Investment, and Structured Financing and Investment, which become the core business operations of the Group. Everbright Securities (International), our Investment Banking and Brokerage and Wealth Management divisions in Hong Kong, previously the "2", were reorganised and placed under the management of Everbright Securities as an associate. Leveraging Everbright Securities' advantageous position in the cross-border fee-based business, these changes created a more streamlined structure for the Group, and optimised the resource allocation and strengths of each business segment to facilitate healthy long-term growth.

## Management Discussion and Analysis (Continued)

### OPERATING RESULTS

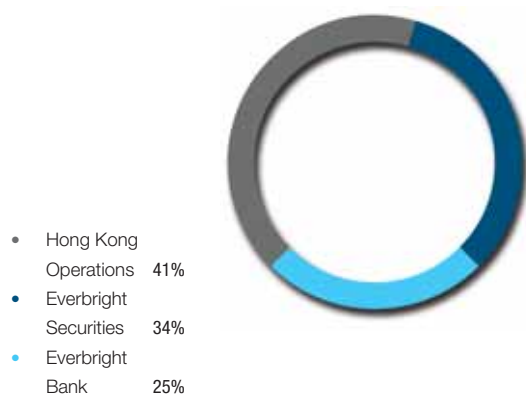
During the year ended 31 December 2012, the operating income of the Group amounted to HK\$840 million, representing an increase of 24%. Profit attributable to equity shareholders of the Company was HK\$1.14 billion for the same period, representing a decrease of 18% after the deduction of a one-off gain from the divestment of the Group's 51% shareholding in Everbright Securities (International). Earnings per share decreased 18% to HK\$0.663. Although there are a number of investments not yet divested, the continuous business expansion enhanced the fee income as well as the investment income. The profit before tax of the Hong Kong operations increased by 57% compared with the same period last year to reach HK\$1.41 billion for the year. Total expenses were HK\$480 million, representing an increase of 21% over the same period last year, while the total cost-to-income ratio was 25%, a similar level to last year.

During the year, there was a drop in income for Everbright Securities, as a result of slow turnover and falls on the stock markets in mainland China. The contribution to profit from Everbright

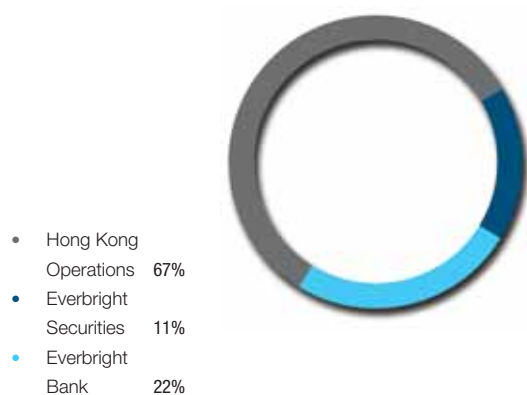
Securities was HK\$414 million, a decrease of 33%. As a result of accounting adjustment made to conform with the Group's accounting policies, the profit contribution of Everbright Securities dropped by 76%. Everbright Bank, in which the Group holds a 4.51% interest, sustained a rapid pace of development to achieve a record-breaking total profit. These profits provided funding for further expansion, and more effort was devoted to the issuing of H-shares in Hong Kong. Dividend income before tax from Everbright Bank increased 40% to HK\$296 million.

During 2012, the Group's investment projects performed normally with stable growth in fair value. The total equity attributable to equity shareholders of the Company increased 6.2% to HK\$28.1 billion compared to the end of 2011. The interest-bearing gearing ratio remained very low level at 3.6%. This healthy financial position created favourable conditions for the Group to expand its scale of operations through mergers and acquisitions.

### Shareholders' Equity Portfolio



### Profit Contribution Portfolio



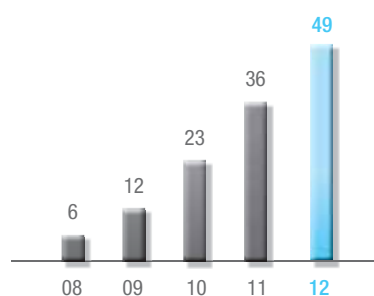


## CORE BUSINESS – FUND MANAGEMENT AND INVESTMENT OPERATIONS

At the end of 2012, there were 14 funds under the Macro Asset Management Platform of the Group, with total fundraising substantially increasing to over HK\$23 billion. The outstanding balance not yet utilised together with the aggregate fair value of projects invested amounted to approximately HK\$23.9 billion, representing an increase of 37% and 35% respectively compared to last year.

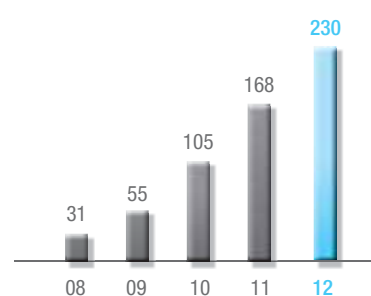
	Business nature	Funds	Date of launch	Investment coverage	Fund raising scale
Primary market investment	Private equity (offshore funds)	SOF I	2004	Industry and service industries	USD 50 million ( <i>in exit period</i> )
		CSOF	2007	Telecom, media, hi-tech and consumer industries	USD 100 million ( <i>in exit period</i> )
		CSOF III	2010	Agriculture, consumer goods, services and financial auxiliary industries	USD 400 million
	Venture capital (domestic funds)	Beijing Zhongguancun Investment Fund	2007	High-growth manufacturing, hi-tech and servicing industries	RMB 200 million ( <i>in exit period</i> )
		Everbright Guolian Fund	2009	High-growth industries	RMB 500 million
		Everbright Jiangyin Asset Investment Fund	2009	High-growth industries	RMB 500 million
	Sector focus funds	Everbright Ashmore Real Estate Fund	2009	China's real estate	approx. USD 789 million
		Everbright Jiangyin New Energy (low carbon) Asset Investment Fund	2010	New materials, environmental protection and energy saving	RMB 1 billion
		Macquarie Everbright Infrastructure Fund Greater China	2011	China's infrastructure, e.g. toll roads, airports, etc.	approx. USD 805 million
		Everbright Medical and Healthcare Fund	2012	Medical and healthcare industries	RMB 500 million
Secondary market investment		QDII Greater China Bond Fund	2012	China enterprises bonds / fixed-income products listed overseas	RMB 1 billion
		2 absolute return funds	2012	Global hedge opportunities	USD 100 million
Structured financing and investment		Onshore Mezzanine Fund	2012	Onshore mezzanine financing	RMB 800 million

### Numbers of projects invested



### Total capital raised by the funds

(HK\$100 million)



## Management Discussion and Analysis (Continued)

### Primary Market Investment Business

The Primary Market Investment business consists of three private equity funds under the China Special Opportunities Fund series, three venture capital funds, and four sector focus funds covering infrastructure, real estate, low carbon new energy and new materials, and medical and healthcare. Primary Market Investment focuses on identifying investment opportunities from unlisted projects in China, making it one of the most competitive business segments within the Group. With the slowdown in the growth rate of China's economy, our investment teams took a cautious and highly selective approach to new investments and consequently added 15 projects during the year, bringing the current total to 49 investment projects.

In 2012, the Primary Market Investment business continued to expand with a gradual increase in income from management fees and the fund raising scale rose HK\$3.6 billion to HK\$20 billion, and 59% of total capital raised were already invested. The under-performance of China's stock markets and a slowdown in the approval of projects for listing meant that fewer projects were divested by the Primary Market Investment business last year, leading to reported earnings before tax of HK\$290 million, representing a decrease of 59% compared to the same period last year.

#### ► Private Equity Funds under Primary Market Investment Business

As at the end of 2012, committed capital raised by the three private equity funds of the China Special Opportunities Fund series were US\$550 million. The 17 projects invested by these funds were all operating well with sustainable growth in fair value. Among them, SOFI disposed of its remaining shares in Goldwind Science and Technology to record a considerable profit. Of the remaining four projects, China Sunshine Paper was listed in Hong Kong and the Group is

awaiting the opportunity to divest its interests. Anhui Yingliu Group is progressing towards an A-share listing in China, once approval from the Issuance Examination Committee of the China Securities Regulatory Commission (CSRC) is obtained. Global Data Solutions suspended its listing plan in the US and is considering other listing opportunities, primarily due to the shaken confidence of the US investors on Chinese companies which affects its valuations. Union Pay continued to record stable growth in operating results.

CSOF has entered its divestment stage. Of the fund's eight portfolio projects, Beingmate and iSoftStone have both listed and the remaining projects are essentially related to the domestic consumption sectors. Both Yuan Cheng Logistics and Wufeng Rice Industry commenced their listing preparation work.

The US\$400 million CSOFIII considered many potential investments during the year and acquired two new projects, utilising 42% of the total capital raised. Out of six projects that the fund invested in, China Outfitters, Beijing Jingneng Clean Energy and SPT Energy listed in 2011, while Global Market successfully listed on the London Stock Exchange Alternative Investment Market in June 2012. Capitalising on the team's in-depth research on mainland China's service industry and the knowledge of new energy, especially for the shale gas sector, the fund increased its investment in SPT Energy last year through the acquisition of its convertible bonds. In addition, CSOFIII invested in Yucheng (previously listed on NASDAQ), China's largest IT solutions provider for the banking industry, via a privatisation, and in early 2013, participated in the investment into BGI, the leading genome sequencing service company in China. CSOFIII is a long-term investor and aims to hold these investments for a number of years and assist in their growth in order to achieve greater future returns.

► **Venture Capital Funds under Primary Market Investment Business**

Three RMB-denominated venture capital funds primarily invest in small- and medium-cap high-technology projects with capital raised of approximately RMB1.2 billion. These venture capital funds added one project during the year and held 15 projects in total at the end of 2012. The venture capital fund established with Beijing Zhongguancun completed the investment of all its funds. Jiawei Shenzhen, invested in by two venture capital funds established with local enterprises in Wuxi City and Jiangyin City, successfully listed on the ChiNext Board of the Shenzhen Stock Exchange on 11 May 2012. Other projects, including CECEP Wind-Power and Hanbang Technology, are actively preparing A-shares listing in the mainland. As all three venture capital funds have completed their investment phases, the management teams are now focusing on post-investment management to deliver value-added services so that investments with profitable return can be divested at the earliest opportunity.

► **Sector Focus Funds under Primary Market Investment Business**

The Group has four sector focus funds covering real estate, infrastructure, low carbon new energy and new materials, and medical and healthcare. These funds specifically focus on exploring opportunities from China sectors with mid- to long-term growth potential to maximise benefits over a longer time period.

At the end of 2012, assets under management by Everbright Ashmore Real Estate Fund amounted to approximately US\$789 million equivalent, with US\$150 million approaching the end of the investment phase and has invested in five property projects in Shanghai, Shenyang and Chongqing. The fund primarily holds equity interests in projects and during the reporting period, the fund divested its stake in a property project in Hangzhou to achieve a sound internal rate of return of over 20%. Another project at Chongqing Imix Park Project continued to increase operational efficiency, and the fund team is now considering an acquisition proposal from external investors.

Funds denominated in US dollars investing into the mainland tend to be long-term investments and there are onerous procedures to get remittances into China approved. By leveraging Everbright's extensive network and resources in China, Everbright Ashmore Real Estate Fund has been able to tap into RMB-denominated funds targeted at individual property projects, primarily by using investments in debentures and fixed income instruments. As at the end of 2012, these RMB-denominated funds had raised RMB 3.35 billion and invested in five projects, excluding the already divested project in Hangzhou, which had both US dollar and RMB-denominated funds invested. As a fund manager, Everbright invested HK\$690 million seed funding in these US dollar and RMB-denominated property project funds. Continuous enhancement of the projects and a rapid expansion in the scale of assets under management will enable the Group to deliver sound and stable returns. The Everbright Ashmore Real Estate Fund is currently open for subscriptions to raise US dollar funds for its second phase and is steadily moving towards its goal of becoming a consolidated management platform for leading real estate funds in China.

## Management Discussion and Analysis (Continued)

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As at the end of 2012, Macquarie Everbright Greater China Infrastructure Fund had raised approximately US\$805 million. The fund acquired four new projects during the year and used 25% of the capital raised. Apart from traditional infrastructure projects, the fund is particularly interested in investment opportunities in infrastructure related to environmental protection. The team running the fund believes that the continued growth of China's economy and an emphasis of state policies on environmental protection provides plenty of room for expansion in this area. In 2012, the fund took a 45% equity interest in a water purification project in Liaoning, which provided daily water to the province's major cities. Business volumes of the water purification project have been gradually increasing. During the year, the fund also successfully invested in an enterprise that generates power from rubbish incineration, an 600,000-tonne/day sewage treatment project in Liaoning, and a port project in Jiangsu province. In light of the constraints on acquisitions in China by US dollar funds, the Group decided to take advantage of favourable policies in a number of regions and successfully applied for a US\$200 million quota under a pilot programme for qualified foreign limited partnerships in Shanghai. A cross-border RMB-denominated fund was also established in Chongqing. These initiatives further improved the efficiency of investments made by the infrastructure fund.

The Group believes that, by integrating the resources of Everbright in China with the global network and professional expertise of Macquarie, the Macquarie Everbright Greater China Infrastructure Fund will continue to be able to invest at reasonable cost and deliver considerable, steady, long-term returns to its investors.

The Group's Low Carbon New Energy and New Materials Fund had an investment focus on new materials and the energy saving environmental protection sector last year. In consideration of the sector's volatility, the fund took a cautious investment approach last year and added one project during the year: a company producing hard alloy tools, which won a state-level New High-Tech Enterprise award together with a subsidy from a new materials industry special project fund under the National Development and Reform Commission. Another market-leading company invested in by the fund, Jiangsu Turbine Seal Hi Tech, which makes high speed dynamic sealing technology widely used for energy saving in gas turbines, also won a New High-Tech Enterprise award at provincial level.

The Medical and Healthcare Fund is newly established as part of the Group's business portfolio which is run by a professional team with solid experience in the international investment market and pharmaceutical industry. The fund focuses on enterprises in China's medical and healthcare market that are in a growth phase but not yet listed. The scope of investments encompasses biopharmaceuticals, medical devices and equipment, medical services and medical IT. Everbright provided RMB500 million as seed funding to support initial operations of the fund. The fund worked together with the Group's CSOFIII last year and successfully engaged several external private equity funds to invest in the BGI project. The fund is open for subscription by external investment institutions and, subsequent to the reporting period, successfully introduced its first external institutional investor in the first quarter of 2013. The Group believes that an aging Chinese society with enhanced health awareness leaves ample room for development of the Medical and Healthcare Fund, whether investing in private healthcare, or participating in the restructuring, listing, merging or acquisition of state-owned and state-controlled medical and healthcare enterprises.

### Secondary Market Investment Business

The Secondary Market Investment business focuses on investment opportunities in listed securities, offering clients more options for flexible asset allocation. The gradual opening of the capital market in China and the acceleration in the pace of internationalisation of the Renminbi means funds in China are more frequently looking for investments overseas with an increasing demand for wealth management

services. The Group will continue to build and strengthen its secondary market investment platform to make it more competitive, while enhancing the primary market investment platform targeting the China market. In 2012, the Group recorded a profit of HK\$10.5 million from the Secondary Market Investment business.

During 2012, the Secondary Market Investment business underwent a comprehensive restructuring. The "Dragon Fund" was discontinued and the operation was divided into two segments: traditional asset management focused primarily on fixed income products, and worldwide hedging products. Both segments achieved outstanding progress during the year.

The investment team for fixed income products worked closely with numerous financial institutions in the mainland and was granted approval for bond investments in Greater China by the China Banking Regulatory Commission (CBRC) under the QDII Trust Scheme. After raising RMB1 billion in November 2012, the business took bond positions in several sectors including real estate, raw materials, transportation, and consumables. This product was the first QDII collective trust scheme in China to fully realise the advantages of the Group's cross border asset management platform. The Group also jointly established the Everbright Dynamic Bond Fund in Hong Kong with Noah Private Wealth Management, targeting institutional clients with US dollar assets. The first phase of subscriptions was completed in 2012 and the second phase closed in February 2013, after the end of the reporting period. A total of US\$30 million was raised to further enhance the fund's portfolio of fixed income products.

## Management Discussion and Analysis (Continued)

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In 2012, the Group recruited several highly-regarded operation teams for worldwide hedging products. These teams have outstanding track records in delivering absolute returns in regional markets, and only became available as a result of tightening regulatory requirements, which led to many international investment banks downsizing the scale of proprietary trading. Putting these teams in place completed the establishment of a world-class platform for absolute returns and its corresponding back office system. The Group went on to provide seed funding for the business and launched two funds in July 2012, which both have an extremely low correlation with the market and can generate absolute returns in a range of market conditions. These two funds invest in worldwide stocks, bonds, foreign exchange, futures and other derivative products, and achieved positive returns during the latter half of 2012. The annualised rate of return was approximately 12%, which created excellent conditions for raising funds from external parties in the future.

### Structured Financing and Investment Business

The Structured Financing and Investment business utilises Everbright's abundant financial resources and extensive business channels in the primary and secondary market investment to exploit mid-to-short-term "financing + investments" opportunities. This business model allows Everbright to enjoy capital appreciation from both the long-term development and the listing of enterprises it invests in. The Group supports the development of these enterprises through appropriate and prudent leverage, which in turn generates interest income for the Group.

In 2012, the Structured Financing and Investment business reaped the rewards of earlier investments with a huge rise in interest income and considerable profits from the divestment of investment projects. During the year, this business was involved in several projects, including privatisation of Focus Media. As at the end of 2012, it had 9 projects on hand, and 3 projects had matured during the year, recovering the principal together with interest. To achieve a healthy balance between returns and risk when providing finance to external clients, the Group requires collateral with a high value. In 2012, the business recorded HK\$220 million in interest income and HK\$540 million in investment income for a profit before taxation of HK\$710 million, making it an important profit driver for the Group.

Learning from experiences over the past two years, the Group successfully established a Mezzanine Fund in September 2012 raising RMB800 million in its first phase in a difficult financing market. The capital raised have already been invested in a fixed income debenture project.

In the course of raising these funds, the Group maintained its close association with commercial banks, insurance companies and third party channels in the mainland to facilitate the launch of the second phase fund raising at an optimal timing. In addition, the Group is actively preparing to establish a USD-denominated Mezzanine Fund to diversify investment risks and enhance the portfolio of asset management products offered by Everbright.

### Aircraft Leasing Business

The Aircraft Leasing business is rapidly emerging in China, which is the world's fastest developing aviation market. Continued economic growth, an extensive geographical area and diverse aircraft requirements have laid solid foundations for aircraft leasing in China.

China Aircraft Leasing Company Limited, acquired by the Group in 2011, performed well and sustained rapid growth. As at the end of 2012, the number of aircraft in operation was 16, all chartered to sizeable airlines in China, including Air China and China Southern. To improve its capital strength, the company brought in China Aerospace Investment Holdings Limited, part of China Aerospace Science and Technology Corporation, as a strategic investor holding an approximate 8% interest. Correspondingly, the Group's holding decreased to approximately 44%. Soon after, the company announced the purchase of 36 new A320 Airbus aircrafts from Airbus S.A.S as it continued to expand the scale of operations and the company is now preparing for listing.

In 2012, the aircraft leasing business contributed approximately HK\$40 million in profit to the Group. There is enormous potential for cooperation between this business and the various investment and asset management businesses of the Group.

### Everbright Securities

In 2012, the stock market in mainland China was affected by the outbreak of the European sovereign debt crisis, investor concerns about the long-term economic structure in China, and the transition of the state government to new leadership, resulting in weak performance for most of the year. The stock market in mainland China witnessed some recovery only during the last quarter. Under such challenging circumstances, Everbright Securities Company Limited, an associate company in which the Group holds a 33.33% interest, maintained a relatively healthy position in the market and its market share in the brokerage of stocks and funds was 11th highest in the industry. On the other hand, its venture operations also remained competitive with income from asset management fees ranking 3rd in the industry and market share in financing and debt origination ranking 9th in the market. As such, the revenue composition for the company improved and it was awarded Class AA under Grade A – the highest ranking in brokerage regulatory assessment given by the CSRC during the year.

## Management Discussion and Analysis (Continued)

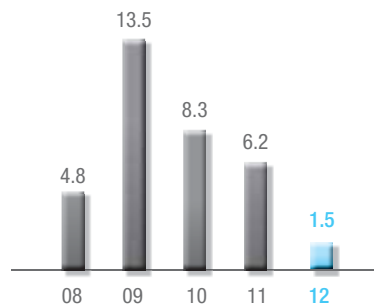
As a result of the fall in total turnover for the trading of funds on the Shanghai and Shenzhen stock exchanges, the significant downturn in capital raised from the stock market, and thin margins for brokerage commissions, the total revenue for Everbright Securities was RMB3.7 billion for 2012, representing a decrease of 19% compared to the same period last year. Income derived from brokerage commission, stock offerings and underwriting, asset management, and other income attributable to the total revenue was 42%, 7%, 12% and 39% respectively. Profit after taxation recorded according to Hong Kong Financial Reporting Standards was HK\$414 million. In addition, the Group made a provision for the reduction in value of various investments held by Everbright Securities in accordance with Hong Kong Financial Reporting Standards estimated by Everbright to be approximately HK\$260 million. The required provision significantly reduced the contribution of full year profit to the Group by Everbright Securities, resulting in a decrease of 76% in profit after tax compared to the same period last year.

To meet with the regulatory requirement of net capital for the domestic securities market and to meet business growth objectives, Everbright Securities embarked on a programme to increase its capital resources. During 2012, Everbright Securities announced its plan to issue 600 million new shares by way of a private offer and the Group planned to subscribe for up to 20 million shares to support the development of Everbright Securities. This injection of capital was approved by Issuance Examination Committee of China Securities Regulatory Commission on 22 March 2013.

By 31 December 2012, Everbright Securities had established 122 sales offices throughout China.

### Sharing of Everbright Securities' Profits

(HK\$100 million)





### Everbright Securities (International) – our brokerage and investment banking business in Hong Kong

In May 2011, the Group transferred its 51% equity interest in Everbright Securities (International), which comprised the brokerage, wealth management and investment banking business in Hong Kong, to Everbright Securities. The Group continued to assist Everbright Securities (International) with the integration of its fee-based business platform in China and Hong Kong. Everbright Securities (International) was affected by the drop in transaction volumes resulting from the weakening stock markets in both China and Hong Kong during 2012 and saw a significant decrease in revenues from brokerage commissions, listings sponsorship and underwriting, leading to profit attributable to the Group of approximately HK\$1 million.

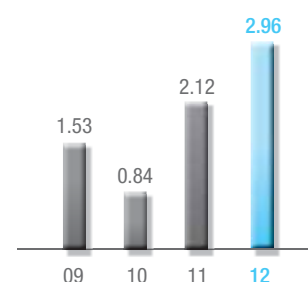
### Everbright Bank

The Group holds a 4.51% interest in Everbright Bank. During the year, its various operations developed well and the quality of assets remained stable. According to preliminary annual results published by Everbright Bank on 9 January 2013, profit before taxation in 2012 amounted to RMB31.6 billion, representing an increase of 31% compared to the same period the previous year. To replenish its capital and prepare for future development, Everbright Bank is working hard towards a listing of H-shares in Hong Kong once all regulatory conditions are fulfilled.

At 31 December 2012, Everbright Bank had 700 branches throughout China.

### Pre-tax Dividends from Everbright Bank

(HK\$100 million)



### Financial Position

As at 31 December 2012, the Group's total assets amounted to approximately HK\$32.3 billion, with cash on hand of approximately HK\$2.66 billion. Apart from current liabilities in the ordinary course of business and those related to derivative financial instruments, the Group's major liability is bank loans of approximately HK\$1.0 billion. Bank loans are obtained to finance the Group's working capital investment projects in mainland China. The actual borrowing depends on the Group's business and investment needs. As at 31 December 2012, the Group's borrowing facilities amounted to approximately HK\$2.51 billion. The Group's gearing ratio, calculated as interest bearing liabilities divided by shareholders' equity, was 3.6% as at 31 December 2012 (31 December 2011: 5.8%). The Group had no material exposure to foreign exchange fluctuations other than assets and bank loans denominated in Renminbi and US dollars.

## Management Discussion and Analysis (Continued)

### Risk Management

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 with acceptable limits.

The Group's work in the area of risk management is led by the Chief Risk Officer and execution is carried out 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 areas of business. 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.

In general, 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. The Groups credit risk exposure is controlled because these advances of customers are secured by residential leasehold land in the mainland, equity shares and third party guarantees of RMB600 million (31 December 2011: RMB400 million), HK\$487 million (31 December 2011:HK\$565 million) and HK\$874 million (31 December 2011: HK\$1,223 million) respectively.

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 guarantees and standby facility 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\$808 million (31 December 2011: HK\$1,147 million).

#### **(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.

#### **(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 eight years.

The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises in 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. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans. The instruments used to manage interest rate risk include time deposits and interest rate linked derivatives, if necessary.

#### **(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 or Renminbi, the management does not consider there to be any significant currency risk.

#### **(e) Equity price risk**

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 23), available-for-sale securities (see note 19), financial assets designated as fair value through profit or loss (see note 20) 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.

## Management Discussion and Analysis (Continued)

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The Group's listed investments, other than some available-for-sale securities which are listed on the Shenzhen Stock Exchange, are mainly listed on the Stock Exchange of Hong Kong and the Shanghai 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 limited information available to the Group, periodically against performance of listed entities of comparable size and nature of businesses.

### Employees

As at 31 December 2012, the Group had 218 employees. Total staff costs for the year under review amounted to approximately HK\$249 million as noted in the consolidated income statement. The Group ensures that the remuneration packages for employees are fair and competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Discretionary year end bonus may also be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

### Market Outlook

In 2013, despite showing signs of stabilisation, the outlook for global economy recovery remains fragile. The United States took advantage of the reserve currency status of the US dollar to implement quantitative easing measures to boost the economy. While these measures have gradually had an effect, the country's huge financial deficit does not permit such a large financial burden to be added indefinitely, thus greatly diminishing its marginal effectiveness. For the time being, there is not any sign of rapid recovery in the US economy. However, should the US economy enter a cycle of interest rate increases this year, it would seriously affect the world economy and capital markets. In Europe, despite Eurozone debt issues beginning to ease, the discrepancies in financial policies, product competitiveness and cultural differences in the Eurozone countries mean that they will still face long-term political disputes and economic downturn, even so the overall situation has vastly improved. Meanwhile, in Japan, even though its economy is no longer as influential as it once was, a worsening debt crisis and intensifying territorial disputes with China still pose an unpredictable threat to global financial markets and economic development in the region.

In the current climate of slow recovery for global economies, the outlook for China is relatively optimistic. Having touched bottom during the fourth quarter of 2012, and with reforms by the new leadership anticipated, the Chinese capital market reacted positively and quickly to make 2013 look like a very promising year for both economy growth and the capital market. However, various social, economic and environmental problems caused over the last 30 years by China's low labour costs and investment-led economic model still need to be resolved through long-term adjustments. As this structural economic transformation is still in its initial stage, the sustainability of the economic recovery remains uncertain.

As a fully open economy, Hong Kong was also faced with similar challenges; although the outlook for 2013 is more optimistic than the previous year. Even so, inflation problems and rising asset prices caused by underlying quantitative easing measures implemented by Europe, US and Japan remain huge challenges. Fortunately, Hong Kong's finance industry will benefit from its position as an offshore Renminbi trading and asset management centre, and will see many development opportunities. This will also present huge business opportunities for Everbright, whose main business is in cross-border macro asset management.

On one hand, the Group and its funds, having followed a prudent investment approach in recent years, hold abundant cash on hand and maintain relatively low gearing ratio for a time when global asset prices continue to fall.

These circumstances offer opportunities for the Group to attract talented financial professionals, expand our businesses at reasonable cost and acquire projects with long-term growth potential. On the other hand, reforms for the financial system, as a key part of the current structural transformation of the Chinese economy, have also begun. With the stable development of the offshore Renminbi market in Hong Kong, financial products such as RMB bonds and RQFII were launched. In addition, the establishment of the Wenzhou and Qianhai Special Economic Zones were approved, as was the Hong Kong Financial Services Development Council. All these developments indicate that both economic reform in China and cross-border financial integration of the mainland and Hong Kong are gradually accelerating and will bring opportunities for the mid- to long-term growth of Everbright, which is currently undergoing a business transformation to build a larger and more diversified asset management portfolio.

## Our Strategy

In view of the above developments, Everbright will focus on the three areas of Primary Market Investment, Secondary Market Investment and Structured Financing and Investment as core businesses in 2013. The Group will aim to expand the scale of assets under management for each business by leveraging the advantages offered by the branding and networks of the parent company, China Everbright Holdings Company Limited, Everbright Bank, Everbright Securities. It will also significantly improve the management income ratio from stable assets, and phase out matured projects. These measures will help to maintain sustained investment income to maximise profit for shareholders.

### Steady Growth in Primary Market Investment for Sustained Professional and Asset Development

Everbright's strength has always been in primary market investment and our track record demonstrates a proven ability to use our economic, political and other resources to discover and invest in quality unlisted enterprises in China. We are a mid- to long-term value investor instead of focusing on price competition.

Our Primary Market Investment business will continue to be focused on China for the foreseeable future. We remain optimistic about the long-term stable income that will be delivered by infrastructure related to environmental protection and energy conservation. With China's rapid urbanisation, the real estate industry will remain one of the country's driving forces for economic development; and the healthcare industry, with support from national government policies, will also find plenty of room for development. Environmental protection issues will also be long-term national policies, so we will target the new energy and materials industries; and as the aviation industry grows and capital constraints continue for airlines, the aircraft leasing industry is expected to achieve steady income growth.

## Management Discussion and Analysis (Continued)

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At the same time, we are maintaining our prudent approach to small enterprise investment, with post-investment management and timely divestment being the focus of this segment. As part of our commitment to shareholders, asset investment funds will only be introduced to the public once a professional team is in place and Everbright is equipped with successful track record in investment.

Due to fierce competition in the mainland's primary investment market, as well as the uncertainty of listing approvals, other means of divestment, such as mergers and acquisitions, would be considered for funds under our Primary Investment Market business to help maintain a proper balance between project investment and divestment.

### Rapid Expansion of Secondary Market Investment Business

Everbright is keen to seize every market opportunity to build a diversified asset management portfolio by establishing hedge funds or acquiring offshore bond investment products, such as QDII. These products invest in a market that can accommodate a very large number of transactions and has little danger of capacity saturation or a scarcity of counterparties due to the introduction of new funds. Our aim is to refine the trading model of these products to present our clients with a reliable risk control system, as well as to realise business growth. Everbright achieved a breakthrough in building a platform for both hedge funds and acquiring offshore bond investment products in 2012, and we hope to achieve an even faster rate of growth in the coming year.

With the internationalisation of the Renminbi, further relaxation of cross-border capital flows, the influx of Renminbi into Hong Kong, raising limits on foreign exchange for personal use and direct Renminbi remittances abroad, and the possibility of faster approval for foreign investment products, such as QDII, Everbright's investment in our secondary market investment platform is expected to see robust development in 2013.

### Shifting Structured Financing and Investment Towards Fund Management

For the last three years, with the development of equity-based primary and secondary market investment business, Everbright has demonstrated its edges and business niches by taking advantage of its abundant financial resources to participate in mid- to short-term structured financing and investment opportunities by the means of capital lending and financing. As the business operation model matures, it is no longer sufficient to rely on the Group's seed investment alone to support development needs. As such, we will develop a USD-denominated Mezzanine fund, based on our existing RMB-denominated Mezzanine fund. Robust credit control is to be maintained so that interest income will continue to be the Group's main source of income. In addition, managing capital from external investors will enhance the level of Group's more stable asset management income.

### Aircraft leasing business seeks opportunities in the capital market

Leverage on the domestic and overseas operation platforms of China Aircraft Leasing Company Limited, we were able to lower the aircraft purchasing cost, and reduce the risk of interest rates by using different financial tools. At the same time, we could also enhance the leasing returns with the benefits of the tax incentives offered by the free trade zones in China. With regards to the rapid business growth, we have been working closely with the external financial institutions in preparation of listing. We aim to offer it to the public capital market at an optimal timing, so as to achieve sustainable rapid development upon a better financial base.

### Conclusion

After five years of transition, Everbright's macro asset management platform is beginning to take shape. Our asset management products range from front-end private equity funds, venture-capital funds, and sector focus funds to mid-term structured financing and investment products, mezzanine funds, back-end hedge funds, and bond investment funds. These products are primarily targeted at corporate clients and high-net worth personal clients. Our understanding of clients' experience and our long-term investment philosophy provides favourable conditions for us to achieve higher returns.

More importantly, this new platform complements the gradual opening of China's financial market with the transformation of a one-way flow of capital from the mainland to abroad to a larger scale two-way capital flow. At the same time, as there are fewer domestic limitations, the platform's operation model can be easily replicated for other products to bring endless business opportunities.

In 2012, we were poised for take-off. In 2013, we will ride on our Chinese qualities to speed up our development.

### Chen Shuang

*Executive Director and Chief Executive Officer*

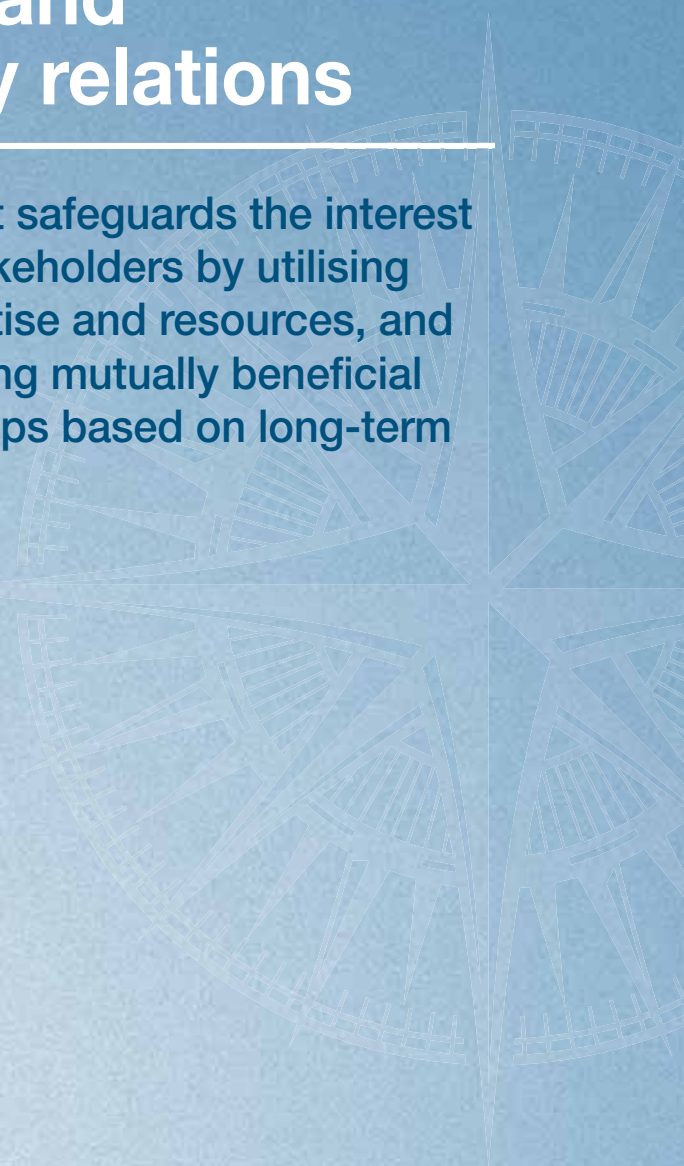
Hong Kong, 26 March 2013



# Pursuing goal-oriented corporate and community relations

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Everbright safeguards the interest of our stakeholders by utilising our expertise and resources, and establishing mutually beneficial partnerships based on long-term success.





## Corporate Social Responsibility Report

If a listed company has to take on more social responsibilities, it should properly balance the needs of and its relationship with four major stakeholders, namely shareholders, business partners, staff and the community.

Everbright recognises the importance of using its expertise and resources to strike a balance between driving business and being socially responsible. From the perspective of Everbright, if a listed company has to take on more social responsibilities, it should properly balance the needs of and its relationship with four major stakeholders, namely shareholders, business partners, staff and the community.

While striving for sustainable business development, the Group also takes an integrated view of the core values – **innovative, pragmatic and partnership** – behind its branding philosophy, “Making Wealth Simple”, and our corporate governance system. The continuous development of the Group’s cross-border asset management platform, which comprises venture capital funds, private equity funds, sector focus funds, mezzanine funds, bond funds and hedge funds, reflects a high level of business innovation. In fact, Everbright has the largest scale of such fund businesses of any listed company in Hong Kong. A pragmatic management approach enables the Group to maintain stable financial policies and identify new growth opportunities, even under volatile market conditions, and to retain our partnership-based corporate culture. At Everbright, the spirit of partnership, guided by the “**create value to share value**” principle, ensures team stability and long-term partnerships with investors, and yields optimised returns.

The Hong Kong Council of Social Service has presented the Group with “Caring Company” and “Caring Organisation” awards for three consecutive years in recognition of the on-going efforts and achievements of the Group and the China Everbright Charitable Foundation in the field of corporate social responsibility.



## Corporate Social Responsibility Report (Continued)

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### **Clients and Collaborating Partners**

The Group's Cross-border Macro Asset Management platform connects the vibrant markets of China and Hong Kong, which both offer huge potential. We emphasise long-term partnerships that can successfully earn the confidence of our fund investors and collaborating partners.

To demonstrate our confidence in the potential of funds, Everbright invests seed capital in each one before moving on to secure external financing. We also require management teams to allocate a certain proportion of proprietary funding to venture capital in order to align the interests of fund management teams and fund investors, including those of the Group. In addition, an independent investment assessment committee (or similar organisation) ensures the sound operation of each fund. Some of the funds also invite external investors to participate in the decision-making process, which further protects external investors' interests. When the funds are investing in or exiting from specific projects, equity held by the management team is kept in line with the holdings of other investors. This encourages management teams to exercise a prudent, pragmatic approach underscored by proper risk awareness when making investment decisions.

In addition, the Group's well-established corporate governance structure and risk management system (refer to the Corporate Governance Report for details) have laid a solid foundation for achieving our service commitment of "Making Wealth Simple", while providing clients and collaborating partners with simple, professional, practical, tailor-made solutions that enable gains to be made from market growth to create wealth and value.

The Group held the first Everbright Investment Conference 2012 in Sanya, on China's Hainan Island, to strengthen communication and interaction between customers and collaborating partners of their respective funds. Over 160 institutional investors and collaborating partners from all around the world attended the conference. With the theme of "China Link: Making Wealth Simple", the conference showcased the current development status, strategies and future prospects of Everbright's asset management platform and gave guests the opportunity to exchange experiences regarding the operation of specific funds. The conference not only enhanced investors' and collaborating partners' understanding of various business developments at Everbright and the key advantages of the Group, but also explored ways different funds across different industries and categories could collaborate to fully capitalise on opportunities arising from interactions between the Group's various funds.



## Shareholders and Investors

To enhance corporate transparency, the Group places significant emphasis on maintaining good communication channels with shareholders and investors. The Corporate Communications and Investor Relations Department is dedicated to ensuring constant engagement with stakeholders.

Currently, the Group participates in investor conferences organised by various financial institutions every year. In 2012, meetings were held with over 250 institutional investors and analysts through group or one-on-one meetings. Highlights of these meetings are available on the Group's website. There were also 20 analyst reports generated by nine well-known financial institutions. During the year, the Group undertook numerous reviews of our shareholding structure, by examining the shareholding, volume and changes to help implement our investor relations programme in a more targeted way. The Group also developed investor relations reports for the Board, which included external communications, investor feedback and changes in share price. Our shareholding pattern allows the Board to better understand the investment community's views and suggestions regarding Everbright's development strategies.

In addition, the Group's management interacts directly with shareholders at the annual general meeting. Press conferences and analyst meetings are held twice a year, following the announcements of the interim and annual results. Webcasts of press conferences are also available on the official website.

## Employees

At Everbright our employees are our most important asset. Through a spirit of partnership, the Group aims to share the experience of corporate growth and development with staff, enhancing individual capabilities and social values in the process. Employees are encouraged to act in the interests of Everbright as a whole, helping to create economic value, enhance efficiency and share the fruits of the Group's success.



## Corporate Social Responsibility Report (Continued)

Employees are provided with study allowances and training programmes are organised to boost skills and team spirit, which in turn enhance individual capabilities and social values. Adequate resources are allocated to promote staff well-being and work-life balance, often through fellowship activities for employees and their families. In 2012, the Group organised corporate overseas trips to relieve the stress of busy schedules; and “fruit sharing fun days” continued to be held every Thursday, providing free fruit for staff to enjoy while raising awareness of a healthy diet. In appreciation of the long service of employees and their valuable contribution to the Group’s development, a 15th anniversary dinner was held in 2012 to revisit milestones of the past 15 years and honour “outstanding new staff”, “outstanding staff”, “outstanding teams” as well as other employees who have been with the Group for over 10 and 15 years.



Everbright attaches great importance to effective interaction with employees and has established communication mechanisms to accomplish this, such as our corporate cultural publications. The Group’s bi-monthly e-publication “Huo Ban” 《伙伴》 uses the web to develop and maintain harmonious relationships among employees in mainland China and Hong Kong. “Huo Ban” has information about major events, the progress of the Group’s various businesses in terms of brand development, and highlights of employees’ lives. In addition, an annual bound volume of the preceding year’s “Huo Ban” is also published to cater to different needs and reading habits. Internally, the latest information regarding our businesses and corporate culture is communicated through “Huo Ban Express” emails, CEO letters and middle management meetings, while external communications are through write-ups and press releases distributed to institutional investors and the media.





New staff members are provided with a clear overview of the Group through regular training sessions on human resources, brand culture and risk management systems. Discussion forums allow an exchange of ideas between senior management and new staff, and enable the management to find out about the working status of employees and their views on the Group's development. These face-to-face discussions also enhance contact and interaction between senior management and employees.

In 2012, a volunteer team was established so that employees could participate and give back to society. Activities such as visits to homes for the elderly and schools for special-needs children met with eager participation and positive feedback from employees. The Group will continue to organise similar regular volunteering activities so that the Everbright volunteer team can continue to develop and serve the community.



## Corporate Social Responsibility Report (Continued)



In the recent years, the Group has used various means including timely information sharing, corporate outings, staff welfare programmes and incentives to build a closer partnership with our employees. The Group's efforts have also made a meaningful contribution to our success in establishing our own fund teams and retaining and recruiting the best talent.

### Community

As a listed company in Hong Kong with business concerns on both sides of the border, Everbright established the China Everbright Charitable Foundation in 2008 to promote and participate in charitable projects that benefit Hong Kong's community development as well as making donations to poverty-stricken areas on the mainland. The foundation also actively supports various sustainable community service initiatives in China and Hong Kong.





#### “The Everbright Project”

Building on Everbright’s business philosophy of “**Making Wealth Simple**”, the China Everbright Charitable Foundation formed a partnership with the Caritas Family Crises Support Centre in 2009 to jointly launch the Everbright Project, the first-ever community services programme in Hong Kong targeting the middle class. The project fosters the ideas of positive mentality and life planning to help middle-class individuals realise their full potential at various stages of life, and promotes a balanced, happy and healthy lifestyle through the “**Making Life Simple**” philosophy.

The Group aims to develop the Everbright Project into a sustainable social services programme. Since its launch, we have entered a dialogue with the middle class to understand their needs through research, seminars, group activities, questionnaire surveys and a counselling hotline. Constant efforts are made to improve the project’s services to better cater to the needs of people in this segment of society. Since launch, the programme has benefited nearly 36,834 individuals and currently has almost 2,083 registered members.





## Corporate Social Responsibility Report (Continued)



*Happy Family*, a large-scale family umbrella-painting art jamming event at the Hong Kong Cultural Centre Piazza in Tsim Sha Tsui to promote a message of positive energy and family love in Hong Kong.

In 2011, the Everbright Project launched three service series: self-enhancement, life balance, and giving appreciation; as well as a range of corporate workshops to help companies and their employees build harmonious interpersonal relationships and achieve a good work-life balance.

In addition to their regular services, the Everbright Project is planning and running big promotional events that will expand its footprint in the community. In 2012, the project staged *Happy 1+1 – Supporting a*

### “Project Companion – Professional Social Workers in Greater China Scheme”

Fully supported by the China Everbright Charitable Foundation, the Project Companion – Professional Social Workers in Greater China Scheme (Project Companion) was established in December 2012 and launched on 6 January 2013. Project Companion employs the professional skills of social workers from Hong Kong by recruiting experienced social workers and volunteer teachers to provide training for social workers on the mainland, helping them to acquire the knowledge and skills required for post-disaster counselling. The initiative is also establishing and training a team of social workers in China who will be able to provide crisis support at any time. Project Companion will operate in the provinces of Sichuan, Hubei and Heilongjiang for the next two years, during which time about 70 volunteer teachers will be recruited to train 900 social workers.







#### Other community projects

As well as promoting the Everbright Project and Project Companion as sustainable community service initiatives, the Group commits resources to and participates in other charitable projects for the benefit of the Hong Kong community. In 2012, the Group sponsored several events including the Caritas Charity Television Show and a charity concert—"Strings Journey with Chu Yi-Bing Cello Ensemble and Lu Siqing" by the Central Conservatory of the Music (HK) Foundation. Through the China Everbright Charitable Foundation, the Group maintains a strong partnership with Lifeline Express and jointly hosted the annual charity gala dinner in October, 2012, to raise funds to help cataract patients in poverty-stricken areas of China. The Group also made donations to poverty-alleviation events in Xinhua County in China's Hunan Province.



#### Contributing to socioeconomic and cultural activities

The Group is also very involved in promoting socioeconomic and cultural activities. Our senior executives hold many prestigious and influential roles in our industry, 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. During the year, the Group has also enabled a major overhaul of the China Universities Alumni Association – Financial

Association with a new name, registration process, website development, and membership restructuring; as well as sustained financial promotional activities in the region, that have greatly enhanced the Association's influence and standing in the business community. Through these activities and roles, the Group's senior management have been able to make many practical recommendations to the Hong Kong Government and relevant departments of the Central Government in relation to the internationalisation of the Renminbi and development of the Hong Kong financial market.

A person in a white shirt is holding a bow and arrow, aiming towards the right. The background is a solid blue color with a faint, light-colored compass rose watermark. The text is overlaid on the right side of the image.

# Investment and divestment packed by sound risk management

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Strengthened by sound corporate governance practices, Everbright's interests and those of stakeholders are closely intertwined.

# Corporate Governance Report

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## 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. 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, the Company has complied with the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (effective from 1 April 2012) (“the Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“the Listing Rules”) for the year ended 31 December 2012, except that Mr. Wang Weimin, a non-executive director, did not attend the annual general meeting of the Company in 2012 due to other business obligations.



## Corporate Governance Report (Continued)

### 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 10 members:

Name of Directors	Title
<i>Executive Directors</i>	
Mr. Tang Shuangning	Chairman
Mr. Zang Qiutao	Deputy Chairman
Mr. Chen Shuang	Chief Executive Officer
Mr. Tang Chi Chun, Richard	Chief Financial Officer
Mr. Jiang Yuanzhi	Chief Investment Officer
<i>Non-executive Director</i>	
Mr. Wang Weimin	Non-executive Director
<i>Independent Non-executive Directors</i>	
Mr. Ng Ming Wah, Charles	Independent Non-executive Director
Mr. Seto Gin Chung, John	Independent Non-executive Director
Dr. Lin Zhijun	Independent Non-executive Director
Dr. Chung Shui Ming, Timpson (appointed on 21 August 2012)	Independent Non-executive Director

Dr. Chung Shui Ming, Timpson was appointed on 21 August 2012. Mr. Tang Chi Chun, Richard, Mr. Ng Ming Wah, Charles, Dr. Lin Zhijun and Dr. Chung Shui Ming, Timpson are directors with financial management expertise. Half of the members of the Board are executive directors and the other half are non-executive directors (including INEDs). The proportion shared by the INEDs satisfies the requirements of the relevant ordinances 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.

## Board (continued)

### Composition of the Board (continued)

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.

The Company also requires each director to disclose to the Company the number and nature of offices held in public companies or organizations and other significant commitments as well as the time involved. The Board confirms that all directors are delivering positive contributions to the Group's businesses. Under 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 directors 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, Mr. Zang Qiutao 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.

### 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.

## Corporate Governance Report (Continued)

### Board (continued)

#### Responsibilities of the Board (continued)

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. Mr. Zang Qiutao 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 under 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.

#### Terms of Reference of the Board

The Terms of Reference of the Board, which are published on the Company's website [www.everbright165.com](http://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.

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## **Board** (continued)

### **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 2012, the Board members conducted meetings with four business teams in Beijing and Hong Kong respectively 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. In 2012, the Company in particular invited Paul Hastings to give an introduction on the latest changes to the regulatory requirements of "Inside Information" to Board members, allowing all directors to clearly recognize the requirements of the responsibilities of directors under the new regulations, thus ensuring that the directors comply with these regulations and further enhancing their awareness on the directors' duties under the Securities and Futures Ordinance and the Listing Rules.

## Corporate Governance Report (Continued)

### Board (continued)

#### Training and Support for Directors (continued)

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 2012:

Directors	Type of trainings
<b>Executive Directors</b>	
Tang Shuangning	B, C
Zang Qiutao	A, C, D
Chen Shuang	B, C, D
Tang Chi Chun, Richard	A, C, D
Jiang Yuanzhi	A, C, D
<b>Non-executive Director</b>	
Wang Weimin	A, C, D
<b>Independent Non-executive Directors</b>	
Ng Ming Wah, Charles	A, C, D
Seto Gin Chung, John	A, C, D
Lin Zhijun	A, B, C, D
Chung Shui Ming, Timpson	A, C, D

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

D: attending site visit arranged by 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 2012 is set out below:

Remuneration Bands (HK\$)	Number of persons
HK\$4,000,001 to HK\$4,500,000	1
HK\$4,500,001 to HK\$5,000,000	3
HK\$5,000,001 to HK\$5,500,000	1
HK\$8,500,001 to HK\$9,000,000	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.



## **Board** (continued)

### **Board Meetings**

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 2012 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 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. 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.

## Corporate Governance Report (Continued)

### Board Committees (continued) 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. Mr. Zang Qiutao, the Deputy Chairman of the Board, is the Chairman of the Executive Committee. The Executive Committee currently comprises 4 members: Mr. Zang Qiutao (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). In 2012, the Executive Committee held 2 meetings and 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, amongst 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 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.

## Board Committees (continued)

### Audit and Risk Management Committee

(continued)

The work performed by the Audit and Risk Management Committee in 2012 included the review and, where applicable, approval of:

- the Group's financial statements for the year ended 31 December 2011 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 2012 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; and
- the Group's internal audit plan and key areas of the internal audit work focus for 2012.

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 and Compliance 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 4 members, and all members including the chairman are INEDs. It is chaired by Mr. Ng Ming Wah, Charles who has extensive experience in the finance and financial services industry. 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 Dr. Chung Shui Ming, Timpson, who was recently appointed as an INED, has professional qualifications and wide experiences in financial business. 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 2012 are set out in the table in the last part of this report.

## Corporate Governance Report (Continued)

### Board Committees (continued) 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, amongst 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, Mr. Zang Qiutao 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 2012 and the Nomination Committee held two meetings in the year in relation to the appointment of an INED, 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;

## Board Committees (continued)

### Remuneration Committee (continued)

- 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 2012 included the review and, where applicable, approval of:

- the performance appraisal of the executive directors and senior management for year 2011;
- the proposal on staff bonus (including the senior management) for year 2011 and salary adjustments for year 2012 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)

### Board Committees (continued)

#### Remuneration Committee (continued)

The remuneration received by each of the directors in 2012 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 2012, the remuneration approved by shareholders at the general meeting is as follows:

The director's fee for the year ended 31 December 2012 is HK\$120,000 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 2012 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\$80,000 will be paid to each director every year on 1 July and prior to the Lunar New Year.

The Remuneration Committee currently has 5 members comprising Mr. Seto Gin Chung, John, Mr. Zang Qiutao, Mr. Ng Ming Wah, Charles, 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 2012 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 8 members: Mr. Seto Gin Chung, John, Mr. Zang Qiutao, Mr. Chen Shuang, Mr. Jiang Yuanzhi, Mr. Wang Weimin, Mr. Ng Ming Wah, Charles, Dr. Lin Zhijin 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.

## 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 Company has reviewed and/or issued the following documents related to the corporate governance policies and practices:

- Terms of Reference of the Board;
- Mandate;
- Code for Securities Transactions by Directors and Relevant Employees;
- Whistleblowing Policy;

- Procedures for Shareholders to Propose a Person for Election as a Director;
- Shareholders Communication Policy;
- Appointed Director Management Guidelines;
- Connected Transactions Management Guidelines;
- Directors Training Guide; and
- Inside Information Disclosure Guidelines.

## 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 2012.



## Corporate Governance Report (Continued)

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### 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 2013 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 2012, the total fee charged by KPMG was HK\$7,969,000 including a non-audit service fee of HK\$1,844,000 for the review of the interim financial statements, internal control, risk assessment and other services. For 2011, the fee charged by KPMG for audit and non-audit services was HK\$8,288,000.

### 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 and Compliance Department.

The results of the reviews for 2012 were reported to the Audit and Risk Management Committee and the Board on a quarterly basis.

### Internal Control (continued)

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, recognized 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 and Compliance 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.

## Corporate Governance Report (Continued)

### 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. All members of the Board, except Mr. Wang Weimin, a non-executive director, who was unable to attend due to other business obligations, and representatives of KPMG were present at the Company's 2012 annual general meeting held on 11 May 2012 to address to questions and comments raised by shareholders.

In addition, the Company also provided further information on the 2012 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.

No other general meeting of the Company was held during the year.

#### 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 26th Floor, Tesbury Centre, 28 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](mailto:ir@everbright165.com) or by phone to 2528 9882.

#### Shareholders' Rights

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 an extraordinary general meeting:**

Any shareholder(s) holding not less than 5% of the issued capital of the Company may request the Board of Directors to convene an extraordinary general meeting. The requisition, duly signed by the shareholder(s) concerned, must clearly state the objects of the meeting and must be deposited at the registered office of the Company, 46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under Section 113 of the Companies Ordinance once a valid requisition is received.

## Communication with Shareholders and Shareholders' Rights (continued)

### Shareholders' Rights (continued)

- **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) any number of members representing not less than 2.5% of the total voting rights of the Company on the date of the requisition; or
- (b) not less than 50 members holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK\$2,000.

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 115A of the 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](mailto: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.

## Corporate Governance Report (Continued)

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### 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](http://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 2012 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 2012 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.



## 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 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 annual general meeting of the Company in 2012 is set out below:

Directors/members	Board Meeting	Nomination Committee Meeting	Audit & Risk Management Committee Meeting	Remuneration Committee Meeting	Strategy Committee Meeting	Executive Committee Meeting	Annual General Meeting
Tang Shuangning	4/4	n/a	n/a	n/a	n/a	n/a	1/1
Zang Qiutao	4/4	3/3	n/a	3/3	1/1	2/2	1/1
Chen Shuang	4/4	n/a	n/a	n/a	1/1	2/2	1/1
Tang Chi Chun, Richard	4/4	n/a	n/a	n/a	n/a	1/2	1/1
Jiang Yuanzhi	4/4	n/a	n/a	n/a	1/1	2/2	1/1
Wang Weimin	4/4	n/a	n/a	n/a	1/1	n/a	0/1
Ng Ming Wah, Charles	4/4	n/a	6/6	3/3	1/1	n/a	1/1
Seto Gin Chung, John	4/4	3/3	6/6	3/3	1/1	n/a	1/1
Lin Zhijun	4/4	3/3	6/6	3/3	1/1	n/a	1/1
Chung Shui Ming, Timpson (Note 1)	2/2	1/1	1/1	1/1	1/1	n/a	n/a
Attendance rate:	100%	100%	100%	100%	100%	88%	89%

Note 1: Mr. Chung Shui Ming, Timpson was appointed as an INED and a member of each of the Audit and Risk Management Committee, Nomination Committee, Remuneration Committee and Strategy Committee of the Company on 21 August 2012.

# Directors' Report

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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 2012.

## 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 16 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 39 to the financial statements.

## Results and Appropriations

The results of the Group for the year ended 31 December 2012 are set out on page 79 of this Annual Report.

The directors recommend the payment of a final dividend of HK\$0.15 per share for the year ended 31 December 2012 (2011: HK\$0.3 per share).

## Major Customers and Suppliers

The Group's turnover represents the aggregate of revenue from the sale of trading securities, interest income, dividend income, rental income and service fee income. 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 166 of this Annual Report.

## Fixed Assets

Movements in fixed assets are set out in note 15 to the financial statements.

## Properties

Particulars of major properties held by the Group as at 31 December 2012 are set out on page 167 of this Annual Report.

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## Subsidiaries and Associates

Details of the Company's principal subsidiaries and associates as at 31 December 2012 are set out in notes 16 and 17 to the financial statements respectively.

## Share Capital

During the year, the issued share capital of the Company is 1,720,561,712 shares. The details are set out in note 29 to the financial statements.

## Share Premium and Reserves

Movements in share premium and reserves during the year are set out on pages 83 and 139 of this Annual Report.

Distributable reserves of the Company as at 31 December 2012 as calculated under Section 79B of the Hong Kong Companies Ordinance amounted to approximately HK\$418,163,000 (2011: HK\$266,167,000).

## 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 is no continuing connected transaction entered into by the Group which is 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' Report (Continued)

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### 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  
Mr. Zang Qiutao, Deputy Chairman  
Mr. Chen Shuang, Chief Executive Officer  
Mr. Tang Chi Chun, Richard, Chief Financial Officer  
Mr. Jiang Yuanzhi, Chief Investment Officer

#### Non-executive Director:

Mr. Wang Weimin

#### Independent Non-executive Directors:

Mr. Ng Ming Wah, Charles  
Mr. Seto Gin Chung, John  
Dr. Lin Zhijun  
Dr. Chung Shui Ming, Timpson (appointed on 21 August 2012)

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. Tang Shuangning, Mr. Zang Qiutao, Mr. Chen Shuang and Mr. Ng Ming Wah, Charles, being directors who have been longest in office since their last re-election, shall retire by rotation. Mr. Tang Shuangning, Mr. Zang Qiutao and Mr. Chen Shuang, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. Mr. Ng Ming Wah, Charles has decided to retire from his position as an independent non-executive director of the Company with effect from the conclusion of the forthcoming annual general meeting and accordingly, he will not offer himself for re-election.

In addition, in accordance with Article 87, Dr. Chung Shui Ming, Timpson, being new director appointed by the Board during the year, shall retire from office and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

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

As at 31 December 2012, 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 capital
Tang Chi Chun, Richard	719,000	719,000	–	–	0.04

### 1b. Long position in shares of associated corporations of the Company, including China Everbright International Limited ("CEIL"): Nil

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

Details of the share options held by the directors and chief executives of the Company are shown in the following section under the heading "Information on Share Options".

As at 31 December 2012, save as disclosed herein, none of the directors and chief executives of the Company were interested in 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.

### 3. Long position in underlying shares of equity derivatives of associated corporations

As at 31 December 2012, the following director had personal interests in options to subscribe for shares in CEIL, an associated corporation of the Company. The shares of CEIL are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Name of director	Nature of interest	Exercise price (HK\$)	Date of grant	Exercise period	Number of underlying shares of CEIL (ordinary shares)
Zang Qiutao	Personal	0.85	03.08.06	03.08.08–25.05.13	2,000,000



## Directors' Report (Continued)

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### Information on Share Options

Information in relation to share options of the Company disclosed in accordance with the Listing Rules was as follows:

1. There were no share options outstanding as at 1 January 2012.
2. There were no share options outstanding as at 31 December 2012.
3. No share options were granted during the year ended 31 December 2012.
4. No share options were exercised during the year ended 31 December 2012.
5. No share options were cancelled during the year ended 31 December 2012.
6. No share options lapsed during the year ended 31 December 2012.

Save as disclosed herein, as at 31 December 2012, none of the directors, chief executives or their respective associates had any interest in the securities of the Company or in any of its associated corporations or in any arrangements to which the Company is a party to purchase shares of the Company or any other corporate body.

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## Information on Share Option Scheme

At the extraordinary general meeting of the Company held on 24 May 2002, an ordinary resolution was passed to adopt a share option scheme (“the Scheme”).

A summary of the Scheme disclosed in accordance with the Listing Rules is as follows:

**1. Purpose of the Scheme:**

To provide an incentive or reward to eligible persons for their contribution and continuing efforts in promoting the interests of the Group.

**2. Participants of the Scheme:**

Any employee(s) including any director(s) of the Company or any subsidiary or associated company.

**3. Total number of shares available for issue under the Scheme and percentage of issued share capital as at 31 December 2012:**

112,666,171 (6.55%)

**4. Maximum entitlement of each participant under the Scheme:**

The maximum number of shares (issued and to be issued) in respect of which options may be granted under the Scheme and any other share option scheme(s) of the Company (whether exercised, cancelled or outstanding) to any participants in any 12-month period shall not exceed 1% of the total number of issued shares from time to time unless such grant has been duly approved by ordinary resolution of the shareholders in the general meeting.

**5. The period within which the shares must be taken up under an option:**

The exercise period of options ranges from 1 to 4 years.

**6. The minimum period for which an option must be held before it can be exercised:**

The vesting period ranges from 1 to 2.5 years from the date of the granting.

**7. (a) The amount payable on application or acceptance of the option:**

HK\$1.00

**(b) The period within which payments or calls must or may be made:**

Within 30 days of the date of the offer

**(c) The period within which loans for such purposes must be repaid:**

N/A

## Directors' Report (Continued)

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### Information on Share Option Scheme (continued)

#### 8. The basis of determining the exercise price:

The exercise price is determined by the board of directors which shall be at least the highest of (i) the nominal value of the shares; (ii) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (iii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the grant.

#### 9. The remaining life of the Scheme:

The Scheme was expired on 24 May 2012.

### 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.

## Substantial Shareholders

As at 31 December 2012, the following persons had an interest or short position in the shares and underlying shares of the Company which must be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who directly or indirectly, had a 10% or greater interest in the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

### Long Position

Name of shareholder	No. of shares beneficially held	% of total issued shares
China Everbright Holdings Company Limited (Note)	870,873,207	50.62%
Datten Investments Limited (Note)	867,119,207	50.40%
Honorich Holdings Limited	867,119,207	50.40%

Note: 867,119,207 shares are held by Honorich Holdings Limited ("Honorich"). Honorich is wholly-owned by Datten Investments Limited ("Datten") which in turn is a wholly-owned subsidiary of China Everbright Holdings Company Limited ("CE Holdings"). Accordingly, Datten and CE Holdings are deemed to have the same interests in the shares of the Company as Honorich. 3,754,000 shares are held by Everbright Investment & Management Limited ("EIM"), a wholly owned subsidiary of CE Holdings.

As confirmed by CE Holdings, CE Holdings was interested in a total of 873,152,207 shares (representing 50.75% of the issued shares of the Company) as at 31 December 2012 because of the additional acquisition of 2,279,000 shares by EIM.

Save as disclosed above, as at 31 December 2012, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who directly or indirectly, had a 10% or greater interest in the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

## Purchase, Sale or Redemption of Listed Securities

The Company did not redeem any of its shares during the year. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's securities during the year.

## 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".

## Directors' Report (Continued)

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### 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 Mr. Ng Ming Wah, Charles, Mr. Seto Gin Chung, John, Dr. Lin Zhijun and Dr. Chung Shui Ming, Timpson. The Committee is chaired by Mr. Ng Ming Wah, Charles. 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 2012. The terms of reference of the Audit and Risk Management Committee and a summary of the duties discharged in 2012 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\$25,000.

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 2012 amounted to approximately HK\$1.41 million.

### Competing Interest

Insofar as the directors are aware, Mr. Ng Ming Wah, Charles, an independent non-executive director of the Company, is a director of Somerley Limited, a financial services company principally engaged in advising listed companies in Hong Kong on mergers and acquisitions, equity capital raising and regulatory compliance matters, which may be considered to compete or likely to compete with some of the investment banking businesses of the Group. However, the directors consider that the likelihood of a conflict of interest occurring is minimal since most of the Group's relevant business decisions are handled at the subsidiary level. If and when an occasion arises which may lead to actual or potential competition, it is intended that Mr. Ng will make a full declaration of his interests (if any) and abstain from the discussion and decision making process(es) relating thereto.

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## 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\$0.15 per share for the year ended 31 December 2012 (2011: HK\$0.30 per share). Together with the interim dividend of HK\$0.11 per share (already paid), the aggregate dividend for the year is HK\$0.26 per share (2011: HK\$0.45 per share).

The final dividend, subject to shareholders' approval at the forthcoming annual general meeting, is expected to be paid on or about Thursday, 6 June 2013 to those shareholders whose names appeared on the register of members of the Company on Friday, 24 May 2013.

### Closure of Register of Members

The register of members of the Company will be closed from Friday, 10 May 2013 to Wednesday, 15 May 2013, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Thursday, 9 May 2013.

The register of members of the Company will also be closed from Wednesday, 22 May 2013 to Friday, 24 May 2013, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 21 May 2013.

By order of the Board  
**China Everbright Limited**  
**Tang Shuangning**  
*Chairman*

Hong Kong, 26 March 2013



## Directors and Senior Management

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### Director

#### Tang Shuangning

##### *Chairman*

Mr. Tang Shuangning, aged 58, the Chairman of the Board of the Group. Mr. Tang is the representative of the 12th National People's Congress. Mr. Tang is also the Chairman of China Everbright Group Limited, China Everbright Holdings Company Limited and China Everbright Bank Company Limited (stock code: SH601818). He is also a director of Everbright Securities Company Limited (stock code: SH601788) 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.

#### Mr. Zang Qiutao

##### *Deputy Chairman*

Mr. Zang Qiutao, aged 60, is the Deputy Chairman of the Board of the Group. Mr. Zang is a member of the National Committee of the 12th Chinese People's Political Consultative Conference 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 Company. Mr. Zang is the Vice Chairman of China Everbright Group Limited and China Everbright Holdings Company Limited. He is also the Chairman of China Everbright Industry Group Limited and China Everbright Investment Management Corporation and the Vice Chairman of China Everbright International Limited (stock code: HK 257). Mr. Zang graduated from the Graduate School of the Chinese Academy of Social Sciences. He was formerly Division Chief of the State Economic Commission and Deputy Division Director of the State Planning Commission. He joined the Board in August 2007.

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**Director** (continued)**Mr. Chen Shuang***Chief Executive Officer*

Mr. Chen Shuang, aged 45, 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 a director of China Everbright Holdings Company Limited, a director of Everbright Securities Company Limited (stock code: SH601788), a supervisor of China Everbright Bank Company Limited (stock code: SH601818), an independent director of Noah Holdings Limited (stock code: NOAH.N) and an independent non-executive director of China Nonferrous Mining Corporation Limited (stock code: HK 1258). He is currently a non-official member of Financial Services Development Council, the 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 20 years of extensive experience in commercial banking and investment banking. He joined the Board in August 2004.

**Mr. Tang Chi Chun, Richard***Chief Financial Officer*

Mr. Tang Chi Chun, Richard, aged 51, 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. He was a director of Everbright Securities Company Limited (stock code: SH601788) 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 and has over 21 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.

## Directors and Senior Management (Continued)

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### **Director** (continued)

#### **Mr. Jiang Yuanzhi**

##### *Executive Director*

Mr. Jiang Yuanzhi, aged 45, 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 53, 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. Ng Ming Wah, Charles**

##### *Independent Non-executive Director*

Mr. Ng Ming Wah, Charles, aged 63, was first appointed to the Board as an independent non-executive director in November 1993 and has been acting as the Chairman of the Audit and Risk Management Committee of the Company since August 1999. He is also a member of the Remuneration Committee and Strategy Committee. Mr. Ng graduated from Loughborough University in England in 1972 with a B.Sc. degree in Electronic and Electrical Engineering and from London Graduate School of Business Studies in England in 1974 with a M.Sc. degree in Business Studies. He is a director of Somerley Limited, the principal business of which is the provision of corporate financial advisory services. Mr. Ng has over 30 years of experience in corporate finance and investment banking. Mr. Ng currently is a non-executive director of Goldlion Holdings Limited (stock code: HK 533). He was an independent non-executive director of China Molybdenum Co., Limited (stock code: HK 3993) from December 2006 to August 2012. Mr. Ng tendered his resignation as an independent non-executive director from the board of Dalian Ports (PDA) Company Limited (stock code: HK 2880) on 17 March 2011 (having been a director since 16 November 2005). He was also an independent non-executive director of Stone Group Holdings Limited (stock code: HK 409) from September 2004 to November 2009. In addition, Mr. Ng is a member of the Board of Governors of Hong Kong Arts Centre.

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**Director** (continued)**Mr. Seto Gin Chung, John***Independent Non-executive Director*

Mr. Seto Gin Chung, John, aged 64, 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 Hop Hing Group Holding Limited (stock code: HK 47) and non-executive director of Sateri Holdings Limited (stock code: HK 1768). 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 35 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 58, 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 a Professor and Head of the Department of Accountancy and Law in Hong Kong Baptist University. He is also an independent director of Sinotruk (Hong Kong) Limited (Stock Code: HK 3808), SpringLand International Limited (stock code: HK 1700) and Zhengzhou Coal Mining Machinery Group Company Limited (stock code: HK 564). All are listed on the Stock Exchange of Hong Kong Limited. Mr. 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)

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### **Director** (continued)

#### **Dr. Chung Shui Ming, Timpson**

##### *Independent Non-executive Director*

Dr. Chung Shui Ming, Timpson, aged 61, 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) and China Overseas Grand Oceans Group Limited (stock code: HK 81). Dr. Chung is also an Independent Director of China State Construction Engineering Corporation Limited (stock code: SH601668). 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: SH601818). 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.

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## Senior Management

### Mr. Tsang Sui Cheong, Frederick

Mr. Tsang Sui Cheong, Frederick, aged 53, is the Chief Risk Officer of the Group and a member of the Management Decision Committee. Mr. Tsang is a Chartered Financial Analyst and has been a director of The Hong Kong Society of Financial Analysts Limited since 2001. In March 2009, Mr. Tsang was appointed as a member of the Securities and Futures Appeals Tribunal, whose term was extended to 2013. In May 2011, Mr. Tsang was appointed, for a two year term, 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 28 years of experience in the financial industry.

### Mr. Yin Lianchen

Mr. Yin Lianchen, aged 47, 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 Everbright Ashmore Real Estate 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 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. He Ling

Ms. He Ling, aged 50, is currently the Chief Investment Officer and a member of the Management Decision Committee. Ms. He is responsible for the direct investment business of the Group. She holds a Bachelor degree in Finance from Hunan Finance and Economics University and has obtained a Master degree in Economics from Shanxi Finance and Economics University. She joined Everbright Securities Company Limited in 1993. In 1998, she was appointed as an Assistant to Chief Executive Officer of Everbright Securities Company Limited. Ms. He has over 20 years of experience and knowledge in securities investment and fund management. She joined the Group in August 2000 as an executive director and deputy general manager. She resigned as director and deputy general manager on 16 April 2007 with a view to focusing her resources on the private equity investment business of the Group. Currently she is responsible for managing three China Special Opportunities Funds.

### Ms. Wong Tung Hung

Ms. Wong Tung Hung, aged 44, is the Chief Administration Officer of the Group and a member of the Management Decision Committee. Ms. Wong is mainly responsible for management of human resources 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 15 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.



## Directors and Senior Management (Continued)

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### Senior Management (continued)

#### Mr. Yang Ping

Mr. Yang Ping, age 43, is the Chief Investment Officer and a member of the Management Decision Committee. He is in charge of Strategic Investment Portfolio, QDII Greater China Bond Trust Plan of Assembled Funds, Everbright Dynamic Bond Fund, Everbright Equity Advantage Fund, Everbright Asian Alpha Portfolio and A-share Trust product. 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 the Group, he served as Head of the Research Institute of China Southern Securities Co. Ltd. and a private equity fund in China, which he was responsible for macro-industry and company research, investment of the private equity 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 15 years' experience in securities research and asset management. Mr. Yang joined the Group in December 2007.

#### Mr. Shen Jun

Mr. Shen Jun, aged 46, is the Chief Investment Officer and a member of the Management Decision Committee. Mr. Shen is responsible for building the absolute return platform, including trading, operation, risk systems, team building, fund raising and asset allocations. Prior to joining the Group, Mr. Shen was the Senior Vice President, the Head of Risk and Quantitative Research Department, of Chilton Investment Company, a US\$9 billion hedge fund. Prior to joining Chilton Investment Company in 2006, Mr. Shen was the Senior Quantitative Analyst of Cheyne Capital, a US\$12 billion hedge fund in UK for two years. Prior to Cheyne Capital, Mr. Shen was a Portfolio Manager for three funds for five years, totaled US\$1 billion at Rochdale Investment Company. Two funds five-year tracking record ranked 5 stars by Morningstar. Prior to Rochdale, Mr. Shen held quantitative positions for three years at Aeltus Investment (current ING) and Paine Webber (current UBS). Mr. Shen received his CFA designation in 1999 and received his BS and MS in Electrical Engineering from Cooper Union and MBA in Finance from Columbia Business School. Mr. Shen joined the Group in October 2011.

### Company Secretary

#### Mr. Chan Ming Kin, Desmond

Mr. Chan Ming Kin, Desmond, aged 43, is the General Counsel and Company Secretary of the Group. He is a member of the Supervisory Board of Everbright Securities Company Limited (stock code: SH601788). 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 17 years of 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 79 to 165, which comprise the consolidated and Company balance sheets as at 31 December 2012, 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 141 of the Hong Kong Companies Ordinance, 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 2012 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

26 March 2013

# Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000 (Restated)
Continuing operations			
Turnover	4	4,050,657	3,089,975
Operating income	4	839,943	677,963
Other net income	4	1,131,771	747,256
Staff costs	5	(249,183)	(222,354)
Depreciation expenses	15	(19,426)	(15,537)
Impairment loss on available-for-sale securities		(61,739)	(69,357)
Impairment loss on amounts due from investee companies		(12,786)	(53,564)
Other operating expenses		(149,621)	(103,671)
Profit from operations	6	1,478,959	960,736
Finance costs	7	(66,101)	(59,354)
Share of profits less losses of associates, as per the associates' financial statements	17(b)	414,590	627,395
Share of profits less losses of jointly controlled entities, as per the jointly controlled entities' financial statements	18(b)	39,510	(63)
Adjustments to share of profits less losses to conform with the Group's accounting policies	2(b)	(285,399)	(9,748)
Profit before taxation		1,581,559	1,518,966
Income tax	9	(213,837)	(184,964)
Profit from continuing operations		1,367,722	1,334,002
Discontinued operations			
Gain on disposal of subsidiaries		–	511,576
Profit from discontinued operations		–	10,871
Profit for the year		1,367,722	1,856,449
Profit attributable to equity shareholders of the Company:			
Continuing operations		1,141,555	1,400,258
Discontinued operations	10	–	522,447
Non-controlling interests		1,141,555 226,167	1,922,705 (66,256)
Profit for the year		1,367,722	1,856,449
Basic and diluted earnings per share	14		
Continuing operations		HK\$0.663	HK\$0.813
Discontinued operations		–	HK\$0.303
		HK\$0.663	HK\$1.116

The notes on pages 86 to 165 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 12.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
<b>Profit for the year</b>		<b>1,367,722</b>	1,856,449
<b>Other comprehensive income for the year (after tax and reclassification adjustments):</b>	13		
Net movement in investment revaluation reserve of available-for-sale securities		<b>304,707</b>	(3,047,770)
Share of investment revaluation reserve, exchange reserve and capital reserve of associates, as per the associates' financial statements		<b>387,072</b>	(203,455)
Share of option premium reserve of a jointly controlled entity, as per the jointly controlled entity's financial statements		<b>557</b>	131
Adjustments to share of investment revaluation reserve, exchange reserve and capital reserve of associates to conform with the Group's accounting policies		<b>256,291</b>	–
Exchange reserve		<b>59,216</b>	143,503
		<b>1,007,843</b>	(3,107,591)
<b>Total comprehensive income for the year</b>		<b>2,375,565</b>	(1,251,142)
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>2,352,096</b>	(873,037)
Non-controlling interests		<b>23,469</b>	(378,105)
<b>Total comprehensive income for the year</b>		<b>2,375,565</b>	(1,251,142)

The notes on pages 86 to 165 form part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2012

	Notes	Group		Company	
		31 December 2012 HK\$'000	31 December 2011 HK\$'000	31 December 2012 HK\$'000	31 December 2011 HK\$'000
<b>Non-current assets</b>					
Fixed assets	15	576,624	569,571	50	60
Investments in subsidiaries	16(a)	–	–	2,968,886	1,726,727
Amounts due from subsidiaries	16(b)	–	–	3,650,090	4,409,887
Amounts due from investee companies	16(d)	98,781	111,823	–	–
Investments in associates	17(a)	10,135,102	9,700,682	1,784,192	1,784,192
Investments in jointly controlled entities	18	441,554	510,840	–	–
Available-for-sale securities	19	12,486,586	11,211,236	6,755,290	6,297,784
Financial assets designated at fair value through profit or loss	20	2,016,894	1,166,953	–	–
Advances to customers	21	1,133,900	393,960	–	–
		<b>26,889,441</b>	<b>23,665,065</b>	<b>15,158,508</b>	<b>14,218,650</b>
<b>Current assets</b>					
Advances to customers	21	1,323,876	1,990,120	–	–
Amounts due from subsidiaries	16(b)	–	–	933,356	–
Amount due from an investee company	16(d)	18,660	–	–	–
Amount due from a jointly controlled entity		4,236	334,823	–	–
Debtors, deposits and prepayments	22	553,221	722,479	4,652	209,386
Trading securities	23	803,844	141,672	–	–
Cash and cash equivalents	24	2,664,801	4,246,257	1,310	641,156
		<b>5,368,638</b>	<b>7,435,351</b>	<b>939,318</b>	<b>850,542</b>
<b>Current liabilities</b>					
Amount due to a jointly controlled entity		(5,756)	–	–	–
Creditors, deposits received and accrued charges	26	(309,018)	(178,813)	(3,028)	(14,078)
Trading securities	23	(175,725)	(206)	–	–
Bank loans	25	(527,000)	(1,063,754)	(527,000)	–
Financial liabilities designated at fair value through profit or loss		(97,495)	(148,058)	–	–
Notes payable	27	(135,540)	(633,965)	–	–
Amounts due to subsidiaries	16(c)	–	–	(308,084)	(395,987)
Amount due to an associate		(438)	(438)	(438)	(438)
Provision for taxation	28(a)	(355,372)	(413,150)	–	(20,451)
		<b>(1,606,344)</b>	<b>(2,438,384)</b>	<b>(838,550)</b>	<b>(430,954)</b>
<b>Net current assets</b>		<b>3,762,294</b>	<b>4,996,967</b>	<b>100,768</b>	<b>419,588</b>
<b>Total assets less current liabilities</b>		<b>30,651,735</b>	<b>28,662,032</b>	<b>15,259,276</b>	<b>14,638,238</b>



## Consolidated Balance Sheet

As at 31 December 2012

	Notes	Group		Company	
		31 December 2012 HK\$'000	31 December 2011 HK\$'000	31 December 2012 HK\$'000	31 December 2011 HK\$'000
<b>Non-current liabilities</b>					
Bank loans	25	(512,401)	(69,517)	-	-
Note payable	27	(20,000)	-	-	-
Deferred tax liabilities	28(b)	(163,055)	(319,787)	(94,818)	(104,726)
		(695,456)	(389,304)	(94,818)	(104,726)
<b>NET ASSETS</b>		<b>29,956,279</b>	28,272,728	<b>15,164,458</b>	14,533,512
<b>CAPITAL AND RESERVES</b>					
Share capital	29	1,720,562	1,720,562	1,720,562	1,720,562
Reserves	30	26,391,440	24,744,775	13,443,896	12,812,950
<b>Total equity attributable to equity shareholders of the Company</b>		<b>28,112,002</b>	26,465,337	<b>15,164,458</b>	14,533,512
Non-controlling interests		1,844,277	1,807,391	-	-
<b>TOTAL EQUITY</b>		<b>29,956,279</b>	28,272,728	<b>15,164,458</b>	14,533,512

Approved and authorised for issue by the Board of Directors on 26 March 2013 and signed on behalf of the Board by:

**Tang Shuangning**  
Director

**Chen Shuang**  
Director

The notes on pages 86 to 165 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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 2011		1,723,563	7,887,639	1,116	8,071,021	2,984	(924,395)	109,714	1,056,393	10,212,588	28,140,623	2,030,848	30,171,471
Shares issued under share option scheme		583	2,212	-	-	-	-	-	-	-	2,795	-	2,795
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	154,648	154,648
Dividends paid	12	-	-	-	-	-	-	-	-	(775,866)	(775,866)	-	(775,866)
Transfer between reserves		-	1,116	(1,116)	-	-	255,896	(10,000)	-	(245,896)	-	-	-
Shares repurchased		(3,584)	-	-	-	3,584	-	-	-	(29,178)	(29,178)	-	(29,178)
Profit for the year		-	-	-	-	-	-	-	-	1,922,705	1,922,705	(66,256)	1,856,449
Other comprehensive income for the year		-	-	131	(3,363,083)	-	-	83,186	484,024	-	(2,795,742)	(311,849)	(3,107,591)
As at 31 December 2011 and 1 January 2012		1,720,562	7,890,967	131	4,707,938	6,568	(668,499)	182,900	1,540,417	11,084,353	26,465,337	1,807,391	28,272,728
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	-	-	-	13,417	13,417
Dividends paid	12	-	-	-	-	-	-	-	-	(705,431)	(705,431)	-	(705,431)
Profit for the year		-	-	-	-	-	-	-	-	1,141,555	1,141,555	226,167	1,367,722
Other comprehensive income for the year		-	-	557	1,061,127	-	-	-	148,857	-	1,210,541	(202,698)	1,007,843
As at 31 December 2012		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

The notes on pages 86 to 165 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	38(a)	<b>(604,265)</b>	(2,268,999)
<b>INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(20,635)	(23,304)
Proceeds from disposal of fixed assets		4	–
Proceeds from disposal of subsidiaries		–	400,693
Decrease/(increase) in deposits pledged		340,483	(154,079)
Purchase of available-for-sale securities		(1,457,866)	(1,088,384)
Purchase of financial assets designated at fair value through profit or loss		(430,177)	(105,990)
Investment in associate		(37,320)	–
Acquisition of a subsidiary net of cash acquired	38(b)	66,669	–
Investment in jointly controlled entities		(100,000)	(462,217)
Proceeds from disposal of available-for-sale securities		1,317,205	1,058,345
Proceeds from disposal of an associate		–	18,450
Bank interest received		31,424	26,038
Dividends from investments in securities		564,376	79,196
Dividend from an associate		363,548	626,217
<b>NET CASH INFLOW FROM INVESTING ACTIVITIES</b>		<b>637,711</b>	374,965
<b>NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES</b>		<b>33,446</b>	(1,894,034)
<b>FINANCING ACTIVITIES</b>			
Issue of ordinary shares		–	2,795
Issue of shares in subsidiaries to non-controlling shareholders		74,640	205,361
Redemption of shares by non-controlling shareholders		(37,035)	–
Shares repurchased		–	(29,178)
Proceeds from bank loans		527,000	1,322,830
Proceeds from notes payable		20,000	519,000
Repayment of bank loans		(620,870)	–
Repayment of notes payable		(555,605)	–
Dividend paid to non-controlling shareholders		(22,439)	(225,556)
Dividends paid		(705,431)	(775,866)
<b>NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES</b>		<b>(1,319,740)</b>	1,019,386

## Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Notes	2012 HK\$'000	2011 HK\$'000
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,286,294)</b>	(874,648)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning of year		3,642,079	4,494,348
Exchange rate adjustments		45,321	22,379
End of year		2,401,106	3,642,079
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances and cash – general accounts	24	2,664,801	4,246,257
Deposits pledged	24	(263,695)	(604,178)
End of year	24	2,401,106	3,642,079

The notes on pages 86 to 165 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 directors of the Company consider China Everbright Holdings Company Limited, a company incorporated in Hong Kong, 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), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies 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 2012 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and jointly controlled entities.

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 (note 2(f)); and
- derivative financial instruments (note 2(g)).

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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 40.

The adjustments made to the financial information of associates and jointly controlled entities to conform them to the Group's accounting policies are disclosed separately in the consolidated income statement and consolidated statement of comprehensive income. Management believes that this presentation is more transparent and informative to users of the financial statements.

Classification of operating segment units under the Business Segment Analysis have been revised to conform to the latest business model of the Group. This classification is reported on the same basis as is used by management to analyse its business performance.

The comparative information of the above has been restated to conform to the current year's presentation.



## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. 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 and transactions 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 unrealized 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 their proportionate share of the subsidiary's net identifiable assets.

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.

Where losses applicable to the non-controlling shareholders exceed their interest in the equity of a subsidiary, the excess, and any further losses applicable to the non-controlling shareholders, are charged against the Group's interest except to the extent that the non-controlling shareholder has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profit until the non-controlling's share of losses previously absorbed by the Group has been recovered.

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 jointly controlled entity (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)).

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (d) Associates and jointly controlled entities

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 jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over economic activity of the entity.

An investment in an associate or a jointly controlled entity 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 jointly controlled entity, 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 jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities 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.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, 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)) or, when appropriate, the cost on initial recognition of an investment in an associate.

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

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (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 jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity 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 jointly controlled entity 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 jointly controlled entities, 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.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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)) and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss. When these investments are derecognised or impaired, 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 comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include 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.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the statement of financial position at cost less impairment losses (see note 2(l)).

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date 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 each balance sheet date. 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).

#### (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.





## 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.

#### (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 each balance sheet date 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)

#### (I) 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 recognized 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.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (I) Impairment of assets (continued)

##### (ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date 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;
- Pre-paid interests in leasehold land classified as being held under an operating lease;
- Intangible assets;
- Investments in subsidiaries, associates and jointly controlled entities (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
- Goodwill.

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 to sell 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 whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized 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 to sell, 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.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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 when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (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.

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 each balance sheet date 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.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Income tax (continued)

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, and 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 balance sheet date. 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.



## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 determined.

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 balance sheet date. 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.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (v) **Related parties** *(continued)*

(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.

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.

## Notes to the Financial Statements

### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (x) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs if the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operations; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operations.

## Notes to the Financial Statements

### 3. CHANGES IN ACCOUNTING POLICIES

For the year ended 31 December 2012, the HKICPA has issued several amendments to HKFRSs 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 7, *Financial instruments: Disclosures – Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

The impacts of these developments are discussed below:

#### **Amendments to HKFRS 7, Financial instruments: Disclosures**

The amendments to HKFRS 7 require certain disclosures to be included in the financial statements in respect of transferred financial assets that are not derecognised in their entirety and for any continuing involvement in transferred financial assets that are derecognised in their entirety, irrespective of when the related transfer transaction occurred. However, an entity needs not provide the disclosures for the comparative period in the first year of adoption. The Group did not have any significant transfers of financial assets in previous periods or the current period which require disclosure in the current accounting period under the amendments.

#### **Amendments to HKAS 12, Income taxes**

Under HKAS 12 deferred tax is required to be measured with reference to the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of the asset(s) in question. In this regard, the amendments to HKAS 12 introduced a rebuttable presumption that the carrying amount of investment property carried at fair value under HKAS 40, *Investment property*, will be recovered through sale. This presumption is rebutted on a property-by-property basis if the investment property in question is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. There is no material impact on the adoption of the amendments to HKAS 12.

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

## Notes to the Financial Statements

### 4. TURNOVER, OPERATING INCOME AND OTHER NET INCOME

#### Continuing operations

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

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

	2012 HK\$'000	2011 HK\$'000
<b>Operating income</b>		
Consultancy and management fee income	166,099	94,180
Interest income on financial assets not at fair value through profit or loss		
– bank deposits	31,424	25,524
– advances to customers	261,137	254,281
– unlisted debt securities	18,880	15,705
– others	–	81
Dividend income		
– listed investments	341,597	269,266
– unlisted investments	18,430	14,300
Gross rental income from investment properties	2,376	4,626
	<b>839,943</b>	<b>677,963</b>
<b>Other net income</b>		
Net realised gain/(loss) on trading securities		
– equity securities	21,559	(174,768)
– debt securities	(4,716)	(4,538)
– derivatives	(6,760)	(7,959)
	<b>10,083</b>	<b>(187,265)</b>
Net unrealised gain/(loss) on trading investments		
– equity securities	13,530	(12,775)
– debt securities	28,290	(21,635)
– derivatives	(2,056)	(926)
Net gain on disposal of available-for-sale securities	683,395	691,416
Unrealised gain on financial assets designated at fair value through profit or loss	419,038	141,002
Unrealised gain on financial liabilities designated at fair value through profit or loss	8,170	77,663
Loss on disposal of fixed assets	(34)	(4)
Net loss on note payable	(29,433)	–
Unrealised (loss)/gain on notes payable	(27,747)	28,330
Net exchange (loss)/gain	(6,888)	12,726
Net surplus on revaluation of investment properties	5,880	3,976
Others	29,543	14,748
	<b>1,131,771</b>	<b>747,256</b>

## Notes to the Financial Statements

### 5. STAFF COSTS

#### Continuing operations

	2012 HK\$'000	2011 HK\$'000
Salaries, bonuses and allowances	231,755	210,799
Staff welfare and insurance	10,086	7,292
Staff training and recruitment	5,935	3,274
Pension costs – mandatory provident fund and defined contribution plans	1,407	989
	<b>249,183</b>	222,354

### 6. PROFIT FROM OPERATIONS

#### Continuing operations

Profit from operations is stated after charging the following:

	2012 HK\$'000	2011 HK\$'000
Operating lease rentals in respect of rented premises	3,584	5,452
Auditors' remuneration	7,969	7,533
Impairment loss on goodwill	20,549	–

### 7. FINANCE COSTS

#### Continuing operations

	2012 HK\$'000	2011 HK\$'000
Interest on bank loans	66,101	59,354

Effective interest rate of bank loans was approximately 4.66% per annum (note 36(c)) as of 31 December 2012.

## Notes to the Financial Statements

### 8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments:

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

For the year ended 31 December 2012

	Directors' fee HK\$'000	Salaries, allowances and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2012 Total HK\$'000
<i>Executive directors</i>					
Tang Shuangning	-	120	-	-	120
Zang Qiutao	-	165	-	-	165
Chen Shuang	-	2,035	7,500	-	9,535
Tang Chi Chun, Richard	-	1,565	4,100	14	5,679
Jiang Yuanzhi	-	1,335	2,900	-	4,235
<i>Non-executive director</i>					
Wang Weimin	-	125	-	-	125
<i>Independent non-executive directors</i>					
Ng Ming Wah, Charles	120	224	-	-	344
Seto Gin Chung, John	120	215	-	-	335
Lin Zhijun	120	215	-	-	335
Chung Shui Ming, Timpson	44	85	-	-	129
	404	6,084	14,500	14	21,002



## Notes to the Financial Statements

### 8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(continued)

(a) Directors' emoluments: (continued)

For the year ended 31 December 2011

	Directors' fee HK\$'000	Salaries, allowances and benefit in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2011 Total HK\$'000
<i>Executive directors</i>					
Tang Shuangning	-	100	-	-	100
Zang Qiutao	-	120	-	-	120
Chen Shuang	-	2,005	7,200	-	9,205
Tang Chi Chun, Richard	-	1,540	3,300	12	4,852
Jiang Yuanzhi	-	1,295	2,300	-	3,595
<i>Non-executive director</i>					
Wang Weimin	-	105	-	-	105
<i>Independent non-executive directors</i>					
Ng Ming Wah, Charles	120	194	-	-	314
Seto Gin Chung, John	120	180	-	-	300
Lin Zhijun	120	180	-	-	300
	360	5,719	12,800	12	18,891

## Notes to the Financial Statements

### 8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(continued)

#### (b) Five highest paid individuals' emoluments

	2012 HK\$'000	2011 HK\$'000
Salaries and other emoluments	7,496	4,965
Bonuses	29,753	44,206
Retirement scheme contributions	107	63
	<b>37,356</b>	49,234
	<b>2012</b>	2011
Number of directors	2	1
Number of employees	3	4
	<b>5</b>	5

Their emoluments were within the following bands:

	Number of individuals	
	2012	2011
HK\$5,000,001 to HK\$5,500,000	1	–
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$7,500,001 to HK\$8,000,000	1	1
HK\$8,500,001 to HK\$9,000,000	1	–
HK\$9,000,001 to HK\$9,500,000	–	1
HK\$9,500,001 to HK\$10,000,000	1	–
HK\$11,000,001 to HK\$11,500,000	–	1
HK\$14,500,001 to HK\$15,000,000	–	1
	<b>5</b>	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 (2011: 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% (2011: 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:

	2012 HK\$'000	2011 HK\$'000
Current taxation		
– Hong Kong profits tax	(6,234)	(22,952)
– Overseas taxation	(242,557)	(206,850)
– Over provision in respect of Hong Kong profits tax in prior years	25,046	42,671
Deferred taxation		
– Deferred taxation relating to the origination and reversal of temporary differences	9,908	(2,333)
Income tax expense	(213,837)	(189,464)
Income tax charged from continuing operations	(213,837)	(184,964)
Income tax charged from discontinued operations	–	(4,500)
Income tax expense	(213,837)	(189,464)

## Notes to the Financial Statements

### 9. INCOME TAX (continued)

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

	2012 HK\$'000	2011 HK\$'000
Profit before taxation	1,581,559	2,045,913
Calculated at the rates applicable to profits in the tax jurisdictions concerned	478,799	531,587
Tax effect of income not subject to taxation	(353,641)	(413,262)
Tax effect of expenses not deductible for taxation purpose	91,385	79,343
Tax effect of utilisation of previously unrecognised losses	(5,616)	(944)
Tax effect of tax losses and other deductible temporary differences not recognised	27,956	35,411
Over provision in respect of prior years	(25,046)	(42,671)
Income tax expense	213,837	189,464

### 10. DISCONTINUED OPERATIONS

On 18 May 2011, the Group completed the disposal of 51% interest in Everbright Securities (International) Limited ("Everbright Securities (International)") to a subsidiary of Everbright Securities Company Limited ("Everbright Securities"), an associated company of the Group, at a consideration of HK\$891 million ("Disposal Consideration"). The principal activities of Everbright Securities (International) are investment banking, securities and wealth management business. This divestment generated a gain of HK\$512 million for the Group, representing the sum of the Disposal Consideration and the fair value of the remaining 49% equity interest of HK\$685 million, net of the net asset value of Everbright Securities (International) of HK\$1,064 million. Upon completion of the transaction, Everbright Securities (International) became a 49% owned associate of the Group, and its Board of Directors is composed of two nominees from the Group and three nominees from Everbright Securities.

Accordingly, the consolidated results of the operations of Everbright Securities (International) for the period ended 17 May 2011 are presented as discontinued operations in the financial statements.

## Notes to the Financial Statements

### 10. DISCONTINUED OPERATIONS (continued)

(a) An analysis of the results of the discontinued operations is as follows:

	1 January to 17 May 2011 HK\$'000
Turnover	91,353
Operating income	89,436
Other net income	2,799
Staff costs	(31,627)
Depreciation and amortisation expenses	(1,958)
Other operating expenses	(42,213)
Profit from operations	16,437
Finance costs	(1,066)
Profit before taxation	15,371
Income tax	(4,500)
Profit from discontinued operations	10,871

(b) An analysis of the cash flows of the discontinued operations is as follows:

	1 January to 17 May 2011 HK\$'000
Net cash inflow from operating activities	128,853
Net cash inflow from investing activities	396,084
Net increase in cash and cash equivalents	524,937

## Notes to the Financial Statements

### 10. DISCONTINUED OPERATIONS (continued)

- (c) During the year ended 31 December 2011, the Group disposed of several subsidiaries. The gain on disposal is calculated as follows:

	17 May 2011 HK\$'000
Proceeds from disposal of subsidiaries	891,000
Less: cash of subsidiaries	(490,307)
Net disposal proceeds	400,693
Less: Assets disposed, at carrying value	
Fixed assets	(13,482)
Trading rights	(1,250)
Debtors, deposits and prepayments	(3,060,617)
Deferred tax assets	(200)
Add: Liabilities disposed, at carrying value	
Bank Loans	1,281,921
Creditors, deposits received and accrued charges	726,739
Amount due from associates	482,523
Provision for taxation	10,402
Add: Investment in associates, at fair value	684,847
Gain on disposal of subsidiaries	511,576

### 11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Net profit for the year of the Company of approximately HK\$857,427,000 (2011: net profit of approximately HK\$666,708,000) has been dealt with in the financial statements of the Company.

## Notes to the Financial Statements

### 12. DIVIDENDS

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

	2012 HK\$'000	2011 HK\$'000
– Interim dividend declared and paid of HK\$0.11 (2011: HK\$0.15) per share	189,262	258,622
– Final dividend proposed after the balance sheet date of HK\$0.15 (2011: HK\$0.30) per share	258,084	516,169
	<b>447,346</b>	774,791

The directors proposed a final dividend of HK\$0.15 per share for the year ended 31 December 2012 (2011: HK\$0.30 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

	2012 HK\$'000	2011 HK\$'000
– Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.30 (2011: HK\$0.30) per share	516,169	517,244



## Notes to the Financial Statements

### 13. OTHER COMPREHENSIVE INCOME

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

	2012			2011		
	Before tax amount HK\$'000	Tax credit HK\$'000	Net of tax amount HK\$'000	Before tax amount HK\$'000	Tax credit HK\$'000	Net of tax amount HK\$'000
Net movement in investment revaluation reserve of available-for-sale securities	157,883	146,824	304,707	(3,498,776)	451,006	(3,047,770)
Share of investment revaluation reserve, exchanges reserve and capital reserve of associates, as per the associates' financial statements	387,072	-	387,072	(203,455)	-	(203,455)
Share of option premium reserve of a jointly controlled entity, as per the jointly controlled entity's financial statements	557	-	557	131	-	131
Adjustments to share of investment revaluation reserve, exchange reserve and capital reserve of associates to conform with the Group's accounting policies	256,291	-	256,291	-	-	-
Exchange reserve	59,216	-	59,216	143,503	-	143,503
	861,019	146,824	1,007,843	(3,558,597)	451,006	(3,107,591)

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

	2012 HK\$'000	2011 HK\$'000
Available-for-sale securities:		
Changes in fair value recognised during the year	926,363	(2,425,711)
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	(683,395)	(691,416)
– impairment losses	61,739	69,357
Net movement in the investment revaluation reserve during the year recognised in other comprehensive income	304,707	(3,047,770)

## Notes to the Financial Statements

### 14. EARNINGS PER SHARE

#### Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the year ended 31 December 2012 is based on the profit attributable to equity shareholders of the Company of HK\$1,141,555,000 (2011: HK\$1,922,705,000) and the weighted average number of 1,720,561,712 shares (2011: 1,723,199,105 shares and 1,723,234,010 shares for basic and diluted earnings per shares respectively) in issue during the year.

### 15. FIXED ASSETS

#### (a) Group

	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
<b>Cost or valuation:</b>						
At 1 January 2011	463,705	70,548	39,000	17,448	31,765	622,466
Additions	-	5,402	-	12,917	4,744	23,063
Disposals	-	-	-	-	(3,276)	(3,276)
Surplus on revaluation	-	-	3,976	-	-	3,976
Exchange adjustments	-	-	-	-	6	6
Reclassification	(7,122)	(778)	7,774	-	-	(126)
At 31 December 2011	456,583	75,172	50,750	30,365	33,239	646,109
<b>Representing:</b>						
Cost	456,583	75,172	-	30,365	33,239	595,359
Professional valuation	-	-	50,750	-	-	50,750
	456,583	75,172	50,750	30,365	33,239	646,109
At 1 January 2012	456,583	75,172	50,750	30,365	33,239	646,109
Additions	-	1,679	-	7,146	11,810	20,635
Disposals	-	-	-	-	(380)	(380)
Surplus on revaluation	-	-	5,880	-	-	5,880
Exchange adjustments	-	-	-	-	3	3
At 31 December 2012	456,583	76,851	56,630	37,511	44,672	672,247
<b>Representing:</b>						
Cost	456,583	76,851	-	37,511	44,672	615,617
Professional valuation	-	-	56,630	-	-	56,630
	456,583	76,851	56,630	37,511	44,672	672,247

## Notes to the Financial Statements

## 15. 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
<b>Accumulated amortization and depreciation:</b>						
At 1 January 2011	23,635	6,587	-	9,542	22,667	62,431
Charge for the year	7,016	1,727	-	3,742	3,052	15,537
Written back on disposal	-	-	-	-	(1,313)	(1,313)
Reclassification	(110)	(16)	-	-	-	(126)
Exchange adjustments	-	-	-	-	9	9
At 31 December 2011	30,541	8,298	-	13,284	24,415	76,538
At 1 January 2012	30,541	8,298	-	13,284	24,415	76,538
Charge for the year	6,933	1,791	-	6,545	4,157	19,426
Written back on disposal	-	-	-	-	(342)	(342)
Exchange adjustments	-	-	-	-	1	1
At 31 December 2012	37,474	10,089	-	19,829	28,231	95,623
<b>Net book value:</b>						
At 31 December 2012	419,109	66,762	56,630	17,682	16,441	576,624
At 31 December 2011	426,042	66,874	50,750	17,081	8,824	569,571

## Notes to the Financial Statements

**15. FIXED ASSETS** (continued)

## (b) Company

	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>Cost:</b>			
At 1 January 2011	161	2,035	2,196
Additions	7	–	7
Exchange adjustments	13	–	13
At 31 December 2011	181	2,035	2,216
At 1 January 2012	<b>181</b>	<b>2,035</b>	<b>2,216</b>
Additions	<b>16</b>	–	<b>16</b>
At 31 December 2012	<b>197</b>	<b>2,035</b>	<b>2,232</b>
<b>Accumulated depreciation:</b>			
At 1 January 2011	121	1,886	2,007
Charge for the year	12	138	150
Exchange adjustments	(1)	–	(1)
At 31 December 2011	132	2,024	2,156
At 1 January 2012	<b>132</b>	<b>2,024</b>	<b>2,156</b>
Charge for the year	<b>15</b>	<b>11</b>	<b>26</b>
At 31 December 2012	<b>147</b>	<b>2,035</b>	<b>2,182</b>
<b>Net book value:</b>			
At 31 December 2012	<b>50</b>	–	<b>50</b>
At 31 December 2011	49	11	60

## Notes to the Financial Statements

### 15. FIXED ASSETS (continued)

- (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 2012 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 2012 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\$1,026,688,000 (2011: HK\$991,109,000).

Investment properties of HK\$56,630,000 (2011: HK\$50,750,000) of the Group are rented out under operating leases, of which HK\$10,100,000 (2011: HK\$9,600,000) 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.

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

	Group	
	2012 HK\$'000	2011 HK\$'000
<b>Held in Hong Kong</b>		
– on long lease	289,213	289,867
– on medium-term lease	45,830	42,050
	<b>335,043</b>	331,917
<b>Held outside Hong Kong</b>		
– on medium-term lease	207,458	211,749
	<b>207,458</b>	211,749
	<b>542,501</b>	543,666

## Notes to the Financial Statements

### 16. INVESTMENTS IN SUBSIDIARIES, BALANCES WITH SUBSIDIARIES AND INVESTEES COMPANIES

#### (a) Investments in subsidiaries

	2012 HK\$'000	2011 HK\$'000
Investments, at cost		
Unlisted shares	3,496,586	2,272,587
Less: impairment loss	(527,700)	(545,860)
	<b>2,968,886</b>	1,726,727

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	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
Ally Point Limited	Hong Kong	Ordinary	HK\$100,000	100% <sup>1</sup>	Investment holding
CEL Venture Capital (Shenzhen) Limited	The PRC	Not applicable	HK\$500,000,000	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% <sup>1</sup>	Provision of asset management services
Everbright Capital Management Limited	Hong Kong	Ordinary	HK\$7,000,000	100% <sup>1</sup>	Provision of asset management services

## Notes to the Financial Statements

### 16. INVESTMENTS IN SUBSIDIARIES, BALANCES WITH SUBSIDIARIES AND INVESTEES COMPANIES (continued)

#### (a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
China Everbright Dragon Fund Limited	Cayman Islands	Non-participating shares	US\$5	100% <sup>1</sup>	Investment
		Participating redeemable preference shares	US\$380		
China Everbright Finance Limited	Hong Kong	Ordinary	HK\$100,000,000	100% <sup>1</sup>	Money lending
China Everbright Financial Investments Limited	Hong Kong	Ordinary	HK\$1,000,000	100% <sup>1</sup>	Investment
China Everbright Network Payment Limited	Hong Kong	Ordinary	HK\$346.86	67.38% <sup>1</sup>	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% <sup>1</sup>	Investment
Everbright Equity Advantage Fund	Cayman Islands	Non-participating shares	HK\$10	100% <sup>1</sup>	Investment
		Participating redeemable shares	HK\$1,832		
Everbright Ashmore (Hong Kong) Limited	Hong Kong	Ordinary	US\$1,000	51% <sup>1</sup>	Fund management



## Notes to the Financial Statements

### 16. INVESTMENTS IN SUBSIDIARIES, BALANCES WITH SUBSIDIARIES AND INVESTEE COMPANIES (continued)

#### (a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
Everbright Ashmore Investment Management	Cayman Islands	Ordinary	US\$1,000	51% <sup>1</sup>	Fund management
Everbright Ashmore Real Estate Partners	Cayman Islands	Ordinary	US\$11,000	51% <sup>1</sup>	Fund management
Everbright Ashmore Services and Consulting Limited	Cayman Islands	Ordinary	US\$1,000	51% <sup>1</sup>	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%	Asset management
Fortunecrest Investment Limited	British Virgin Islands	Ordinary	US\$1	100% <sup>1</sup>	Property investment
Goalfield Investments Limited	British Virgin Islands	Ordinary	US\$1	100% <sup>1</sup>	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
Seabright China Special Opportunities (I) Limited	British Virgin Islands	Non-participating shares	US\$5	78.90% <sup>1</sup>	Investment
		Participating redeemable preference shares	US\$415		

## Notes to the Financial Statements

### 16. INVESTMENTS IN SUBSIDIARIES, BALANCES WITH SUBSIDIARIES AND INVESTEE COMPANIES (continued)

#### (a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
Trycom Management Limited	British Virgin Islands	Ordinary	US\$1	100%	Investment holding
Wealthlink Pacific Ltd.	British Virgin Islands	Ordinary	US\$1	100%	Investment
Windsor Venture Limited	British Virgin Islands	Ordinary	US\$1	100%	Investment holding
Well Logic Investment Limited	Hong Kong	Ordinary	HK\$2	100% <sup>1</sup>	Property investment
Everbright Absolute Return Fund	Cayman Islands	Ordinary	US\$70,000,000	100% <sup>1</sup>	Investment
China Everbright Asia Capital Limited	Cayman Islands	Ordinary	US\$3,800,000	100% <sup>1</sup>	Investment
深圳市光控投資諮詢有限公司	The PRC	Not applicable	RMB10,000,000	100% <sup>1</sup>	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% <sup>1</sup>	Project investment
深圳市衡遠投資發展有限公司	The PRC	Not applicable	RMB20,000,000	61% <sup>1</sup>	Project investment
Everbright Venture Capital Jiangyin Company Limited	The PRC	Not applicable	RMB359,000,000	50% <sup>1</sup>	Venture capital

## Notes to the Financial Statements

### 16. INVESTMENTS IN SUBSIDIARIES, BALANCES WITH SUBSIDIARIES AND INVESTEE COMPANIES (continued)

#### (a) Investments in subsidiaries (continued)

Name of subsidiary	Place of incorporation	Class of shares	Particulars of issued share capital	Percentage of equity interest held by the Company	Principal activities
光大匯益偉業投資管理(北京)有限公司	The PRC	Not applicable	RMB25,300,000	100% <sup>1</sup>	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	RMB100,000,000	100% <sup>1</sup>	Project investment
重慶光控股權投資管理有限公司	The PRC	Not applicable	RMB10,000,000	100% <sup>1</sup>	Fund management
光控廣域投資(上海)合夥企業(有限合夥)	The PRC	Limited Partnership	RMB120,000,000	50% <sup>1</sup>	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	RMB20,000,000	100% <sup>1</sup>	Investment

(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.

#### (d) Amounts due from investee companies

Amounts due from investee companies of HK\$98,781,000 (2011: HK\$111,823,000) in aggregate are unsecured, interest free and have no fixed terms of repayment. The Group had no intention to demand repayment within one year. The remaining balance of HK\$18,660,000 (2011: nil) is secured, interest bearing and repayable within one year.

## Notes to the Financial Statements

### 17. INVESTMENTS IN ASSOCIATES

#### (a) Investments in associates

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Investments, at cost				
Shares listed in Mainland China	1,782,996	1,782,996	1,784,192	1,784,192
Unlisted shares:				
– in Hong Kong	561,951	561,951	40,390	40,390
– Outside Hong Kong	38,784	1,464	683	683
Share of post-acquisition reserves	8,453,642	8,045,903	–	–
Intangible assets	54,314	64,953	–	–
	<b>10,891,687</b>	10,457,267	<b>1,825,265</b>	1,825,265
Less:				
Provision for impairment charged against investment costs	(165,548)	(165,548)	(41,073)	(41,073)
Goodwill on acquisition	(591,037)	(591,037)	–	–
Carrying value, net	<b>10,135,102</b>	9,700,682	<b>1,784,192</b>	1,784,192
Market value of listed shares in Mainland China	<b>20,025,418</b>	14,293,031	<b>20,025,418</b>	14,293,031

The Group's investment in the shares listed in Mainland China, classified under investments in associates has a lock-up period which ended on 18 August 2012.

## Notes to the Financial Statements

### 17. INVESTMENTS IN ASSOCIATES (continued)

(b) As at 31 December 2012, 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	The PRC	Securities operations	33.33%
Everbright Securities (International) Limited	British Virgin Islands	Securities operations	49%*

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

For the year ended 31 December 2012, Everbright Securities has recorded an after tax profit of RMB1.03 billion (2011: RMB1.6 billion) and the Group's share of profit as per the associates' financial statements, under equity accounting method, amounted to HK\$414 million (2011: HK\$621 million). In addition to the remained 49% stake of Everbright Securities (International), the Group entitles to the profit from its 33.33% share of Everbright Securities, which controls 51% stake in Everbright Securities (International).

## Notes to the Financial Statements

### 17. INVESTMENTS IN ASSOCIATES (continued)

(c) **Supplementary financial information of principal associates**

Supplementary financial information in respect of the principal associate extracted from its financial statements is as follows:

	Everbright Securities	
	2012 RMB'000	2011 RMB'000
<b>Consolidated income statement</b>		
Operating income	3,651,701	4,498,481
Profit before taxation	1,360,409	2,093,504
Current taxation	(326,985)	(498,078)
Profit after taxation	1,033,424	1,595,426
Non-controlling interests	(30,455)	(50,952)
Profit attributable to shareholders	1,002,969	1,544,474
<b>Consolidated balance sheet</b>		
Total assets	58,358,022	44,117,753
Total liabilities	(35,448,493)	(21,911,750)
Non-controlling interests	22,909,529	22,206,003
	(737,050)	(729,761)
Net assets	22,172,479	21,476,242

## Notes to the Financial Statements

### 18. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

(a) Investments in jointly controlled entities

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Share of net assets	419,243	488,529	–	–
Goodwill on acquisition	22,311	22,311	–	–
	441,554	510,840	–	–

(b) As at 31 December 2012, details of the Group's investments in jointly controlled entities 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 Macquarie Infrastructure Limited	Cayman Islands	Fund management	Class A Ordinary Shares US\$2,000,000	50.0%
			Class B Ordinary Shares US\$20,000	50.1%
Everbright Guolian Capital Company Limited	The PRC	Venture capital and investment advisory	RMB150,000,000	50.0%*
T&C (Beijing) Asset Management Consulting Limited	The PRC	Provision of consultancy services	RMB8,000,000	51.0%*
China Aircraft Leasing Holdings Limited	Cayman Island	Investment holding	HK\$334,832,000	44.13%*#

\* Held indirectly

# According to HKAS 32, the Group's share of the economic interests of the entity for the year ended 31 December 2012 was still calculated at 48%.

## Notes to the Financial Statements

### 18. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

(b) (continued)

Summary financial information on jointly controlled entities – the Group's effective interest:

	2012 HK\$'000	2011 HK\$'000
Current assets	3,482,502	2,012,806
Current liabilities	(3,063,259)	(1,524,277)
Net assets	419,243	488,529
Income	218,091	90,324
Expenses	(188,136)	(109,237)
Profit/(loss) for the year	29,955	(18,913)

### 19. AVAILABLE-FOR-SALE SECURITIES

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At fair value:				
Listed equity securities:				
– in Hong Kong	356,205	376,654	–	–
– outside Hong Kong	7,407,091	8,021,929	6,646,750	6,182,819
Unlisted equity securities	4,082,058	2,220,063	108,540	114,965
Unlisted debt securities	105,068	93,210	–	–
At cost <sup>(i)</sup> :				
Unlisted equity securities	536,164	499,380	–	–
	12,486,586	11,211,236	6,755,290	6,297,784

- (i) At 31 December 2012, the investment was measured at cost less impairment because (a) the variability in the range of reasonable fair value estimates is significant for that investment; and (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value.



## Notes to the Financial Statements

### 19. AVAILABLE-FOR-SALE SECURITIES (continued)

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Fair value of individually impaired available-for-sale equity securities:				
Listed equity securities				
– Hong Kong	46,094	89,513	–	–
– Outside Hong Kong	5,259	–	–	–
Unlisted equity securities	16,543	–	–	–
	67,896	89,513	–	–

As at 31 December 2012, certain of the Group's and the Company's available-for-sale equity securities were individually determined to be impaired on the basis of a material decline in their fair value below cost and the cost of the Group's investment in them may not be recovered. Impairment losses on these investments were recognised in profit or loss in accordance with the policy set out in note 2(l)(i).

Realised gains on disposal of certain available-for-sale securities are subject to the payment of an incentive project bonus to an investment team (see note 34(b)).

The Group held the following principal available-for-sale securities as at 31 December 2012:

Company name	Place of incorporation	Principal activities	Effective equity interest held by the Group
China Everbright Bank Company Limited ("Everbright Bank") <sup>(i)</sup>	The PRC	Banking operations	4.51%

(i) At 31 December 2012, the carrying value of interests in Everbright Bank exceeded 10% of total assets of the Group.

## Notes to the Financial Statements

### 20. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 HK\$'000	2011 HK\$'000
At fair value:		
Hong Kong listed equity securities	64,207	59,926
Overseas listed equity securities	25,892	53,233
Overseas unlisted equity securities	1,104,044	635,467
Overseas unlisted convertible preference shares	21,550	20,530
Overseas unlisted debt securities	801,201	397,797
	<b>2,016,894</b>	1,166,953

Realised gains on disposal of certain financial assets designated at fair value through profit or loss are subject to the payment of an incentive project bonus to an investment team (see note 34(b)).

In 2009, 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 HK\$114,138,000.

## Notes to the Financial Statements

### 21. ADVANCES TO CUSTOMERS

	2012 HK\$'000	2011 HK\$'000
<b>Non-current assets</b>		
Term loans to customers		
– secured	1,133,900	388,640
– unsecured	–	5,320
	<b>1,133,900</b>	<b>393,960</b>
<b>Current assets</b>		
Term loans to customers		
– secured	973,990	1,891,720
– unsecured	349,886	98,400
	<b>1,323,876</b>	<b>1,990,120</b>

Certain term loans to customers are secured by unlisted securities, third parties guarantee or leasehold land in Mainland China (Note 36 (a)).

An aging analysis of advances to customers is as follows:

	2012 HK\$'000	2011 HK\$'000
Repayable on demand	99,520	98,400
Within 3 months	665,382	686,320
Over 3 months to 1 year	558,974	1,205,400
Over 1 year to 5 years	1,133,900	393,960
	<b>2,457,776</b>	<b>2,384,080</b>

### 22. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Accounts receivable, net	377,975	193,242	–	–
Deposits, prepayments, interest and other receivables	175,246	529,237	4,652	209,386
	<b>553,221</b>	<b>722,479</b>	<b>4,652</b>	<b>209,386</b>

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

## Notes to the Financial Statements

## 23. TRADING SECURITIES

<b>Current Assets</b>	<b>2012 HK\$'000</b>	2011 HK\$'000
At fair value:		
Listed equity securities:		
– in Hong Kong	30,182	13,886
– outside Hong Kong	296,016	1,671
Listed debt securities:		
– outside Hong Kong	255,899	126,115
Unlisted debt securities	208,690	–
Derivatives:		
– listed	1,358	–
– unlisted	11,699	–
	<b>803,844</b>	<b>141,672</b>
<b>Current Liabilities</b>		
At fair value:		
Listed equity securities:		
– in Hong Kong	(7,198)	–
– outside Hong Kong	(49,429)	–
Unlisted debt securities	(107,437)	–
Derivatives:		
– listed	(5,404)	(206)
– unlisted	(6,257)	–
	<b>(175,725)</b>	<b>(206)</b>

## Notes to the Financial Statements

### 24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Cash on hand, savings and current accounts	2,182,518	2,459,853	1,310	641,156
Fixed deposits with banks	482,283	1,786,404	–	–
Cash and cash equivalents in the consolidated balance sheet	2,664,801	4,246,257	1,310	641,156
Less: Deposits pledged	(263,695)	(604,178)	–	–
Cash and cash equivalents in the consolidated cash flow statement	2,401,106	3,642,079	1,310	641,156

### 25. BANK LOANS

As at 31 December 2012, the bank loans were repayable as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Within 1 year	527,000	1,063,754	527,000	–
After 2 years but within 5 years	447,840	–	–	–
After 5 years	64,561	69,517	–	–
	512,401	69,517	–	–
	1,039,401	1,133,271	527,000	–

As at 31 December 2012, the bank loans were secured as follows:

	2012 HK\$'000	2011 HK\$'000
Bank loans		
– secured	512,401	573,817
– unsecured	527,000	559,454
	1,039,401	1,133,271

As at 31 December 2012, the bank loans of the Group of HK\$512,401,000 (2011: HK\$573,817,000) were secured by fixed deposits of the Company and property situated in mainland China.

## Notes to the Financial Statements

### 26. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Creditors, deposits received and accrued charges	309,018	178,813	3,028	14,078

As at 31 December 2012, creditors, deposits received and accrued charges included bonus payable to staff.

### 27. NOTES PAYABLE

	2012 HK\$'000	2011 HK\$'000
Non-current liability		
Unlisted note issued by the Group, at fair value	20,000	–
Current liabilities		
Unlisted notes issued by the Group, at fair value:		
Face value	124,541	666,540
Unrealised loss/(gain)	10,999	(32,575)
	135,540	633,965

As at 31 December 2012, the Group issued three notes to three independent third parties. One note was issued with a face value and carrying amount of RMB99,950,000 (2011: RMB99,950,000) and HK\$108,540,000 (2011: HK\$80,793,000) respectively. Under the terms of the note, the Group will pay the subscriber all the realised proceeds and investment income received from certain available-for-sale investments held by the Company throughout the life of the note.

The remaining two notes with face value and carrying amount totalling HK\$47,000,000 (one note issued in 2011: HK\$27,000,000) are interest bearing and have fixed repayment terms.

## Notes to the Financial Statements

### 28. INCOME TAX IN THE BALANCE SHEET

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

	2012 HK\$'000	2011 HK\$'000
Provision for Hong Kong profits tax for the year	6,234	22,952
Provision for PRC Tax for the year	203,540	262,693
Profits tax paid	(143,397)	(181,872)
Balance of profits tax provision relating to prior years	66,377 288,995	103,773 309,377
	355,372	413,150

(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	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
At 1 January	(215,061)	(666,067)	-	1,371	(104,726)	(103,764)	(319,787)	(768,460)
Credited/(charged) to profit or loss	-	-	-	(1,371)	9,908	(962)	9,908	(2,333)
Credited to reserve	146,824	451,006	-	-	-	-	146,824	451,006
At 31 December	(68,237)	(215,061)	-	-	(94,818)	(104,726)	(163,055)	(319,787)

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\$1,930 million (2011: approximately HK\$1,737 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.

## Notes to the Financial Statements

### 28. INCOME TAX IN THE BALANCE SHEET (continued)

#### (b) Deferred taxation (continued)

##### (ii) The Company

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

#### Withholding tax on associate's profit

	2012 HK\$'000	2011 HK\$'000
At 1 January	(104,726)	(103,764)
Credited/(charged) to profit or loss	9,908	(962)
At 31 December	(94,818)	(104,726)

### 29. SHARE CAPITAL

	2012 HK\$'000	2011 HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$1.00 each	2,000,000	2,000,000
<i>Issued and fully paid:</i>		
At 1 January	1,720,562	1,723,563
Shares issued under share option scheme	-	583
Shares repurchased	-	(3,584)
At 31 December	1,720,562	1,720,562

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

#### (a) Share repurchased

During the year, the Company did not repurchase any of its own ordinary shares (2011: 3,584,000 shares) on The Stock Exchange of Hong Kong Limited.

In 2011, 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 Hong Kong Companies Ordinance, and amount equivalent to the par value of the shares cancelled of HK\$3,584,000 was transferred from retained profits to the capital redemption reserve. The premium paid on the repurchase of the shares of HK\$25,594,000 was charged to retained profits.



## Notes to the Financial Statements

### 29. SHARE CAPITAL (continued)

#### (b) Capital Management

The Group's primary objectives in capital management are maximising shareholder 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 cash and cash equivalents. Adjusted capital represents total equity less unaccrued proposed dividends. The net-assets-to-adjusted capital ratio at 31 December 2012 and 2011 was as follows:

	Notes	2012 HK\$'000	2011 HK\$'000
<b>Current liabilities</b>			
Creditors, deposits received and accrued charges	26	309,018	178,813
Trading securities	23	175,725	206
Bank loans	25	527,000	1,063,754
Notes payable	27	135,540	633,965
Financial liabilities designated at fair value through profit or loss		97,495	148,058
		<b>1,244,778</b>	2,024,796
<b>Non-current liabilities</b>			
Bank loans	25	512,401	69,517
Note payable	27	20,000	–
		<b>1,777,179</b>	2,094,313
<b>Total debt</b>		<b>1,777,179</b>	2,094,313
Add: Proposed dividends		258,084	516,169
Less: Cash and cash equivalents	24	(2,401,106)	(3,642,079)
		<b>(365,843)</b>	(1,031,597)
<b>Net assets for capital management</b>			
		<b>(365,843)</b>	(1,031,597)
<b>Total equity</b>			
		<b>29,956,279</b>	28,272,728
Less: Proposed dividends		(258,084)	(516,169)
		<b>29,698,195</b>	27,756,559
<b>Adjusted capital</b>			
		<b>29,698,195</b>	27,756,559
<b>Net-assets-to-adjusted capital ratio</b>			
		<b>(1.2%)</b>	(3.7%)

## Notes to the Financial Statements

### 29. SHARE CAPITAL (continued)

#### (b) Capital Management (continued)

As at 31 December 2012, 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 as 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 36(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 premium HK\$'000	Option premium reserve HK\$'000	Investment revaluation reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 January 2011		7,887,639	1,116	6,251,854	(30,837)	2,984	435,340	14,548,096
Shares issued under share option scheme		2,212	-	-	-	-	-	2,212
Shares repurchased		-	-	-	-	3,584	(29,178)	(25,594)
Dividend paid	12	-	-	-	-	-	(775,866)	(775,866)
Transfer between reserves		1,116	(1,116)	-	30,837	-	(30,837)	-
Profit for the year		-	-	-	-	-	666,708	666,708
Other comprehensive income for the year		-	-	(1,602,606)	-	-	-	(1,602,606)
As at 31 December 2011 and 1 January 2012		7,890,967	-	4,649,248	-	6,568	266,167	12,812,950
Dividends paid	12	-	-	-	-	-	(705,431)	(705,431)
Profit for the year		-	-	-	-	-	857,427	857,427
Other comprehensive income for the year		-	-	478,950	-	-	-	478,950
As at 31 December 2012		7,890,967	-	5,128,198	-	6,568	418,163	13,443,896

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**  
The application of the share premium and the capital redemption reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance.
- (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**  
As at 31 December 2012, the aggregate amount of reserve available for distribution to equity shareholders of the Company, as calculated under Section 79B of the Companies Ordinance was HK\$418,163,000 (2011: HK\$266,167,000).

## Notes to the Financial Statements

### 32. MATURITY PROFILE

As at 31 December 2012

	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
<b>Assets</b>						
- Advances to customers	99,520	665,382	558,974	1,133,900	-	2,457,776
- Trading securities	-	392,304	72,285	-	-	464,589
- Available-for-sales securities	-	-	-	105,068	-	105,068
- Financial assets designated at fair value through profit or loss	-	-	451,949	-	-	451,949
- Fixed deposits	-	482,283	-	-	-	482,283
	99,520	1,539,969	1,083,208	1,238,968	-	3,961,665
<b>Liabilities</b>						
- Bank loans	-	(527,000)	-	(447,840)	(64,561)	(1,039,401)
- Financial liabilities designated at fair value through profit or loss	-	-	(97,495)	-	-	(97,495)
- Trading securities	-	(107,437)	-	-	-	(107,437)
- Notes payable	-	-	(135,540)	(20,000)	-	(155,540)
	-	(634,437)	(233,035)	(467,840)	(64,561)	(1,399,873)

## Notes to the Financial Statements

### 32. MATURITY PROFILE (continued)

As at 31 December 2011

	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
<b>Assets</b>						
– Advances to customers	98,400	686,320	1,205,400	393,960	–	2,384,080
– Trading securities	–	69,864	56,251	–	–	126,115
– Available-for-sales securities	–	–	–	79,631	13,579	93,210
– Financial assets designated at fair value through profit or loss	–	–	397,797	–	–	397,797
– Fixed deposits	–	1,786,404	–	–	–	1,786,404
	98,400	2,542,588	1,659,448	473,591	13,579	4,787,606
<b>Liabilities</b>						
– Bank loans	–	(18,254)	(1,045,500)	–	(69,517)	(1,133,271)
– Financial liability designated at fair value through profit or loss	–	–	(79,559)	–	–	(79,559)
– Notes payable	–	(492,000)	(141,965)	–	–	(633,965)
	–	(510,254)	(1,267,024)	–	(69,517)	(1,846,795)

### 33. RELATED PARTY TRANSACTIONS

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

	2012 HK\$'000	2011 HK\$'000
Management fee received from:		
– subsidiaries of jointly controlled companies	12,821	28,905
– a financial asset designated at fair value through profit or loss	23,795	23,857
Loan interest income from:		
– an ultimate holding company	3,128	–
– a jointly controlled entity	10,393	–
– a financial asset designated at fair value through profit or loss	2,194	–
Rental income from associates of the Group	–	2,439
Rental income from an ultimate holding company	240	180
Rental expense paid to a wholly-owned subsidiary of CE Holdings	–	2,433
Remuneration for key management personnel (including the Company's directors) which is included in "staff cost":		
– short-term employee benefits	53,414	25,746
– retirement scheme contributions	215	106

## Notes to the Financial Statements

### 33. RELATED PARTY TRANSACTIONS (continued)

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

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Amount due from associates (included in debtors, deposits and prepayments)	13,201	170,248	12	12
Loan to a financial asset designated at fair value through profit or loss	252,470	–	–	–

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

(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 organizations (“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**

	Notes	2012 HK\$'000	2011 HK\$'000
Guarantee given to financial institutions in respect of banking facilities granted to subsidiaries	i	497,600	1,146,500
Standby facility given to a jointly controlled entity	ii	310,000	–
		807,600	1,146,500

Notes:

- i. The Group’s subsidiaries have utilised HK\$447,840,000 out of these banking facilities as at 31 December 2012 (31 December 2011: HK\$448,754,000).
- ii. The Group’s jointly controlled entity did not utilize any of this standby facility as at 31 December 2012.

## Notes to the Financial Statements

### 34. CONTINGENT LIABILITIES (continued)

#### (b) Incentive payment

According to an Incentive Agreement dated and announced on 25 May 2007, the Group is obligated to pay an incentive project bonus to an investment team (of which all the individual members are employees of the Group) upon the realization of each project, whether in whole or in part, under SeaBright China Special Opportunities (I) Limited (of which the Group has a 78.9% equity interest). The amount of the incentive project bonus payable under the agreement is equal to 15% of the profit realised from the disposal of those investments plus the related amount of advisor fee income received less certain attributable project expenses and the investment team's operating expenses. The incentive project bonus is recognized on the realisation of the relevant project. As at 31 December 2012, the accumulated unrealised gain associated with the relevant projects amounted to HK\$808 million (31 December 2011: HK\$728 million). If all relevant projects were disposed of on 31 December 2012 at their fair value, the amount of incentive project bonus payable to the investment team would be approximately HK\$82 million (31 December 2011: HK\$63 million).

### 35. COMMITMENTS

#### (a) Capital commitment

As at 31 December 2012, the Group had capital commitments as follows:

	2012 HK\$'000	2011 HK\$'000
Contracted but not provided for	748,754	1,128,842
Authorised but not contracted for	49,760	–

#### (b) Operating lease commitments

Operating lease commitments as at 31 December 2012 amounted to approximately HK\$229,000 (2011: HK\$3,261,000) of which HK\$229,000 (2011: HK\$3,062,000) is payable in the next twelve months. The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2012 HK\$'000	2011 HK\$'000
Not later than one year	229	3,062
Later than one year and not later than five years	–	199
	229	3,261

## Notes to the Financial Statements

### 35. COMMITMENTS (continued)

#### (c) Future operating lease arrangement

As at 31 December 2012, the Group had future aggregate minimum lease receipts under non-cancellable operating leases for investment properties as follows:

	2012 HK\$'000	2011 HK\$'000
Not later than one year	1,315	1,219
Later than one year and not later than five years	594	1,463
	<b>1,909</b>	2,682

#### (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 2012 are detailed as follows:

	Fair value assets/ (liabilities)		Contractual/ notional amounts	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Assets derivative contracts	13,057	–	983,695	–
Liabilities derivative contracts	(11,661)	(206)	270,806	1,133

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.



## Notes to the Financial Statements

### 36. 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 with acceptable limits.

The Group's work in the area of risk management is led by the Chief Risk Officer and execution is carried out 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 areas of business. 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.

In general, 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. The Group's credit risk exposure is controlled because these advances of customers are secured by residential leasehold land in the mainland, equity shares and third party guarantees of RMB600 million (31 December 2011: RMB400 million), HK\$487 million (31 December 2011: HK\$565 million) and HK\$874 million (31 December 2011: HK\$1,223 million) respectively.

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 guarantees and standby facility 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\$808 million (31 December 2011: HK\$1,147 million).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from advances to customers are set out in notes 21 and 32.

## Notes to the Financial Statements

### 36. 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

	2012				2011			
	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	309,018	309,018	309,018	-	178,813	178,813	178,813	-
Amount due to an associate	438	438	438	-	438	438	438	-
Bank loans	1,039,401	1,155,548	561,625	593,923	1,133,271	1,176,627	1,086,489	90,138
Notes payable	155,540	155,540	135,540	20,000	633,965	633,965	633,965	-
Trading securities	175,725	175,725	175,725	-	-	-	-	-
Financial liabilities designated at fair value through profit or loss	97,495	97,495	97,495	-	148,058	148,058	148,058	-
Amount due to a jointly controlled entity	5,756	5,756	5,756	-	-	-	-	-
	1,783,373	1,899,520	1,285,597	613,923	2,094,545	2,137,901	2,047,763	90,138

## Notes to the Financial Statements

### 36. FINANCIAL INSTRUMENTS (continued)

#### (b) Liquidity risk (continued)

##### The Company

	2012			2011		
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000
Creditors, deposits received and accrued charges	3,028	3,028	3,028	14,078	14,078	14,078
Amounts due to subsidiaries	308,084	308,084	308,084	395,987	395,987	395,987
Amount due to an associate	438	438	438	438	438	438
Bank loan	527,000	527,470	527,470	-	-	-
	<b>838,550</b>	<b>839,020</b>	<b>839,020</b>	410,503	410,503	410,503
Financial guarantees issued: Maximum amount guaranteed (note 34(a))	<b>807,600</b>	<b>807,600</b>	<b>807,600</b>	1,146,500	1,146,500	1,146,500

#### (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 eight years.

The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises in 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. It also relates to positions from non-interest bearing liabilities including shareholders' funds and current accounts, as well as from certain fixed rate loans. 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.

## Notes to the Financial Statements

### 36. FINANCIAL INSTRUMENTS (continued)

#### (c) Interest rate risk (continued)

In respect of interest-bearing financial assets and financial liabilities, the following table indicates their effective interest rate at the balance sheet date. At 31 December 2012, it is estimated that a general increase/decrease of 0.5% in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after tax and retained earnings, by HK\$10,521,836/HK\$7,564,543 (2011: increase of HK\$16,830,000/decrease of HK\$4,177,000 for increase/decrease of 0.5% in interest rate).

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 2011.

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

	2012		2011	
	Effective interest rate %	HK\$'000	Effective interest rate %	HK\$'000
<b>Assets</b>				
Advances to customers	12%	746,400	10.65%	492,000
Bank balances and cash	0.43%	2,664,801	0.65%	4,226,918
<b>Total interest bearing assets</b>		<b>3,411,201</b>		<b>4,718,918</b>
<b>Liabilities</b>				
Bank loans	4.66%	1,039,401	6.81%	1,133,271
Notes payable	3.50%	155,540	0.85%	519,000
<b>Total interest bearing liabilities</b>		<b>1,194,941</b>		<b>1,652,271</b>

#### (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 or Renminbi, the management does not consider there to be any significant currency risk.

## Notes to the Financial Statements

### 36. FINANCIAL INSTRUMENTS (continued)

#### (d) Currency risk (continued)

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

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:

	2012		2011	
	In USD HK\$'000	In RMB HK\$'000	In USD HK\$'000	In RMB HK\$'000
Fixed assets	–	427	–	344
Investments in associates	–	9,423,684	–	9,016,384
Investments in jointed controlled entities	269,724	–	233,443	4,250
Available-for-sale securities	246,344	8,120,063	118,488	7,980,222
Financial assets designated at fair value through profit or loss	1,047,073	516,860	586,519	335,753
Advances to customers	903,082	622,000	582,960	–
Amounts due from investee companies	16,237	–	19,790	–
Debtors, deposits and prepayments	217,196	–	26,006	270,509
Cash and cash equivalents	225,749	1,314	533,552	1,609,203
Bank loan	(527,000)	–	–	–
Creditors, deposits received and accrued charges	–	(33,512)	–	(585)
Financial liabilities designated at fair value through profit or loss (current liabilities)	(90,388)	–	(79,559)	(68,499)
Provision for taxation	–	–	–	(48,253)
Notes payable	–	(108,540)	–	(606,965)
Deferred tax liabilities	–	(163,055)	–	(18,549)
Net exposure arising from recognised assets and liabilities	2,308,017	18,379,241	2,021,199	18,473,814

## Notes to the Financial Statements

### 36. FINANCIAL INSTRUMENTS (continued)

#### (d) Currency risk (continued)

An analysis of the estimated change in the Group's profit after tax (and retained profits) 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.

	Increase/ (decrease) in exchange rates	2012 Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity HK\$'000	Increase/ (decrease) in exchange rates	2011 Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity HK\$'000
United States Dollars, USD	1% (1%)	17,919 (17,919)	5,161 (5,161)	1% (1%)	16,693 (16,693)	3,519 (3,519)
Renminbi, RMB	5% (5%)	41,754 (41,754)	877,209 (877,209)	5% (5%)	73,631 (73,631)	850,060 (850,060)

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 2011.

#### (e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 23), available-for-sale securities (see note 19), financial assets designated as fair value through profit or loss (see note 20) 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.

## Notes to the Financial Statements

### 36. FINANCIAL INSTRUMENTS (continued)

#### (e) Equity price risk (continued)

The Group's listed investments, other than some available-for-sale securities which are listed on the Shanghai Stock Exchange, are mainly listed on the Stock Exchange of Hong Kong 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 limited 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. The analysis is performed on the same basis as in 2011:

	Increase/ (Decrease) in equity price	2012 Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity HK\$'000	Increase/ (Decrease) in equity price	2011 Effect on profit after tax and retained profits HK\$'000	Effect on other components of equity HK\$'000
Listed equity investments	10% (10%)	31,519 (32,832)	591,480 (590,168)	10% (10%)	7,320 (7,320)	633,096 (633,096)
Unlisted equity investments	5% (5%)	35,311 (42,003)	230,911 (224,220)	5% (5%)	23,364 (23,364)	135,972 (135,972)

## Notes to the Financial Statements

### 37. FAIR VALUES OF FINANCIAL INSTRUMENTS

#### (a) Estimation of fair values

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, the most suitable measure for fair value is the quoted market price. In the absence of an organised secondary market, for most financial instruments, and in particular for unlisted equity and debt instruments and derivatives where direct market prices are not available, the fair value of such instruments are calculated on the basis of well-established valuation techniques using current market parameters. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of value realisable in a future sale.

The Group compares valuations derived from models with quoted prices of similar financial instruments, and public information available in order to further validate and calibrate the models. These techniques involve uncertainties and are significantly affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experiences and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could not be realised in an immediate sale of the instruments. The following methods and significant assumptions have been applied in determining the fair values of financial instruments:

- (i) 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, and (3) applying, if possible, price/earnings ratios and EV/EBITDA ratios for similar listed companies adjusted to reflect the specific circumstances of the investments.
- (ii) The fair value of derivatives is estimated either using broker quotes or by 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.



## Notes to the Financial Statements

### 37. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

#### (b) Fair value

Unless otherwise specified, all financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2012 and 2011.

Fair values of financial instruments are categorised into three levels of the fair value hierarchy as follows:

- Level 1: fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data; and
- Level 3: fair values measured using valuation techniques in which any significant input is not based on observable market data.

The Group holds an available-for-sale securities with fair value of HK\$13.1 million in aggregate at 31 December 2012 (31 December 2011: HK\$17.7 million). As at 31 December 2011, the fair value of the investment was previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As quoted prices in active markets, or inputs to valuation techniques directly or indirectly based on observable market data have become available the fair value measurements of this equity securities was accordingly transferred from Level 3 to Level 1 of the fair value hierarchy during the year.

## Notes to the Financial Statements

## 37. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Fair value (continued)  
As at 31 December 2012

	The Group				The 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
<b>ASSETS</b>							
Available-for-sale securities	7,868,364	-	4,618,222	12,486,586	6,646,750	108,540	6,755,290
Financial assets designated at fair value through profit or loss	90,100	-	1,926,794	2,016,894	-	-	-
Trading securities	583,455	220,389	-	803,844	-	-	-
	8,541,919	220,389	6,545,016	15,307,324	6,646,750	108,540	6,755,290
<b>LIABILITIES</b>							
Financial liabilities designated at fair value through profit or loss	-	-	(97,495)	(97,495)	-	-	-
Notes payable	-	-	(155,540)	(155,540)	-	-	-
Trading securities	(62,031)	(113,694)	-	(175,725)	-	-	-
	(62,031)	(113,694)	(253,035)	(428,760)	-	-	-

As at 31 December 2011

	The Group				The 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
<b>ASSETS</b>							
Available-for-sale securities	8,491,793	-	2,719,443	11,211,236	6,182,819	114,965	6,297,784
Financial assets designated at fair value through profit or loss	59,926	53,233	1,053,794	1,166,953	-	-	-
Trading securities	141,672	-	-	141,672	-	-	-
	8,693,391	53,233	3,773,237	12,519,861	6,182,819	114,965	6,297,784
<b>LIABILITIES</b>							
Financial liability designated at fair value through profit or loss	-	-	(148,058)	(148,058)	-	-	-
Notes payable	-	-	(633,965)	(633,965)	-	-	-
	-	-	(782,023)	(782,023)	-	-	-

## Notes to the Financial Statements

### 37. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

#### (b) Fair value (continued)

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

	Group				Company
	Available-for-sale securities HK\$'000	Financial assets designated at fair value through profit or loss HK\$'000	Financial liabilities designated at fair value through profit or loss HK\$'000	Notes payable HK\$'000	Available-for-sale securities HK\$'000
<b>At 1 January 2011</b>	11,858,661	745,711	(38,917)	(143,295)	7,900,390
Purchased/(issued)	327,852	105,990	(186,904)	(519,000)	-
Net unrealised gains or loss recognized in other comprehensive income	74,657	-	-	-	(28,330)
Net unrealised gains or loss recognised in profit or loss	(13,479)	322,182	77,763	28,330	-
Reclassification	(9,528,248)	(120,089)	-	-	(7,757,095)
<b>At 31 December 2011 and 1 January 2012</b>	2,719,443	1,053,794	(148,058)	(633,965)	114,965
Purchased/(issued)	1,555,529	431,613	-	(20,000)	-
Net unrealised gains or loss recognized in other comprehensive income	368,190	-	-	-	27,748
Net unrealised gains or loss recognised in profit or loss	(27,680)	441,387	(10,829)	(27,748)	-
(Sales)/repurchased	(47,937)	-	61,392	526,173	(34,173)
Reclassification	50,677	-	-	-	-
<b>At 31 December 2012</b>	4,618,222	1,926,794	(97,495)	(155,540)	108,540

## Notes to the Financial Statements

### 38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2012 HK\$'000	2011 HK\$'000 (Restated)
Profit before taxation	1,581,559	2,045,913
Interest income on bank deposits	(31,424)	(26,038)
Interest expenses	61,072	60,420
Dividend income	(360,027)	(283,566)
Share of profits less losses of jointly controlled entities	(18,716)	25,559
Share of profits less losses of associates	(138,746)	(643,143)
Depreciation expenses	19,426	17,495
Net realised loss on notes payable	29,433	–
Net realised gain on disposal of subsidiaries	–	(511,576)
Net realised gain on disposal of an associate	–	(1,230)
Unrealised gain on financial asset designated at fair value through profit or loss	(419,038)	(141,002)
Unrealised loss/(gain) on notes payable	27,747	(28,330)
Unrealised gain on financial liability designated at fair value through profit or loss	(8,170)	(77,663)
Net gain on disposal of available-for-sale securities	(683,395)	(691,416)
Net surplus on revaluation of investment properties	(5,880)	(3,976)
Loss on disposal of fixed assets	34	4
Impairment loss on available-for-sale securities	61,739	69,357
Impairment loss on amounts due from investee companies	12,786	53,564
Impairment loss of goodwill	20,549	–
Cash inflow/(outflow) before working capital changes	148,949	(135,628)
(Increase)/decrease in advances to customers	(73,696)	21,476
Increase in debtors, deposits and prepayments	(245,514)	(2,175,563)
Decrease/(increase) in amount due from jointly controlled entities	336,343	(334,823)
Decrease in amounts due from associates	–	482,523
(Increase)/decrease in trading securities	(486,653)	574,734
Increase/(decrease) in creditors, deposits received and accrued charges	131,355	(248,843)
Increase in amount due from an investee company	(18,660)	(19,790)
(Decrease)/increase in financial liability designated at fair value through profit or loss	(42,496)	37,929
Hong Kong profits tax paid	(30,398)	(5,063)
Overseas profits tax paid	(261,273)	(407,523)
Interest paid	(62,222)	(58,428)
Net cash outflow from operating activities	(604,265)	(2,268,999)

## Notes to the Financial Statements

### 38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of a subsidiary net of cash acquired:

Obtaining control of a subsidiary

During the year, the Group obtained control of a subsidiary. The net cash flow is as follows:

	2012 HK\$'000
Cash of subsidiary acquired	259,442
Less: Total purchases price paid in cash	(192,773)
Cash paid to obtain control, net of cash acquired	66,669

### 39. 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:

#### Continuing operations

- Primary Market Investment – including:
  - Asset Investment – sector focus specific long term investment in projects and equities, also targeting the management of investment funds focusing on real estate, infrastructure and resources assets; and
  - Direct Investment – investment in unlisted equity securities and/or equity derivatives with an ultimate objective of capital gain on investee's equity listing or, in some circumstances, prior to listing.
- Secondary Market Investment – management of absolute return funds with key focus on secondary market trading. Investment return on the Group's own capital seeded into those funds 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.

#### Discontinued operations

- Brokerage – brokerage services in securities, futures, bullion and leveraged foreign exchange trading, and margin financing to margin customers.
- Investment Banking – provision of corporate advisory, placing and underwriting services.

## Notes to the Financial Statements

### 39. SEGMENT INFORMATION (continued)

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.

#### (a) Business segments

For the year ended 31 December 2012:

	Continuing operations							Discontinued operations			Total HK\$'000
	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	Brokerage HK\$'000	Investment Banking HK\$'000	Sub-total HK\$'000	
<b>REVENUE</b>											
Operating income from external customers	148,588	33,741	295,952	340,100	818,381	21,562	839,943	-	-	-	839,943
Other net income from external customers	364,532	54,177	710,406	-	1,129,115	2,656	1,131,771	-	-	-	1,131,771
Total operating income and other net income	513,120	87,918	1,006,358	340,100	1,947,496	24,218	1,971,714	-	-	-	1,971,714
<b>RESULTS AND RECONCILIATION OF SEGMENT RESULTS</b>											
Segment results before non-controlling interests	340,902	10,326	882,231	337,830	1,571,289	17,627	1,588,916	-	-	-	1,588,916
Unallocated head office and corporate expenses							(176,058)			-	(176,058)
Share of profits less losses of associates, as per the associates' financial statements							414,590			-	414,590
Share of profits less losses of jointly controlled entities, as per the jointly controlled entities' financial statements							39,510			-	39,510
Adjustments to share of profits less losses to conform with the Group's accounting policies							(285,399)			-	(285,399)
Profit before taxation							1,581,559			-	1,581,559
Less: non-controlling interests	(51,580)	171	(175,012)	-	(226,421)	254				-	
Segments results	289,322	10,497	707,219	337,830	1,344,868	17,881				-	
Interest income	7,430	21,784	232,646	44,377	306,237	5,204	311,441	-	-	-	311,441
Finance costs	88	1,420	55,578	1,559	58,645	7,456	66,101	-	-	-	66,101
Depreciation expenses	725	1,240	703	-	2,668	16,758	19,426	-	-	-	19,426
Impairment loss on available-for-sale securities	32,300	29,439	-	-	61,739	-	61,739	-	-	-	61,739

## Notes to the Financial Statements

### 39. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

For the year ended 31 December 2011 (restated):

	Primary Market Investment HK\$'000	Secondary Market Investment HK\$'000	Continuing operations				All other segments HK\$'000	Sub-total HK\$'000	Discontinued operations			Total HK\$'000
			Structured Financing & Investment HK\$'000	Strategic Investment & Treasury HK\$'000	Reportable segment total HK\$'000	Brokerage HK\$'000			Investment Banking HK\$'000	Sub-total HK\$'000		
<b>REVENUE</b>												
Operating income from external customers and inter-segment revenue	89,396	35,480	292,663	227,378	644,917	33,046	677,963	82,276	8,657	90,933	768,896	
Other net income from external customers	720,596	(204,022)	202,008	(9,515)	709,067	38,189	747,256	2,799	-	2,799	750,055	
Total operating income and other net income	809,992	(168,542)	494,671	217,863	1,353,984	71,235	1,425,219	85,075	8,657	93,732	1,518,951	
<b>RESULTS AND RECONCILIATION OF SEGMENT RESULTS</b>												
Segment results before non-controlling interests	660,042	(275,136)	415,610	216,228	1,016,744	75,535	1,092,279	19,538	(2,461)	17,077	1,109,356	
Unallocated head office and corporate expenses							(190,897)			(1,706)	(192,603)	
Gain on disposal of subsidiaries							-			511,576	511,576	
Share of profits less losses of associates, as per the associates' financial statements							627,395			-	627,395	
Share of profits less losses of jointly controlled entities, as per the jointly controlled entities' financial statements							(63)			-	(63)	
Adjustments to share of profits less losses to conform with the Group's accounting policies							(9,748)			-	(9,748)	
Profit before taxation							1,518,966			526,947	2,045,913	
Less: non-controlling interests	47,518	29,912	(11,425)	-	66,005	251		-	-			
Segments results	707,560	(245,224)	404,185	216,228	1,082,749	75,786		19,538	(2,461)			
Interest income	6,009	139,991	122,919	13,456	282,375	13,216	295,591	33,242	-	33,242	328,833	
Finance costs	-	-	53,593	585	54,178	5,176	59,354	1,066	-	1,066	60,420	
Depreciation expenses	350	336	552	-	1,238	14,299	15,537	1,958	-	1,958	17,495	
Impairment loss on available-for-sale securities	-	69,357	-	-	69,357	-	69,357	-	-	-	69,357	

## Notes to the Financial Statements

### 39. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

##### Other Information

As at 31 December 2012

	Continuing operations							Discontinued operations			Eliminations HK\$'000	Total HK\$'000
	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	Brokerage HK\$'000	Investment Banking HK\$'000	Sub-total HK\$'000		
Segment assets	4,833,233	1,424,415	5,034,555	8,266,284	19,558,487	1,792,250	21,350,737	-	-	-	(8,310)	21,342,427
Investments in associates												10,135,102
Investments in jointly controlled entities												441,554
Amount due from investee companies												117,441
Amount due from a jointly controlled entity												4,236
Unallocated head office and corporate assets												217,319
<b>Total assets</b>												<b>32,258,079</b>
Segment liabilities	53,105	221,109	749,099	770	1,024,083	112,987	1,137,070	-	-	-	(8,310)	1,128,760
Amount due to a jointly controlled entity												5,756
Provision for taxation												355,372
Deferred tax liabilities												163,055
Unallocated head office and corporate liabilities												648,857
<b>Total liabilities</b>												<b>2,301,800</b>
Additions to non-current segment assets during the year	304	1,266	314	-	1,884	9,926	11,810	-	-	-	-	11,810



## Notes to the Financial Statements

### 39. SEGMENT INFORMATION (continued)

#### (a) Business segments (continued)

##### Other Information (continued)

As at 31 December 2011

	Continuing operations							Discontinued operations			Eliminations HK\$'000	Total HK\$'000
	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	Brokerage HK\$'000	Investment Banking HK\$'000	Sub-total HK\$'000		
Segment assets	3,492,397	939,126	4,865,105	9,896,686	19,193,314	1,007,274	20,200,588	-	-	-	(5,681)	20,194,907
Investments in associates												9,700,682
Investments in jointly controlled entities												510,840
Amounts due from investee companies												111,823
Amounts due from jointly controlled entities												334,823
Unallocated head office and corporate assets												247,341
<b>Total assets</b>												<b>31,100,416</b>
Segment liabilities	112,933	2,078	1,062,879	492,000	1,669,890	191,182	1,861,072	-	-	-	(5,681)	1,855,391
Provision for taxation												413,150
Deferred tax liabilities												319,787
Unallocated head office and corporate liabilities												239,360
<b>Total liabilities</b>												<b>2,827,688</b>
Additions to non-current segment assets during the year	339	201	279	-	819	3,925	4,744	-	-	-	-	4,744



## Notes to the Financial Statements

### 40. 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 accounts and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the accounts 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 accounts therefore present the financial position and results fairly, in all material respects. Management has discussed with the Audit Committee the development, selection and disclosure of the Group's significant accounting policies and estimates and the application of these policies and estimates.

Key sources of estimation uncertainty are as follows:

- (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 37(a)(i).
- (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 37(a) 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.

### 41. BANKING FACILITIES AND PLEDGE OF ASSETS

Aggregate banking facilities of the Group as at 31 December 2012 amounted to approximately HK\$2,509 million (2011: approximately HK\$2,453 million). The Group has utilised approximately HK\$1,039 million (2011: HK\$1,133 million) of these facilities.

As at 31 December 2012, fixed deposits of HK\$263,695,000 (2011: HK\$604,178,000) were pledged to secure banking facilities (note 24).

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 2012, assets deposited with the prime brokers include HK\$494,147,000 (2011: Nil) and HK\$275,475,000 (2011: Nil) which form part of the Group trading securities and debtors respectively.

## Notes to the Financial Statements

### 42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 79 to 165 were approved and authorised for issue by the Board of Directors on 26 March 2013.

### 43. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
<i>Amendments to HKAS 1, Presentation of financial statements:</i>	
<i>Presentation of items of other comprehensive income</i>	1 July 2012
<i>HKFRS 10, Consolidated financial statements</i>	1 January 2013
<i>HKAS 27 (2011), Separate financial statements</i>	1 January 2013
<i>HKFRS 11 Joint arrangements</i>	1 January 2013
<i>HKAS 28 (2011), Investment in associates and joint ventures</i>	1 January 2013
<i>HKFRS 12, Disclosure of interests in other entities</i>	1 January 2013
<i>HKFRS 13, Fair value measurement</i>	1 January 2013
<i>Revised HKAS 19, Employee benefits</i>	1 January 2013
<i>Annual Improvements to HKFRSs 2009-2011 Cycle</i>	1 January 2013
<i>Amendments to HKFRS 7, Financial instruments:</i>	
<i>Disclosures – Offsetting financial assets and financial liabilities</i>	1 January 2013
<i>Amendments to HKAS 32, Financial instruments:</i>	
<i>Presentation Offsetting financial assets and financial liabilities</i>	1 January 2014
<i>HKFRS 9, Financial instruments</i>	1 January 2015

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 except for the following:

#### **HKFRS 10, Consolidated financial statements**

HKFRS 10 replaces the requirements in HKAS 27, consolidated and separate financial statements relating to the preparation of consolidated financial statements and HK-SIC 12 Consolidation – Special purpose entities. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

The group has not completed its assessment of the full impact of adopting HKFRS 10 and therefore its possible impact on the group's results and financial position has not been quantified.

# Financial Summary

## Results

	For the years ended				31.12.2012 HK\$'000
	31.12.2008 HK\$'000	31.12.2009 HK\$'000	31.12.2010 HK\$'000	31.12.2011 HK\$'000	
Turnover	4,143,448	3,556,973	2,214,071	3,089,975	4,050,657
Revenue	343,354	318,375	372,193	677,963	839,943
Operating profit after finance costs	703,379	223,396	1,342,033	901,382	1,412,858
Gain on deemed disposal of interest in an associate	-	3,175,642	-	-	-
Share of adjusted profits less losses of associates and jointly controlled entities	480,185	1,348,374	829,919	617,584	168,701
Profit before taxation	1,183,564	4,747,412	2,171,952	1,518,966	1,581,559
Income tax	(208,967)	(68,189)	(112,805)	(184,964)	(213,837)
Profit after taxation before discontinued operations	974,597	4,679,223	2,059,147	1,334,002	1,367,722
Discontinued operations		79,362	107,810	522,447	-
Profit for the year		4,758,585	2,166,957	1,856,449	1,367,722
Attributable to:					
Equity shareholders of the Company	1,014,832	4,757,641	1,927,207	1,922,705	1,141,555
Non-controlling interests	(40,235)	944	239,750	(66,256)	226,167
	974,597	4,758,585	2,166,957	1,856,449	1,367,722
Earnings per share (HK\$)	0.64	2.99	1.19	1.116	0.663

## Assets and Liabilities

	As at				31.12.2012 HK\$'000
	31.12.2008 HK\$'000	31.12.2009 HK\$'000	31.12.2010 HK\$'000	31.12.2011 HK\$'000	
Total assets	15,055,876	24,309,249	33,941,660	31,100,416	32,258,079
Total liabilities	(1,555,988)	(2,450,073)	(3,770,189)	(2,827,688)	(2,301,800)
Non-controlling interests	(300,795)	(873,999)	(2,030,848)	(1,807,391)	(1,844,277)
Shareholders' fund	13,199,093	20,985,177	28,140,623	26,465,337	28,112,002

## Particulars of Major Properties

Location	Site area/Gross floor area	Tenure	Use
<b>Hong Kong</b>			
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 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
<b>Mainland China</b>			
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
Zang Qiutao	Deputy Chairman
Chen Shuang	Chief Executive Officer
Tang Chi Chun, Richard	Chief Financial Officer
Jiang Yuanzhi	Chief Investment Officer
Wang Weimin <sup>#</sup>	
Ng Ming Wah, Charles <sup>*</sup>	
Seto Gin Chung, John <sup>*</sup>	
Lin Zhijun <sup>*</sup>	
Chung Shui Ming, Timpson <sup>*</sup>	
(appointed on 21 August 2012)	

<sup>#</sup> Non-executive Director

<sup>\*</sup> 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  
Shanghai Pudong Development Bank Company, Limited  
Standard Chartered Bank (Hong Kong) Limited  
The Bank of East Asia, Limited  
Bank of Communications Company, Limited

## Legal Advisors

Paul, Hastings, Janofsky & Walker  
Grandall Legal Group (Shanghai) Office

## Share Registrars

Tricor Secretaries Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

## Auditors

KPMG

## Website Address

<http://www.everbright165.com>

## Investor Relations Contact

[ir@everbright165.com](mailto:ir@everbright165.com)

**Stock Code:** 165





