光大控股
EVERBRIGHT

Anniversary 周年

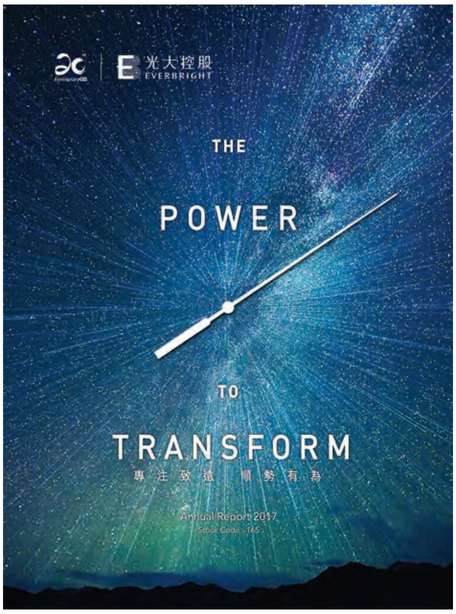
THE POWER TO TRANSFORM

專注致遠 順勢有為

Annual Report 2017

Stock Code : 165

COVER STORY



Time observes the past and predicts the future.

Powerful as it is, time is an eternal symbol of focus, justice and order.

With two decades' worth of dedication, Everbright has cultivated the power to transform itself into an energetic enterprise that changes not only itself, but also its investees and various communities.

As time has gone by, Everbright has established itself as a pioneer in China's cross-border investment and asset management industry.

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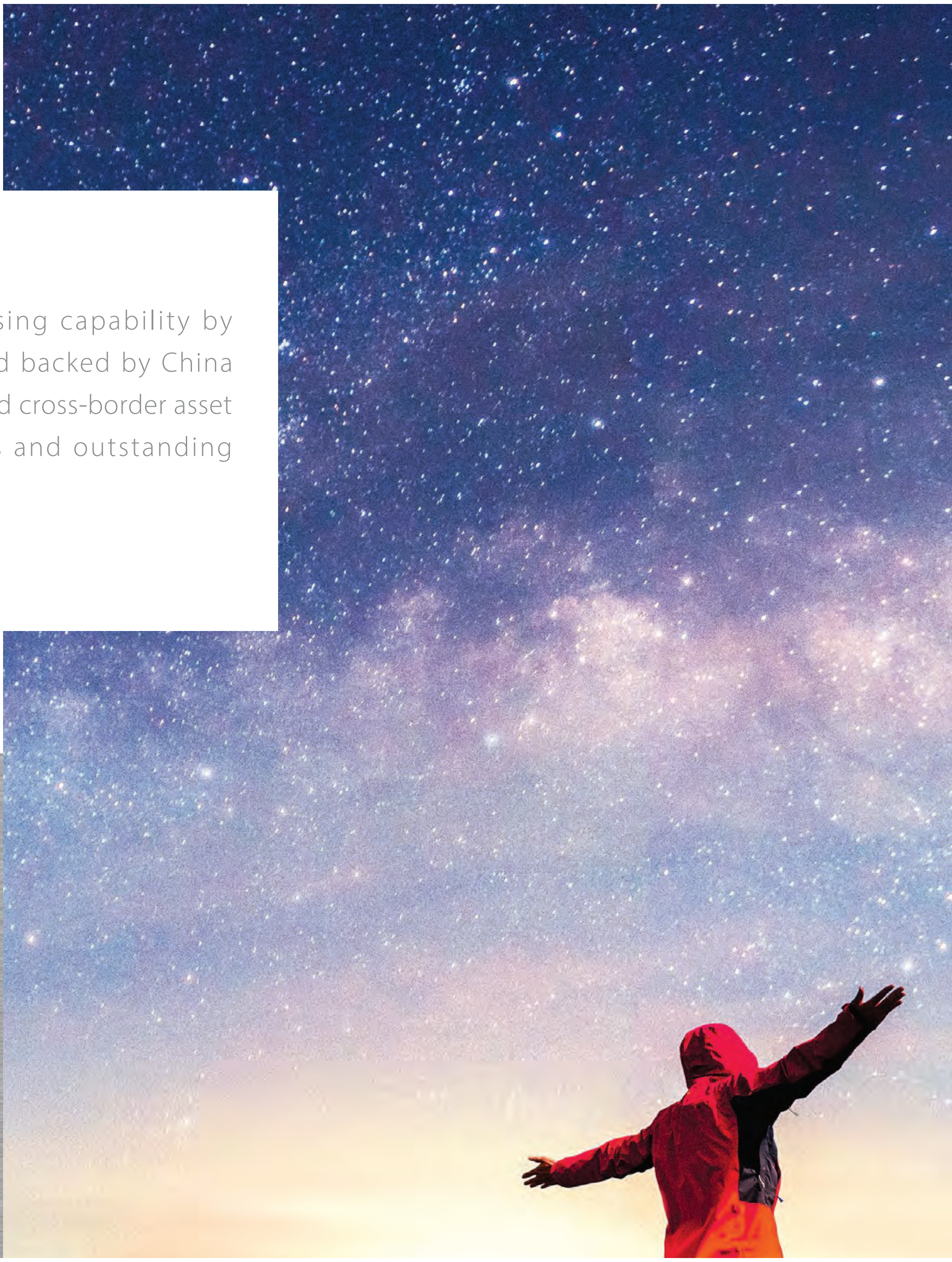
Corporate Information Inside back cover

Build up strong fundraising capability by leveraging a strong brand backed by China Everbright Group, diversified cross-border asset management businesses and outstanding investment track record

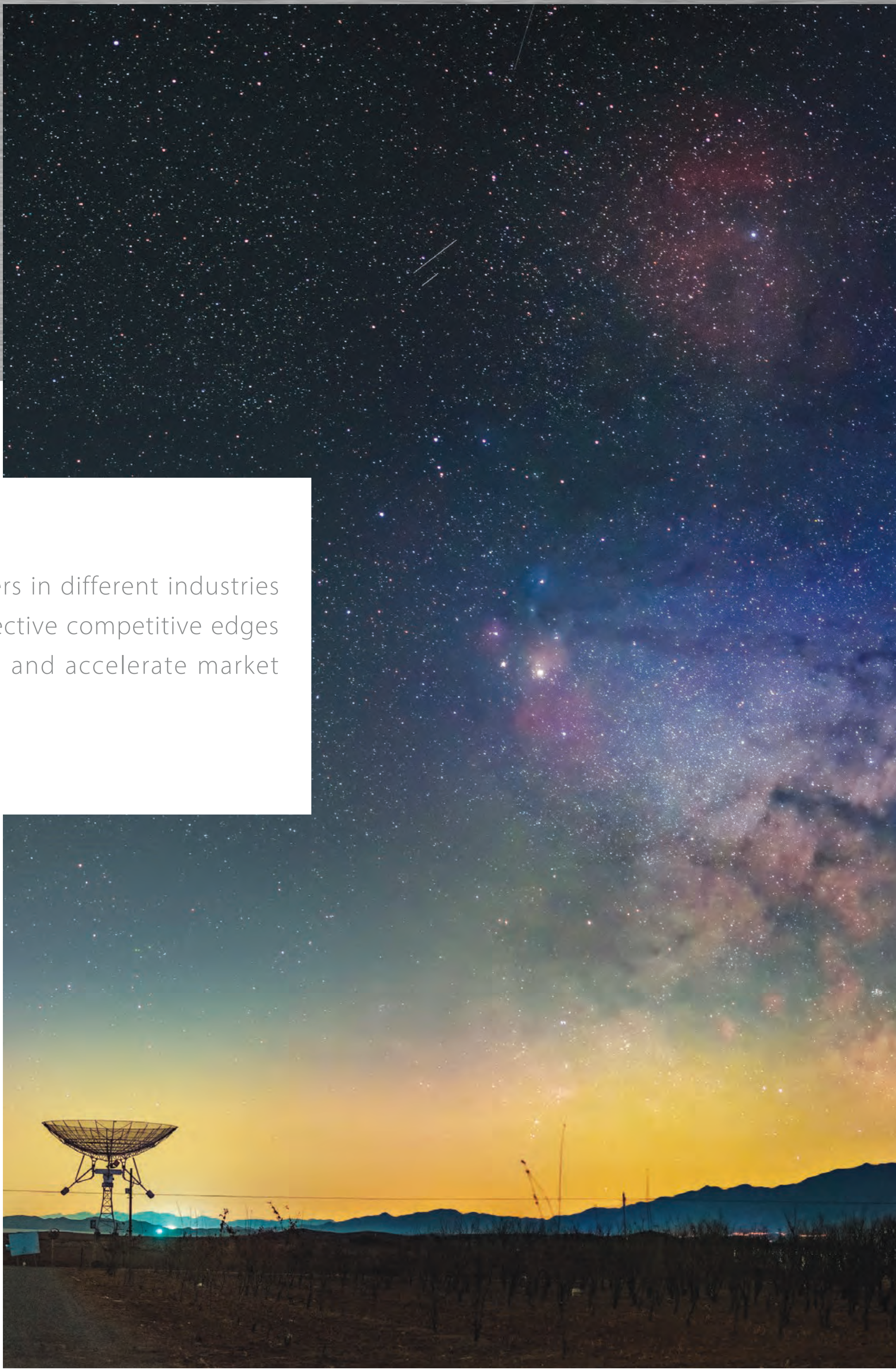


STRENGTHENING CORE COMPETITIVENESS

DIVERSIFYING INTO NEW ECONOMY SECTORS

Keep pace with market developments as we seek to expand into new economy industries, and to lay a solid foundation for future growth and integration of investments in old and new economy sectors

Partner with leading players in different industries to take advantage of respective competitive edges to develop new products and accelerate market penetration



SUCCESSFUL PARTNERSHIPS

COMPANY OVERVIEW

CHINA'S CROSS BORDER ASSET MANAGEMENT INDUSTRY PIONEER

China Everbright Limited ("CEL", stock code: 165.HK) was established in Hong Kong in 1997. As a member of China Everbright Group, CEL is China's leading cross-border investment and asset management company. It manages private equity funds, venture capital funds, sector focus funds, mezzanine funds, fund of funds, fixed income and equity funds. CEL utilises its strong capital strength and cultivates a number of high-growth-potential enterprises together with its investors. While closely following the development requirements of Chinese enterprises, it also seamlessly merges the best in overseas technologies with the Chinese market, providing diversified financial services for its Chinese clients involved in overseas investment.

CEL became one of the first Hong Kong stocks to be traded following the launches of the Shanghai-Hong Kong and Shenzhen-Hong Kong Stock Connect programmes in April 2014 and December 2016.

CEL adheres to the motto "The Power to Transform". With a firm footing in Hong Kong – a true bridge between East and West – the Group is well-positioned to take advantage of the long-term opportunities presented by changes in the Chinese market, respond flexibly, and become a leader in Chinese cross-border investment and asset management.

Founded in **1997**	HKD **129.1** billion AUM	**48** Investment Funds

As at the end of 2017, CEL managed 48 funds with fundraising scale of HKD129.1 billion. Through both fund management and principal investment businesses, CEL has invested in companies both in China and globally, including China UMS, GDS, Goldwind, CECEP Wind-power Corporation, China High Speed Transmission, HC SemiTek, Beijing Genomics Institute, Betta Pharmaceuticals, Beingmate, Focus Media, iQiYi, Miaopai, Albania Capital Airport, Wish and BEP. It has invested in a total of over 300 companies, covering fields including real estate, pharmaceuticals, new energy, infrastructure, advanced technology, high level manufacturing, financial technology and cultural consumption. Of these, more than 150 companies have been listed in China and overseas, or were listed but have withdrawn due to mergers and acquisitions.

OUR COMPANY STRUCTURE

CEL is the second-largest shareholder of Everbright Securities (stock code: 601788.SH, 6178.HK) and a strategic shareholder of China Everbright Bank (stock code: 601818.SH, 6818.HK). It is also the largest shareholder of Everbright Jiabao Co., Ltd (stock code: 600622.SH). On the Hong Kong listing, it is the largest shareholder of China Aircraft Leasing Group Holdings Limited (stock code: 1848.HK). On Singapore listing, it is the second largest shareholder of Ying Li International Real Estate Limited (stock code: 5DM. SGX). CEL and its subsidiary companies currently have offices in Hong Kong, Beijing, Shanghai, Shenzhen, Qingdao, Tianjin, Singapore and Dublin.

CHINA EVERBRIGHT GROUP

CHINA EVERBRIGHT LIMITED
(165.HK)

Principal Investment

- Nurturing new fund products with seed capital
- Jointly investing in projects under Fund Management business and providing bridging loan to fund products requiring fundraising
- Responding swiftly to market opportunities and investing in projects offering long-term return, e.g. aircraft leasing, elderly care industry

Fund Management

- Covering Primary Market Funds, Secondary Market Funds, Mezzanine Funds and Everbright Prestige Capital Asset Management businesses
- Offering USD- and RMB-denominated fund products
- Investing in both international and China projects

OUR ADVANTAGES

Resources from China
China Everbright Group, the parent company of CEL, owns wide business networks and substantial resources in Mainland China

Internationalised Team
As a listed company operating in Hong Kong for years, we have built our international team of professionals and corporate management experiences

Experienced in cross-border finance
Possess rich and professional experience in cross-border financial activities and investment

Integration of industry and finance
We use our financial perspective to look into the industries with long-term growth potential, at the same time introducing innovative financial products

MILESTONES OF CHINA EVERBRIGHT LIMITED

Acquired the stakes of China Everbright Bank, Everbright Securities, and several insurance companies, to build itself into a financial holding company

Took transformative steps to develop its fund management business

Acquired the Lehman Brothers' Chinese real estate fund and transformed it into "EBA Real Estate Fund"

1997-1999:
Built a financial holding platform

- Renamed to China Everbright Limited
- Acquired the stakes of China Everbright Bank, Everbright Securities and several insurance companies to build itself into a financial holding company

2000-2006:
Entered into the direct-investment business

- 2001: Established Everbright Venture Capital (Shenzhen) Limited
- 2004: Established its first private equity fund – "Special Opportunities Fund I"
- Became a constituent stock of the MSCI China Free Index

2007-2010:
Took transformative steps to develop its fund management business

- Established the "China Special Opportunities Fund II" and "China Special Opportunities Fund III"
- Established three venture capital funds dedicated to early-stage startup investments
- 2008: Acquired the Lehman Brothers' Chinese real estate fund "ALAM Investment", and transformed it into "EBA Real Estate Fund"
- 2008: Established the "China Everbright Charitable Foundation" as part of a long-term commitment in corporate social responsibility
- 2009: Established the "China Infrastructure Fund" with Macquarie

Established "China Everbright Charitable Foundation" to devote long-term commitment in corporate social responsibility

Acquired China Aircraft Leasing Group Holdings Limited, which has become China's leading one-stop aircraft full life-cycle solutions provider

Acquired "Huichen Senior Nursing Homes"to develop high-end elderly care business in Mainland China

Works with IDG to jointly establish Everbright-IDG Industrial Fund

2011 to 2014:

Became China's leading cross-border investment and asset management firm

- Securities brokerage and investment banking business was transferred to Everbright Securities so as to concentrate the resources on its core business
- Acquired China Aircraft Leasing Group Holdings Limited, which on July 2014 was successfully listed on the Main Board of the Hong Kong Stock Exchange
- Invested in "Everbright Prestige Capital Asset Management" to develop its Mainland China asset management business
- Invested in Ying Li, a PRC property developer listed in Singapore and became its second largest shareholder
- Received QFII, RQFII, QDII investment advisor, China Inter-Bank Market Trade license and additional QFII quota
- Became a constituent stock of the Hang Seng China-Affiliated Corporations Index and Hang Seng Mainland 100 Index

2015-Now:

Further consolidated with soaring size bolstered by huge growth

- Acquired "Huichen Senior Nursing Homes" in Beijing to develop high-end elderly care business in Mainland China
- Injected "EBA Real Estate Fund" into Shanghai Jiabao Group and was renamed to Everbright Jiabao to become its largest shareholder
- Established its first Fund of Funds
- Worked with IDG to jointly establish the "Everbright-IDG Industrial Fund"
- Worked with Focus Media to jointly set up "Everbright Zhongying Capital"
- Set up Walden "CEL Global Fund I" with Walden International
- Became a constituent stock of the Hang Seng High Dividend Yield Index

2017 RESULTS HIGHLIGHTS

STRENGTHENING CORE COMPETITIVENESS

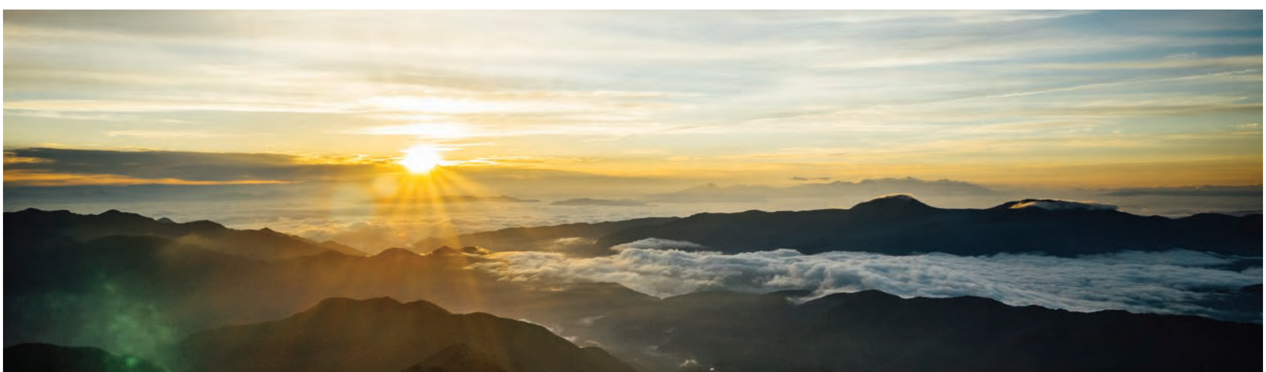
- Underpinned by a strong brand and track record, **CEL's fund raising scale continued to increase, reaching HK$129.1 billion**
- CEL manages **a diversified products portfolio**. Besides primary and secondary market funds, CEL's multi-asset allocation capabilities are widely recognized in the market. It successfully launched a RMB5 billion multi-strategy equity investment FoF in partnership with China Merchants Bank
- CEL has developed increasingly sophisticated **competence in cross-border investments** and successfully launched its Overseas Infrastructure Fund
- CEL further strengthened its sector-focused investment capabilities, and became the largest shareholder of Shanghai Jiabao, which was subsequently renamed Everbright Jiabao. The acquisition provided the basis for the successful listing of its EBA Real Estate Fund, through which CEL has **established a dual-driver real estate strategy that seeks to achieve an optimal mix of asset-light and asset-heavy businesses**

DIVERSIFYING INTO NEW ECONOMY SECTORS

- During the year, CEL made investments into a number of industries including TMT, cross-border e-commerce, deep learning platforms, intelligent internet of things and the cultural industry, as it seeks to **embrace opportunities in the new era** by expanding into China's new economy sectors
- CEL tapped into the **pan-entertainment industry** through successful investments in iQiyi, China's leading video entertainment platform and Shangxiang Entertainment, an online video and cultural entertainment company
- CEL made a series of investments in the **hi-tech industry**, including Wish, a global leader in cross-border e-commerce; SenseTime, a deep learning platform developer, and NIO, a high-performance smart automobile developer

SUCCESSFUL PARTNERSHIPS

- CEL has **built relationships with leading players** in various sectors to accelerate inroads into new industries
- The Company **partnered with a world renowned semiconductor investment group** to launch and co-manage Walden CEL Global Fund I
- CEL **achieved a breakthrough in funds raised from insurance institutions**, successfully securing investments from established institutions including China Life, China Post Life, ABC Life and China Re Asset Management



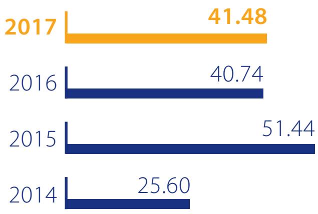
Operating income (in HK$ 100 million)	**2017**	2016	Change
Operating income, mainly including:	**17.67**	21.70	(19%)
Management fees	**4.72**	5.37	(12%)
Consultancy fees	**0.35**	2.74	(87%)
Interest income	**3.98**	2.36	69%
Dividend income	**5.76**	10.71	(46%)
– Contribution from China Everbright Bank (after tax)	**1.57**	3.17	(50%)

Key financial data of CEL's direct operating business (in HK$ 100 million)	**2017**	2016	Change
Pre-tax profit of Fund Management Business (Restated)	**27.54**	54.76	(50%)
Pre-tax profit of Principal Investment Business (Restated)	**23.09**	5.64	309%
Operating expenses	**16.85**	13.30	27%
Total cost-to-income ratio	**30.5%**	18.0%	12.5 ppt
Gearing ratio	**57.8%**	49.6%	8.2 ppt

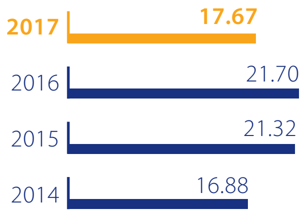
Allocation of equity attributable to the Company's equity shareholders (in HK$ 100 million)	**2017**	2016	Change
Direct operating business	**197**	173	14%
Everbright Securities	**135**	130	4%
China Everbright Bank	**75**	69	9%

2017 RESULTS HIGHLIGHTS *(CONTINUED)*

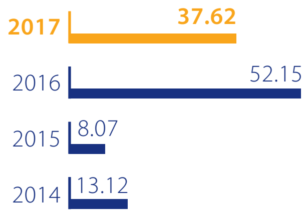
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS
(HK$100 million)



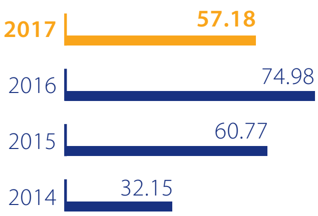
OPERATING INCOME
(HK$100 million)



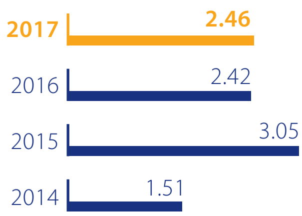
OTHER NET INCOME
(HK$100 million)



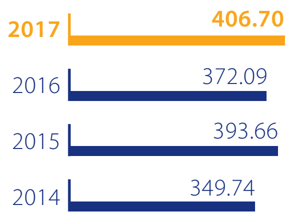
EBITDA*
(HK$100 million)



BASIC EARNINGS PER SHARE
(HK$)

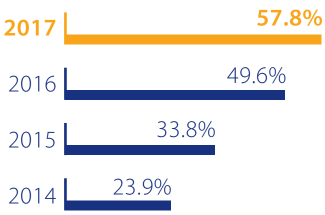


TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY
(HK$100 million)

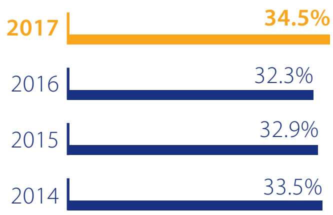


* Excluded discontinued operations

GEARING RATIO
(%)



DIVIDEND PAYOUT RATIO#
(%)



\# Excluded gain on deemed disposal of investment in associates

2017 REVIEW

BUSINESS ACHIEVEMENTS

CEL implemented a long-term strategy to develop its cross-border investment and asset management activities, actively optimising its businesses and continuing to expand. Besides investing in domestic and overseas projects, other important ventures included: set up of new funds, fund-raising and project listing, etc.

Fund Establishment and Fund-Raising

- Established the Smart Manufacturing Fund worth RMB520 million and successfully raised capital, further accelerating the development of smart manufacturing industry
- CEL and China Merchants Bank jointly established a multi-strategy equity investment fund of funds with a total size of RMB5 billion

- Set up the Senior Healthcare Fund targeting RMB2 billion and completed the 1st phase fundraising of RMB500 million

- Set up Walden CEL Global Fund I, L.P. with Walden International, focused on investing in business entities along the semiconductor and electronic information supply chain
- CEL Global Investment Fund, L.P. completed its second closing and was one step closer towards overseas investments

- Everbright Overseas Infrastructure Investment Fund, L.P. completed its second closing targeting overseas infrastructure opportunities and echoing the Belt and Road initiative

2017 REVIEW *(CONTINUED)*

Investment Projects

- Everbright-IDG Industrial Fund, a fund jointly set up by CEL and IDG, invested in a number of projects including:

  – Completed investment in iQIYI to secure a foothold in China's fast-growing video entertainment industry
  – Invested in Osram's lighting business, Ledvance, illustrating the fund's extensive capabilities in large cross-border M&As
  – Cooperated with Weiying Times, supporting plans to accelerate for global investment in pan-entertainment industry
  – Invested in leading cross-border e-commerce unicorn – Wish, as its only Chinese investor
  – Completed investment in C-round financing for electric vehicle company NextEV
  – Expanded its presence in the AI sector with investment in industry leader – Sense Time
  – Led investment in top AI+fashion crossover brand i.am+ to expand in Greater China market through partnerships
  – Joined hands with its investee, the Shanghai Film Art Academy to launch Venice Film Festival's Asia-Pacific unit, signifying new momentum for the invigorated world of China's leading film gala

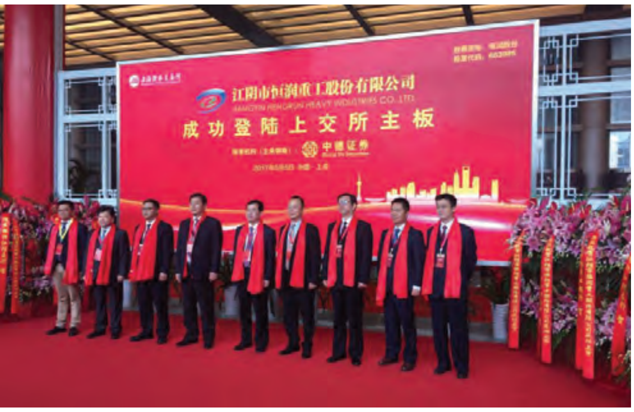
- Everbright Zhongying Capital, a fund jointly established by CEL and Focus Media invested in the following:

  – MiMe, targeting the female online consumer market
  – Digital media group Three's Company, signifying the Fund's expansion into enterprise services arena
  – Xiaopeng Motors in the A+ round of financing

- BEP, the investment portfolio of CEL Global Investment Fund L.P., recorded rapid growth in Asia in terms of sales and revenue

- CEL Mezzanine Fund made additional investment in Hope Education

- CEL Smart Manufacturing Fund invested in Nanyang Jinguan Electric Co., Ltd and Qingdao Gather Great Ocean Algae Industry Group Co., Ltd



Project Listing

- Everbright Huiyi Weiye's investee Hengrun Heavy Industries listed on the Shanghai Stock Exchange A-share market
- Jiangsu Yida Chemical, investee of CEL's Venture Capital Funds marked its IPO launch on the Shenzhen A-share market
- CEL's real estate fund management platform EBA Investments injected shares into Shanghai Jiabao, becoming the largest shareholder and being renamed as "Everbright Jiabao" in November 2017

Other Significant Events

- CEL and the Insurance Asset Management Association of China co-organsied a professional forum themed "New Opportunities and challenges of overseas asset allocation"
- Successfully organized the China M&A Forum, 20th Anniversary Dinner and Investment Conference in 2017
- CEL was added to the Hang Seng High Dividend Yield Index which shows CEL's recognition by the market and investors

2017 REVIEW *(CONTINUED)*

CORPORATE SOCIAL RESPONSIBILITIES

As a Chinese financial institution based in Hong Kong, CEL contributes long-term support to many social service projects, and has always strived to serve the community through corporate social responsibility events covering our four main themes namely "Bright Companion", "Vitality Everbright", "Education Support", and "Art Promotions".

Bright Companion

- As a long term and important supporting organisation of Lifeline Express, CEL donated to Lifeline Express annual fund-raising dinner as its sponsor for six consecutive years and supported the charity golf day to raise funds for Lifeline Express. This year, CEL arranged a parent-child volunteer team with Lifeline Express to visit the eye-train hospitals and cataract patients in Jilin providing help to paramedics and caring for patients

- CEL partnered with Orbis, the largest sight-saving organisation across the globe as title sponsor of their annual flagship fund-raising event "Moonwalkers". Over 120 staff and other families participated and CEL was awarded "Top Fundraising Award", "Most Participants Award" and Gold Award in "Corporate Fundraising Award"

Vitality Everbright

- CEL's CEO Mr. Chen Shuang led a team to participate in Oxfam Trailwalker for two consecutive years and managed to raise funds of more than HKD100,000 for the fundraising sports event

- CEL's CEO Mr. Chen Shuang participated in "UNICEF Charity Run – Leadership Challenge Run" on behalf of China Everbright Charitable Foundation for the second year, supporting the global fight against the transmission of HIV

2017 REVIEW *(CONTINUED)*

Education Support

- CEL supported the founding of Dalton School Hong Kong, offering a world-class learning environment for students
- Title sponsoring "China Everbright Voice of The Stars Story-Telling Scheme" to help cultivate a better understanding and greater awareness of Chinese history among Hong Kong youth
- Sponsored the Hong Kong Federation of Education Workers for the "Everbright Teachers' Heritage Discovery Tour" programme for five consecutive years, which provided Hong Kong teachers the opportunity to visit heritage sites and understand new developments in Mainland China, which helps to enhance the teachers' knowledge of Chinese history and culture so they can share it with the next generation
- Sponsored "YO! Dancical" for three consecutive years to raise funds for Youth Outreach, an organization committed to turning at-risk teenagers into positive teenagers
- Funded the "Daddy Daughter Ball" for three consecutive years, hosted by The Child Development Centre to help children with special educational needs in Hong Kong
- Sponsored the Wu Zhi Qiao 10th Anniversary Dinner to raise funds to enhance students' understanding of Mainland China, and foster their integrity development and commitment to society and life

2017 REVIEW *(CONTINUED)*

Art Promotions

- As a long-term partner of the Hong Kong Ballet, CEL titled sponsored "Don Quixote". By way of donating to Hong Kong Ballet's "Accessibility Fund", CEL offered free tickets to families in New Territories to enjoy ballet performance. Also, CEL was being invited by Hong Kong Ballet to be the official tour sponsor for its mainland tour – "Mixed Bill" programmes
- Sponsored the grand scale opera – "Aïda", which was a co-production of Opera Hong Kong and the Shanghai Opera House
- Sponsored the Musicus Society Fundraising Gala Dinner to promote music and arts among artists around the world

Volunteer Work

- In 2017, CEL organised various volunteer activities including: visited students with special needs in Mental Health Association of Hong Kong Cornwall School for an African Drum Jam Workshop, arranged parent-child volunteer team with Lifeline Express to visit the eye-train hospitals and cataract patients in Jilin; participated in historical monument maintenance, supported conservation and environmentally-friendly activities

ACTIVE IN PROMOTING SOCIOECONOMIC ISSUES AND THE DEVELOPMENT OF FINANCE INDUSTRY

In 2017, the senior management actively participated in a number of forums, utilizing their professional knowledge to promote the development of the financial industry.

- CEL's CEO Mr. Chen Shuang holds a number of honourable positions of responsibility in the financial industry, including Honorary Chairman of the Chinese Financial Association of Hong Kong; Vice Chairman of the Chinese Securities Association of Hong Kong; the ninth Rotating Chairman of the China Mergers and Acquisitions Association; Standing Committee Member of the Center for China and Globalization and the visiting professor of East China University of Political Science and Law. Also he served as a non-official member of the Financial Services Development Council of Hong Kong (FSDC), which has made many practical recommendations to the Hong Kong Government in relation to the internationalization of the renminbi and development of the Hong Kong financial market. Together with other members of the FSDC's Mainland Opportunities Committee, they released a report entitled "Chinese Enterprises "Going Global": Opportunities and Hong Kong's Policy Responses". This report analysed the business opportunities for Hong Kong resulting from growing trends of Chinese enterprises going global and put forward 16 suggestions for policy reform to the HKSAR government. Mr. Chen Shuang, was appointed as a non-official JP by the HKSAR Government for his contributions in the finance industry and the society

- This year, Mr. Chen Shuang attended a number of professional financial seminars on behalf of CEL, such as the Wharton Global Forum, The New Renminbi Reality Summit, the AVCJ China M&A Forum and the annual meeting of Insurance Asset Management Association of China, and among others. As a guest speaker at these events, Mr. Chen drew upon his professional knowledge to share his insights on finance and investment.

2017 REVIEW *(CONTINUED)*

2017 AWARDS & ACCOLADES

General and Business Development

China Everbright Limited:

- Selected among the **Best PE Firms in China 2017** by Forbes China
- **Ranked 14th among the Top 100 PE Firms** in China Venture Capital & Private Equity Annual Rankings 2017 by Zero2IPO Group
- Ranked among the as **Top 20 PE Firms in China** and **Top 10 M&A Funds in China** by China Association of Private Equity at industry recognition of PE/VC in China 2017
- CEL's acquisition of Tirana Airport attained **Excellence in M&A Management Award** at China M&A Awards 2017 by China Mergers & Acquisitions Association
- Awarded **Outstanding Investment & Asset Management Group in China** by Capital Magazine at CAPITAL Outstanding Chinese Enterprise Awards 2017
- Winner of **Quam IR Awards** (Main Board Category)
- Awarded **Most Competitive VC Firm** and **Best Exit Case** at China Venture Capital Golden Eagle Awards
- Was added to the **Hang Seng High Dividend Yield Index**

China Everbright Assets Management Limited:

- Won the **Three-Year Overseas Golden Bull Private Fund Company (Fixed Income)**, **One-Year Overseas Golden Bull Private Fund Investment Manager (Equity Long-only)** and **One-Year Overseas Golden Bull Private Fund Investment Managers (Fixed Income)** at Overseas Golden Bull Fund Awards by China Securities Journal

Everbright-IDG Industrial Fund:

- Won ChinaVenture's **Up-and-coming Institutional PE Investor of the Year**, **Top 100 Institutional PE Investor** and **Top 50 Chinese Institutional PE Investor Award**

EBA Investments and Everbright Prestige:

- **Ranked as No.1 Real Estate Fund in China** for three consecutive years and named **Leading Asset Management Agency of China in 2017** at China Real Estate Top 100 Enterprise Research Announcement

Corporate Social Responsibility & Human Resources

- Awarded "**Happy Company**" for three consecutive years
- Awarded the "**Hong Kong Outstanding Corporate Citizenship Logo**" (Enterprise and Volunteer Category) by Hong Kong Productivity Council for two consecutive years
- Awarded as "**Caring Company**" and "**Caring Organisation**" for seven consecutive years

Others

CEO Mr. Chen Shuang was awarded:

- **Director of The Year Awards 2017** by The Hong Kong Institute of Directors
- **China Top 100 Investors** by PE Daily
- **Outstanding Venture Capitalist** at China Venture Capital Golden Eagle Awards 2017
- Appointed as **Justice of the Peace** (JP) by the HKSAR Government

CEL's 2016 Annual Report attained several awards from **Galaxy Awards, LACP Vision Awards, ARC Awards and HKMA Best Annual Report Awards**

CHAIRMAN'S STATEMENT

CELEBRATING CEL'S 20TH ANNIVERSARY

The year of 2017 is particular significance for China Everbright Limited as it marked its 20th anniversary. With the new brand philosophy of "The Power To Transform", the Company managed to seize market opportunities to expedite its development and created many milestones during the year.

In 2017, the global economy maintained stability and a positive momentum, with unemployment rates across US and Europe economies experiencing continued decline, sending stock markets in the US, Japan, South Korea and Australia to multiple-year highs. During the year, China's GDP growth rate was higher than last year. Consumer spending became the key driver of China's economy, contributed significantly to the economy. The 19th CPC National Congress concluded successfully, with the government's report mentioning "New social tension in the new era" for the first time, implying that China will focus more on the quality of economic growth going forward.

The year 2017 is of particular significance for the Company as it marked the 20th anniversary of the establishment of China Everbright Limited ("CEL"). During the year, CEL was guided by its new brand philosophy of "The Power to Transform", grasping market opportunities to grow rapidly and reached many milestones including solid growth in Fund of Funds (FoF) through the strong cooperation with leading commercial bank; diversifying its investment portfolios to enter new economy sectors; and increasing profitability of principal investments, resulting in continual increase in the contribution to earnings. Following years of exploration, CEL has established a mature business model, and has continued to innovate its fund offerings. These have enabled it to gain widespread market recognition and established the Company as one of China's leading cross-border asset managers.

During the reporting period, its direct operating businesses, comprising fund management and principal investments, posted a profit attributable to shareholders of HK$2,862 million, up 4% year-on-year. In addition, CEL's share of profit in its associate, Everbright Securities amounted to HK$835 million. China Everbright Bank reported a dividend income after tax of HK$157 million. Profit attributable to shareholders of the Company for the year was HK$4,148 million increased by 2% year on year. On the basis of outstanding profit and healthy cashflow, the board recommends the payment of a 2017 final dividend of HK$0.6 per share, representing a growth of 20% compared with the same period last year. Total dividends for the year amount to HK$0.85 per share, representing an increase of 13%, continue to provide sustainable returns to our shareholders.

In terms of fund management, CEL's total fund raising scale grew 48% year-on-year to HK$129.1 billion, exceeding the HK$100 billion threshold for the first time, elevating the Company to the ranks of a top-tier player in the industry in terms of funds raised. All of CEL's primary market funds, secondary market funds and FoFs fared remarkably well. Specifically, primary market funds proactively invested into different sectors in the economy, accelerating its inroads into industries such as pan-entertainment, intelligent manufacturing, semi-conductors and artificial intelligence. EBA Real Estate Fund management platform was successfully incorporated into Everbright Jiabao Group, an A-share listed company, creating the right mix of asset-light and asset-heavy businesses in its real estate portfolio. At the same time, the flagship fixed-income offerings under secondary market funds achieved outstanding performance. The fund raising scale and return have increased significantly. FoFs also continued their robust momentum. During the year, CEL partnered with China Merchants Bank, one of the leading joint-stock banks in China and launched a RMB5 billion FoF that offers an integrated asset allocation solution for large scale institutional investors.

In respect to principal investments, CEL accelerated projects exit, which generated stellar returns. Investments in the strategic industries of aircraft leasing and elderly care performed equally well. Of note, China Aircraft Leasing Group Holdings Limited's total deliveries exceeded 100 aircrafts for the first time during the year, and the company also accelerated recovery of capital through asset-backed securitisations to support continuous business growth. In the high-end elderly care sector, CEL's two major platforms, Beijing Huichen Nursing Home Management and Wuxi Enjoy Twilight Years Elderly Care, fine-tuned its servicing model and extended the service scale. They became the top tier service providers in China in terms of income and the number of nursing beds.

CEL has earned wide recognition for its investment performance in the market. During the year, CEL ranked the 14th private equity firms in China in the Zero2IPO Group-China Venture Capital & Private Equity Annual Ranking, and also won the "Outstanding Investment & Asset Management Group in China" award from "Capital" magazine. Meanwhile, CEL's teams also received recognition in their respective industries, including the "Best Divestment Case" award for Beijing Hanbang Technology Company Limited ("Hanbang Gaoke"), an investment project of Everbright Huiyi Weiye Capital Management (Beijing) Co., Ltd. ("Everbright Huiyi Weiye"). In addition, CEL's EBA Real Estate Fund ranked first among "China's Top 10 Real Estate Funds" for the third consecutive year; and Everbright-IDG Industrial Fund was named "Top 10 Up-and-coming Institutional PE Investors in 2016".

Looking forward to 2018, while global economic recovery continues to pick up speed, it should be noted that potential overheating of global stock markets, as well as tax reform, interest rate hikes and balance sheet reduction in the US could all have a significant impact on capital flows. The rise of trade protectionism could also fuel conflicts among nations, adding to uncertainties in the market. Chinese economy is in the critical phase of development shifting, economic structure optimization and switch of development momentum and is expected to face a lot of expectable and unexpectable risks and challenges ahead.

Amidst complex and volatile market conditions, CEL in 2018 will adapt to change and leverage its power to transform. Supported by its influential shareholders, CEL will focus on investment themes aligned with the Belt and Road Initiative and the Guangdong-Hong Kong-Macau Bay Area, injecting national and market resources to these projects. CEL will keep developing innovative fund products, expanding the size of its FoF business, and will continue to accelerate the growth of funds under management to identify market entry points for investors. By virtue of its advantages in cross-border investments, CEL is committed to expanding its exposure across sectors and enhancing its cross-border asset integration capabilities. As a cross-sector integrator, CEL can assist portfolio companies' growth into industry leaders. Principal Investments will be more focused on sectors with medium- to long-term potential, as well as on the incubation of high-quality fund products. Principal Investments supports and complements the fund management business as one of the dual-growth drivers, increasing overall returns and sustaining the Group's robust growth.

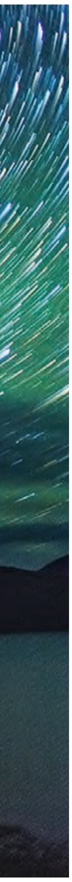
The monumental twenty years of CEL have passed almost like a fleeting moment. A future of more subdivided industries has arrived. In this new era, we need to achieve further progress. CEL aims to establish itself as a global leader in cross-border asset management with the ability to continue creating maximum value for both its shareholders and the community.

Cai Yunge
Chairman

28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

CEL's total fundraising amount increased to an impressive scale of HKD129.1 billion in 2017, achieving great results with its diversified asset-allocation and cross-border investment capabilities. Its complementary model of fund management business and principal investments lays the foundation of the Company's steady growth.



REVIEW AND ANALYSIS

Macro-economic review

The global economy continued to rebound in 2017, with unemployment rate in the US and Europe, and other major economies, falling to among the lowest levels since the Global Financial Crisis. At the same time, the US set its rate hike cycle in motion, with the Fed gradually tapering its balance sheet, substantially affecting global capital flows, and creating uncertainties for economic growth. In China, Renminbi appreciated steadily against the U.S. dollar to reach the level of 6.50 to the dollar. The A-share market was generally stable, with the Shanghai Composite Index rising 6.6% to 3,307 points in 2017.

Under the stable macroeconomic conditions, new trends emerged in the private equity investment segment. According to a report by Preqin, global private equity investment market encountered problems of liquidity glut and high valuation of assets. The pressure for funds to exit has become the biggest challenges of recent years. The valuation on exits was on a downward trend, with disposal to third parties becoming the dominant means of exiting investments. In the Asian markets, M&A investment funds continued to grow, accounting for 67% of total fund raised, which was the highest in three years. In China, private equity firms also underwent exit pressures, with disposal restriction regulations in 2017 resulting in lengthier process for exits. Return on investments through IPOs as a means of disposal was on a downward trend.

As a cross-border asset management company, CEL faces a complex international landscape and ever-changing market conditions in China. While maintaining a long-term focus on the cross-border investment opportunities arising from the growth in the China market, CEL also needs to adapt to changes in economic development with a forward-looking perspective and has to plan ahead for future investment and industry allocation. In light of the continuous solid growth, rapid wealth expansion and robust consumption upgrade in China, CEL steadily increased its investments in sectors with strong exposure to demand from China, such as overseas infrastructures and high precision machinery manufacturing in 2017. At the same time, CEL accelerated its investments in emerging industries including culture, entertainment, artificial intelligence and semiconductors, as well as built up its strength to support integration between upstream and downstream investments in certain sectors.

Milestones in 2017

In 2017, CEL achieved substantial progress in its businesses, with major milestones as follows:

1. Fund assets reached record high and continued to increase rapidly: During the year, by undertaking further capital raising into existing products and newly established ones, CEL's total fundraising topped the HK$100 billion mark, increasing 48% from 2016 to HK$129.1 billion. This continued to cement CEL's leading position in the private equity industry in China. During this period, CEL successfully secured capital from China Life, China Post Insurance, ABC Life Insurance, China Re Asset Management as well as other major institutional investors. CEL significantly increased its volume of funds raised, strengthening awareness of its platform and market recognition.

2. Increased investment in TMT and other New Economy sectors: In 2017, Everbright-IDG Industrial Fund, which was formed by China Everbright and IDG Capital Partners, stepped up the pace of acquisitions and invested in NIO, SenseTime, i.am+ and other leading TMT companies.

3. Cooperated with fund managers with successful track record to establish win-win partnerships and make forays into industries with huge room for growth: CEL and Walden International Group, a globally renowned investment firm with 30 years of history, launched Walden CEL Global Fund I, L.P.. With a target size of USD500 million, it is a specially designed fund that invests in companies in the semiconductor sector and electronic technology supply chain, with a focus on microchips, artificial intelligence, as well as hardware and software integration.

4. Continued to expand its Fund of Funds ("FoF") platform: In 2017, CEL, in partnership with China Merchants Bank, a leading joint-equity commercial bank in China, set up the RMB5 billion Everbright-CMB Multi-strategy Equity Investment FoF. FoF managed by the Group has reached RMB10 billion.

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

5. Strengthened its capabilities in industry-finance integration: ARI, a member company of CALC, fully acquired Universal Asset Management, a company engaged in commercial aviation asset management, aircraft disassembly and component sales in 2017. The acquisition enabled it to push forward its goal to be a full aircraft value-chain solutions provider, enhancing the integration of industry and finance.

6. In 2017, CEL celebrated its 20th anniversary by hosting an Anniversary Gala Cocktail Reception and the sixth annual Investment Conference, which were attended by former and current Chief Executives of Hong Kong Special Administrative Region and 600 guests. CEL also organised the 13th China M&A Annual Conference in Hong Kong and participated in charity events and corporate sponsorships. Alongside these events, CEL launched a new corporate website and branding concept as well as new products to reaffirm its influence in the field of cross-border investment and asset management.

CEL has strengthened its market position with the development of its businesses. Major honors that CEL received in 2017 are as follows:

1. CEL was named "Best PE Firm in China 2017" by Forbes China.

2. CEL ranked 14th among the Top 100 PE Firms of the year in Zero2IPO Group's "China Venture Capital & Private Equity Annual Rankings 2017", which is the most influential ranking of its kind in China.

3. CEL was ranked in the "Top 20 Private Equity Investment Institutions in China" and "Top 10 M&A Funds in China" by the China Association of Private Equity in its Industry recognition of PE/VC in China 2017.

4. CEL was given the "Outstanding Investment & Asset Management Group in China" award at "The 12th CAPITAL Outstanding Chinese Enterprise Awards" by Capital Magazine, a renowned investment and financial magazine.

5. CEL was named "The Most Competitive VC Firm" at China Venture Capital Golden Eagle Awards organised by Securities Times.

6. CEL won the Excellence in "M&A Management Award" for its acquisition of Tirana International Airport at the China Mergers & Acquisitions Association's China M&A Awards 2017.

CEL has become a leading cross-border investment and asset management company in China with two decades of development.

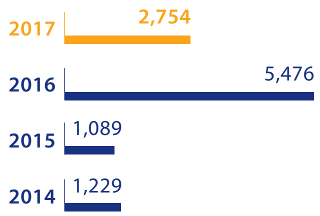
Operating Results

CEL posted profit attributable to shareholders of HK$4,148 million in 2017, up 2% year-on-year, of which profit attributable to shareholders from fund management business and principal investment business in 2017 was HK$2,862 million, up 4% over the previous year. In terms of strategic investment, our share of profit from Everbright Securities was HK$835 million, down by 7%; dividend income after tax from China Everbright Bank was HK$157 million, a decrease of 50%.

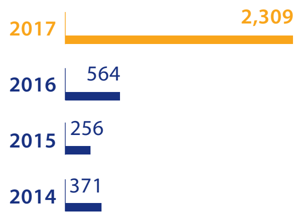
Profit from major business segments (in HK$ million)	**2017**	2016	Change
CEL's direct operating businesses	**2,862**	2,743	4%
Share of profit from Everbright Securities	**835**	894	(7%)
Dividend income contributed by China Everbright Bank (after tax)	**157**	317	(50%)
Profit from disposal of Everbright Securities	**294**	–	N/A
Gain on deemed disposal of Everbright Securities	**–**	120	N/A
Total	**4,148**	4,074	

In 2017, CEL's direct operating businesses remained stable. The fund management business reported that pre-tax profit decreased by 50% to HK$2,754 million, as a result of a decline in revenue from divestment of projects. In terms of principal investments, CEL achieved a pre-tax profit of HK$2,309 million, representing an increase of 309%. Following many years of development, CEL's fund management and principal investment businesses have generated a strong synergy, optimally balancing the company's profitability as a whole, and maximising value for shareholders.

PRE-TAX PROFIT FROM FUND MANAGEMENT
(HK$ million)



PRE-TAX PROFIT FROM PRINCIPAL INVESTMENT
(HK$ million)



Pre-tax profit from fund management and principal investment businesses (in HK$ million)	**2017**	2016 (Restated)	Change
Fund Management	**2,754**	5,476	(50%)
Principal Investment	**2,309**	564	309%

In 2017, the Group's total expenditure was HK$1,685 million, up 27% year-on-year. The total cost-to-income ratio was 30.5%, up 12.5 percentage points. In addition, during the year, the Group also completed its third issuance of RMB2.5 billion worth of panda bonds onshore, and maintained a healthy gearing ratio of 57.8% (as of 31 December 2016: 49.6%). Looking ahead, through further optimisation of its onshore and offshore debt structure, the Group will be able to maintain a steady level of liquidity.

Key financial data (in HK$ million)	**2017**	2016	Change
Operating expenses	**1,685**	1,330	27%
Total cost-to-income ratio (Note)	**30.5%**	18.0%	12.5 ppt
Gearing ratio	**57.8%**	49.6%	8.2 ppt

Note: Total cost-to-income ratio is calculated as (staff costs + depreciation and amortisation expenses + operating expenses + finance costs)/(operating income + other net income).

MANAGEMENT DISCUSSION AND ANALYSIS *(CONTINUED)*

FUND MANAGEMENT BUSINESS

In 2017, the Group's fund management business achieved significant progress. The composition of investors was further optimised, with the total fundraising amount surpassing the HK$100 billion milestone for the first time. Following years of development, the primary market fund management segment has established a solid client network, a sound market reputation and dynamic fund product lines. The secondary market fund management segment has gradually matured by developing a series of outstanding listed equities and fixed income funds products, which have received various market recognitions and prestigious awards. The FoFs and wealth management segment (Everbright Prestige Capital) provided a greater selection of products for different types of investors with different appetites.

As at the end of 2017, the Group managed a total of 48 funds and held 116 primary market post-investment management projects and 23 secondary market portfolios. Of which, 14 primary market projects have been listed on various stock markets around the world. For the fund management business, total fundraising amount increased to HK$129.1 billion, up 48% compared with the end of 2016, with external funds accounting for 80%. The fair value of the invested projects and investment portfolios held amounted to HK$103.8 billion, up 65% compared with the end of 2016.

Below are the funds under the Group and its affiliates' fund management business (as at 31 December 2017):

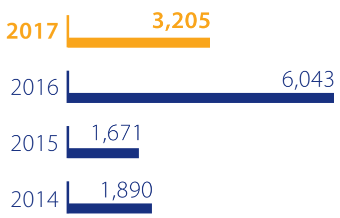
Fund business	Fund Type	Fund Name	Year of Launch	Investment Focus	Fundraising Scale
Primary Market Funds	Private equity funds	China Special Opportunities Fund II (CSOF II)	2007	Telecom, media, high-tech & consumer	USD100 M
		China Special Opportunities Fund III (CSOF III)	2010	Agriculture, consumer goods, servicing & financial auxiliary	USD399 M
	Venture capital funds	Beijing Zhongguancun Industry Investment Fund	2007	High-growth manufacturing, hi-tech & servicing	RMB160 M
		Everbright Jiangyin Asset Investment Fund	2009	High-growth industries	RMB260 M
		Everbright Guolian Fund	2009	High-growth industries	RMB220 M
	Sector focus funds	Everbright Ashmore China Real Estate Fund (USD)	2009	China real estate	USD140 M
		EBA Real Estate	2009	China real estate	RMB47.1 B
		Everbright Medical and Healthcare Fund I	2012	Healthcare industry	RMB600 M
		Everbright Medical and Healthcare Fund II	2015	Healthcare industry	RMB1.2 B
		Everbright Jiangsu New Energy (Low Carbon) Fund	2010	New materials, environmental protection & energy saving	RMB100 M
		Everbright Qingdao New Energy (Low Carbon) Fund	2013	New materials, environmental protection & energy saving	RMB650 M
		Everbright Zhengzhou Fund	2016	High-growth industries	RMB2 B
		Shandong Hi-Speed Everbright Industrial Fund	2014	Municipal services, environmental protection, clean energy	RMB1.8 B
		Everbright-IDG Industrial Fund (IDG-Everbright M&A Investment Fund)	2016	Investment opportunities in sub-sector leaders	RMB10 B
		Harmonious Core Fund	2016	Investment opportunities in sub-sector leaders	RMB4 B
		Harmonious Bright Core Fund	2016	Investment opportunities in sub-sector leaders	RMB1.43 B
		Everbright Zhongying Capital	2016	Pan-entertainment	RMB1.2 B
		CEL Haimen Health and Pension Industry Investment Fund	2017	Pension Industry	RMB500 M
		CEL Intelligent Manufacturing Equity Investment Fund	2017	Intelligent Manufacturing Industry	RMB520 M

Fund business	Fund Type	Fund Name	Year of Launch	Investment Focus	Fundraising Scale
	Overseas funds	CEL Catalyst China Israel Fund	2014	Innovative Israel enterprises	USD160 M
		CEL Global Investment Fund	2016	Global Opportunities	USD520 M
		Everbright Overseas Infrastructure Fund	2017	Global Infrastructure	USD400 M
	Mezzanine funds	Domestic Mezzanine Fund	2012	Domestic Mezzanine Financing	RMB800 M
		Domestic Mezzanine Fund II	2016	Domestic Mezzanine Financing	RMB820 M
Secondary market funds	Equity funds		2012	Equity product investment	HK$5.2 B Equivalent
	Fixed-income funds		2012	Fixed income product investment	HK$11.6 B Equivalent
	PIPE Investment Portfolio		2015	National Equities Exchange and Quotations	HK$250 M Equivalent
Fund of Funds (FoF)	Parent funds	Multi-strategy alternative investment Fund	2015	Market-leading private equity fund	RMB5 B
		Zhuhai Hengqin Everbright CMB Investment Center (CMB Parent fund)	2017	Market-leading private equity fund	RMB5 B
Total					**HK$129.1B Equivalent**
Everbright Prestige Capital		Everbright Prestige Capital	2014	Domestic specific client's asset management	RMB92.8 B

During the year under review, income from the Group's fund management business was HK$3,205 million, representing a decrease of 47%. Management and consultancy fees dropped by 38% to HK$504 million. The main reason for this decrease is that the Group has injected the 51% of shares in EBA Investments, the Group's real estate fund management platform, into Everbright Jiabao, a listed company in Shanghai A-share market. Therefore, the management fee income will no longer be consolidated into the Group's financial statement. If taking into consideration EBA Investments' management fee income of HK$590 million, the Group's management fee income would have increased 35% year-on-year to HK$1.10 billion. In addition, interest income derived from the provision of structured financing products for clients increased 87% to HK$166 million. Dividends contributed by investee companies decreased by 6% to HK$351 million. The Group recorded a realised gain of HK$737 million, down 78% compared with the previous year, and an unrealised gain of HK$1.00 billion. In 2016, the unrealised loss was HK$991 million.

INCOME FROM FUND MANAGEMENT BUSINESS

(in HK$ million)



Major income from fund management business (Classified by nature of income) (in HK$ million)	2017	2016 (Restated)	Change
Management and consultancy fees*	**504**	810	(38%)
Interest income	**166**	89	87%
Dividend income	**351**	375	(6%)
Realised gain	**737**	3,318	(78%)
Unrealised gain/(loss)	**1,000**	(991)	N/A

* If taking into consideration EBA Investments' management fee income of HK$590 million, the Group's management fee income would have increased 35% year-on-year to HK$1.10 billion.

Primary market funds

As at 31 December 2017, CEL's primary market funds raised HK$100.3 billion in aggregate, representing an increase of 55% year-on-year. Currently, this segment has 116 post-investment management projects with a total fair value of HK$80.8 billion, an increase of 62% compared with the end of 2016. CEL's primary market funds are uniquely positioned with cross-border investment capability, diversification across different industries and flexible structures. The funds have also been sharpening their ability to drive the integration of upstream and downstream in some industries. These have helped CEL to gain widespread recognition among institutional investors, fueling rapid growth in its fundraising size in recent years.

As at the end of 2017, we held a 29.17% stake in A-share market listed company, Everbright Jiabao Co., Ltd. With this as the first listing of an A-share real estate fund management platform, our real estate team will be able to better leverage the listed platform to draw in more AUM as well as diversify its real estate fund investment, real estate project management and operation businesses into a wider range of sub-sectors.

In terms of fundraising, CEL successfully brought in a number of major institutions as investors during the year. This has, not only boosted the amount raised, but is also of strategic significance for CEL's development:

1. Overseas Infrastructure Fund successfully introduced insurance funds from China Life (Overseas) and completed its second closing.

2. RMB Mezzanine Fund has been gearing up for the second closing of RMB Fund II, and has already secured investments from Citic-Prudential Life, China Re Asset Management and ABC Life Insurance.

In terms of investment, armed with a great vision and foresight, CEL further consolidated the capability of its traditional industry funds while accelerating its investments into new economy sectors. Key investments in 2017 are listed below:

Consolidating the capabilities of traditional industry funds while continuing to drive diversification

1. In 2017, CEL's RMB-denominated real estate funds invested in a series of projects across various sectors. In first-tier cities, the funds acquired a total of 4 office properties and office-commercial complexes, both in operation and under development or reconstruction. The funds also acquired 3 shopping malls in 2017, and broadened the layout of the IMIX Park. Meanwhile, the funds completed investments in various industrial logistics parks located in China's key logistics hubs. By the end of 2017, EBA Investments had 40 projects under management with an aggregate area of over 3.21 million square meters. Furthermore, EBA Investments established EBA-US in 2018 by acquiring well-regarded American asset management platform, Arrow RE Holdings, through its funds. The platform was renamed "Everbright Arrow". The move has helped EBA Investments realise its vision of becoming a global cross-border real estate asset management firm.

2. RMB Mezzanine Fund II partnered with a renowned insurance company to inject an additional RMB 600 million into Sichuan Hope Education Group, a leading private higher education group in China.

3. Burke Porter Group ("BPG"), a portfolio company of Global Investment Fund, completed the acquisition of inspection system supplier, Lismar, generating synergy across the board with other subsidiaries of BPG. The acquisition has also established CEL's role as a driving force behind the consolidation of the precision equipment industry.

4. Everbright-IDG Industrial Fund made an investment in Ledvance, a lighting company owned by the world's second-largest lighting business, Osram. With Osram as a global leader in lighting products and technology, this deal represents a model case of the in-depth consolidation of industry bellwethers through listed platform. It is also an important driver of the upgrade in China's lighting industry.

Accelerating investments in new economy sectors

CEL accelerated investments into new economy sectors through vehicles such as Everbright-IDG Industrial Fund and CEL Catalyst China Israel Fund:

1. Consolidated its leading position in the internet and pan-entertainment industries through an investment in iQiyi, China's leading online video and entertainment platform, to tap the rapid growth of the country's booming video entertainment industry.

2. Formed a consortium with China Oceanwide, Bank of China Group Investment Limited and IDG Capital to acquire IDG Ventures, global investment arm of IDG. The support from IDG Capital has allowed CEL to further expand its exposure across the globe and its cross-border asset integration capability.

3. As the only leading Chinese investor, CEL participated in the investment in Wish, a Silicon Valley unicorn and a global leader in cross-border e-commerce, as it looks to develop together with companies that have an in-depth understanding of how to transform traditional consumer industries through the internet and have the necessary operational capabilities.

4. Invested in Israeli biopharmaceutical company Eloxx Pharmaceuticals Limited, which is on track to become the innovative leader in the development of drugs for rare genetic diseases, based on its unique expertise in restoring full-length functional proteins in genetic illnesses.

In terms of exit strategies, CEL completed a number of IPO projects in 2017, preparing for exit from the investments in the future:

1. Jiangsu Yida Chemical, a portfolio company of the Venture Capital Funds, was listed on the Shenzhen Stock Exchange's ChiNext in November 2017.

2. Hengrun Heavy Industries, a portfolio company of the New Energy Funds, was listed on the Shanghai Stock Exchange in May 2017.

Although the "Certain Provisions on Reduction of Shareholdings by Shareholders, Directors, Supervisors and Senior Management of Listed Companies" issued by the CSRC in May 2017 increased the difficulty of project exit through IPO, CEL managed to access diversified exit channels in 2017, successfully exiting investments through various ways such as reducing stakes through the market or mergers and acquisitions:

1. Venture Capital Funds completed the disposal of the entire stake in CECEP Wind-power Corporation and Ningxia Tairui Pharmaceutical.

2. Everbright Medical & Healthcare Fund exited from part of its investment in Betta Pharmaceuticals.

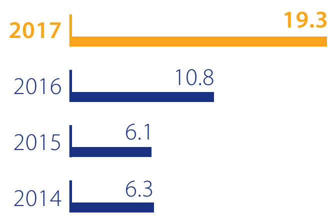
Secondary Market

As of 31 December 2017, CEL's secondary market platform managed 23 funds and accounts with total assets under management of HK$19.3 billion, 79% more than the same period last year.

During the reporting period, CEL's secondary market team made remarkable achievements, with accelerated growth in assets under management, and received various awards and nominations. As of 31 December 2017, the fixed income team's Everbright Dynamic Bond Fund, which invests in a portfolio of Asian USD-denominated bonds, delivered solid returns. During the reporting period, the net of fee return for USD- and RMB-denominated regular share classes were 12.35% and 16.01% respectively, while the net return for USD-denominated preferred share classes and subordinated share classes were 10.15% and 18.98% respectively. CEL's sales and investment teams continued to raise funds for Everbright Dynamic Bond Fund and its associated funds. As of 31 December 2017, the total size of the fund reached US$406 million, an increase of 87.48% over the same period last year. Given the fund's outstanding results, CEL successfully sought to bring in more large-scale institutional clients, such as banks, insurers, brokerages, asset managers and corporate customers. Additionally, CEL received numerous honors for the fund during the reporting period, including the "Three-Year Overseas Golden Bull Private Fund Company (Fixed Income)" Award and the "One-Year Overseas Golden Bull Private Fund Investment Managers (Fixed Income)" Award by China Securities Journal. The fund itself was nominated for "Best Emerging Market Credit Fund" at the Investor Choice Awards abroad.

Meanwhile, Everbright China Focus Fund, a Greater China long-only absolute return fund managed by the secondary market equity team, generated a return of 20.75%, net of fees during the period under review. Since its establishment in January 2014, the fund has registered a total return of 106.51%, net of fees, with an annualised return of 19.88%. During the reporting period, the fund's assets under management increased by 45.31% to US$76.97 million. Due to its stable and outstanding results, Everbright China Focus Fund received a series of awards during the reporting period, including the "One-Year Overseas Golden Bull Private Fund Investment Manager (Equity Long-only)" Award by China Securities Journal, and was ranked No. 4 by the international hedge fund rating firm BarclayHedge in its "2018 Top 10 Hedge Funds" under the category of "Emerging Markets – Asia – Past Three Years". Moreover, during the reporting period, the equity investment team and the sales team capitalised on the opportunities arising from the increased interest from domestic institutional customers and high net worth individuals in Hong Kong stock investments following the launch of northbound trading as part of the Stock Connect program. The teams increased focus on R&D and fundraising of domestic products that invest in eligible stocks for trading under the Shanghai-Hong Kong Stock Connect. During the same period, the teams also worked with China Everbright Bank and Everbright Securities, both subsidiaries of China Everbright Group, to successfully launch the first domestic Sunshine Private Equity Fund product, Everbright Futures – CEL Shanghai-Hong Kong-Shenzhen Asset Management Plan, and rolled out the first domestic equity-oriented insurance asset management product and equity-oriented banking asset management product, for which CEL provided investment advisory services. The three products raised RMB390 million in total. Specifically, the insurance asset management product, established on 13 June 2017, recorded a portfolio floating profit of 15.2% as of the end of 2017. With the CSI 300 Index and the HS China Enterprises Index climbing 12.52% and 11.24% respectively during the same period, the portfolio, which registered a maximum drawdown of -0.92% per month, outperformed other public and private equity funds launched during the same period.

SECONDAY MARKET TOTAL ASSET UNDER MANAGMENT
(in HK$ billion)



Wealth Management

CEL develops its wealth management business in mainland China through Everbright Prestige, a company jointly owned by China Post Fund and CEL. In 2017, Everbright Prestige implemented the net capital management measures imposed by the China Securities Regulatory Commission on asset management companies which have somewhat affected Everbright Prestige's channel business with financial institutions. For this reason, it decided to optimise its business structure, downsize part of its channel business and raised the generation efficiencies of its business management fees. As Everbright Prestige undertook this business transformation in a timely manner, despite a decrease in business, the overall Return on Equity further improved with the proportion of active management business scaling up.

During the reporting period, the scale of Everbright Prestige's personal wealth management business was RMB92.8 billion, representing a 21% decrease year-on-year. It posted operating income of RMB287 million and profit before tax of RMB189 million. Its after-tax profit increased 51% year-on-year to RMB142 million. Subsequent to the implementation of net capital management measures, regulations on risk management and supervision will continue to be launched in 2018. Everbright Prestige has to strengthen its management capability and streamline the business structure.

Fund of Funds ("FoF")

CEL's Multi-strategy Alternative Investment Fund (a Fund of Funds) is a substantial part of CEL's fund management platform. The FoF provides a one-stop financial services solutions by bringing liquidity and offering potential return to mega-sized institutions in China. It diversifies institutional investors' portfolios and lowers correlation risk.

The FoF invests not only in funds initiated and managed by CEL but also external funds with a proven track record of performance and good governance. This allows CEL to further develop and improve the Group's product lines by adjusting and optimising allocation of seed capital in various funds, as well as to participate in the operation of external funds with a successful track record.

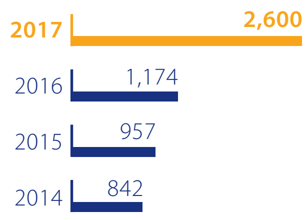
In order to increase the size of the FoF business, CEL and China Merchants Bank jointly established a Multi-strategy Equity Investment Fund of Funds ("China Merchants Bank FoF") with a total size of RMB5 billion in 2017. China Merchants Bank and CEL committed RMB4 billion and RMB1 billion to it, respectively. This FoF is operated and managed by a team of experienced professionals from CEL and Everbright Prestige. It focuses on equity investment in primary markets and the "in-between market", a market between the primary and secondary markets, targeting venture capital (VC), private equity (PE), Pre-IPO, merger and acquisition (M&A) and certain types of private placement.

As at the end of 2017, the Investment Committee of the FoF has reviewed, approved and completed investments in 5 sub-funds with total capital commitments of RMB2.66 billion.

Principal Investment Business

As part of its commitment to the development of its asset management business, CEL has utilised its proprietary capital to support and facilitate the overall growth of its macro asset management service. As of 31 December 2017, the total scale of our principal investment amounted to HK$18.3 billion, up 50% year-on-year, while its income amounted to HK$2,600 million, an increase of 121% year-on-year. Interest income rose 58% year-on-year to HK$232 million, while dividend income decreased 86% compared with the previous year to HK$50 million. As a result of more project exits during the year under review, the segment yielded a realised gain of HK$1,614 million, a significant increase of 300% year-on-year.

INCOME FROM PRINCIPAL INVESTMENT
(in HK$ million)



Income of Principal Investment (Classified by nature of income) (in HK$ million)	2017	2016 (Restated)	Change
Interest income	**232**	147	58%
Dividend income	**50**	347	(86%)
Realised gain	**1,614**	404	300%
Unrealised gain/(loss)	**266**	(328)	N/A
Share of CALC's results as an associate	**241**	212	14%

We have gained a competitive advantage as a result of our principal investments business, which differentiates our asset management services from those of our competitors. This business segment has the following four functions:

1. Strategic industry investments: to invest in sectors that have the potential to grow in the medium to long term, or those that support our long-term strategies and expand our services.

   China Aircraft Leasing Group Holdings Limited ("CALC"), in which the Group holds a 33.56% equity interest, is one of our strategic industry investment projects that have developed over many years. In 2017, CEL's profit contribution from CALC amounted to HK$241 million. CALC had delivered 107 aircrafts. In addition to the leasing income received from the increased number of aircrafts delivered, the securitisation of aircraft lease receivables also became an important growth area, further expanding CALC's financing sources for development. Additionally, CEL's secondary market business segment continued to play a role in CALC's asset securitisation during 2017. With established investment fund in China, the secondary market platform enabled domestic investors to access long-term stable USD-denominated returns without investing overseas, which created a positive synergy between the diverse range of services provided by our teams.

   Moreover, CEL has played an active role in pushing forward the development of elderly care in China. Through our major development platform Huichen Elderly Care, in which the Group holds a 67.27% stake, CEL has launched a chain of elderly care facilities across China at a rapid pace, and has improved Huichen's senior care service model by leveraging the Group's solid financial standing, the integration resources of Everbright's different business segments, such as real estate and insurance, and Huichen's professional operations and management. This has given more elderly people access to professional senior care services. During 2017, as a result of the rapid expansion of Huichen Elderly Care's business and its acquisition of the senior care institution Enjoy Twilight Years in Jiangsu Province, the Company became a leading player in the domestic senior care industry, both in terms of revenue and the number of beds under management.

2. Fund incubator: to utilise our proprietary capital to provide our investment teams with seed capital to incubate high-quality products, which in turn facilitates the development of our fund management business.

   CEL has strategically seeded funds at both the launch and growth stages and has grown with them by fully leveraging the advantages of its platform, its status and influence in the local market and relevant sectors, as well as its forward-thinking strategic investment rationale. During 2017, CEL injected its equity interest in the Tirana International Airport project into the Everbright Overseas Infrastructure Fund, which laid a solid foundation for the fund to attract investment from investors, including large-scale insurers.

3. Proprietary investment: to invest in projects that are not related to fund incubation to meet CEL's targets for overall returns from its principal investments.

   During the period under review, we made strong gains by exiting proprietary investment projects such as Focus Media and Aerospace Capital.

4. Treasury management: CEL's principal investment has also helped to provide liquidity for the Group and to balance its overall income. Supported by rigorous risk controls, CEL engages in mid- and short-term structured investment and financing projects, using its own capital by acting as a treasury and wealth manager. In addition, by leveraging its proprietary capital, the Group has successfully managed risks relating to interest rates, liquidity and exchange rates, and improved its cash flows. As a result, CEL has managed to achieve a reasonable balance between returns and liquidity.

As of 31 December 2017, the fair values of equity interest and cash and cash equivalents held by CEL in principal investment business segment were as follows:

Principal investment category (in HK$ billion)	2017
Proprietary investment	**14.7**
Strategic industry investment	**2.5**
Fund incubator	**1.1**
Treasury management	**3.2**

STRATEGIC INVESTMENT

Everbright Securities

As at 31 December 2017, the Group held 1.07 billion shares in Everbright Securities Company Limited ("Everbright Securities"), accounting for approximately 23.30% of the total equity of Everbright Securities at a fair value of HK$17.0 billion.

During 2017, the A-share market performance was stable, with the SSE Composite Index rising slightly by 6.6%. With the tightening of financial regulations, trading sentiments in mainland China's securities market was relatively calm and investor activity was relatively low, which resulted in slower growth in terms of operational income like commission income and net income. CEL's share of profits from Everbright Securities was slightly down by 7% year-on-year to HK$835 million.

In September 2017, the Group sold 1.41% of its stakes in Everbright Securities, gaining HK$294 million of profit after tax. Reducing holding stakes helps the Group to realise its accumulated gain from Everbright Securities, a reflection of the Group's focus and determination to develop its asset management and investment business.

China Everbright Bank

As at 31 December 2017, the Group held 1.57 billion shares in China Everbright Bank Company Limited ("Everbright Bank"), measured at a fair value of HK$7,512 million and amounting to approximately 3.00% of Everbright Bank's total equity.

Due to the drop in Everbright Bank's Core Tier 1 Capital Adequacy Ratio, the dividend payout ratio was reduced accordingly. Therefore, the Group received a pre-tax dividend payment of HK$175 million from Everbright Bank during the reporting period, down 50% from 2016.

ANALYSIS OF CORE COMPETITIVENESS

Through years of business transformation, CEL has achieved remarkable results in terms of branding, international expansion, cross-border capability, business diversification as well as innovation, successfully building up a set of core competitive strengths:

1. A strong brand and extensive network

Benefiting from the resources and brand strength of its parent company, China Everbright Group, and building on its well-recognised and trusted capability in fundraising and investments, CEL has been able to gain a large number of established institutional clients, who have entrusted us to manage large sum of money.

The amount raised through CEL's funds continued to maintain a rapid growth, increasing from HK$33.3 billion in 2013 to HK$129.1 billion in 2017, representing a CAGR of 40%.

2. Cross-border capability and international expansion

CEL was established in Hong Kong in 1997 as a subsidiary of China Everbright Group, one of the pioneering forces behind China's reform and opening up. Based in Hong Kong, CEL has a long history of helping domestic and overseas investors to gain access to the China market. The ability to tap both Mainland and Hong Kong markets for financing in different currencies has put CEL in a strong position to take advantage of opportunities in cross-border investments. We adopt a "China perspective" as we continue to expand our cross-border operations. Our Overseas Infrastructure Investment Fund and Global Investment Fund have been able to capitalise on numerous overseas M&A opportunities. We have also successfully invested in a range of quality projects including Tirana International Airport.

3. **Strong and fully-fledged asset allocation capability**

   With the rapid growth of our private equity funds, venture capital funds, sector focused funds, mezzanine funds, as well as secondary market fixed income and equity funds, CEL has been able to offer an increasingly diverse range of funds, forming an important foundation for building a strong and fully-fledged asset allocation capability.

   Following the launch of our first FoF in 2016, CEL introduced a comprehensive asset allocation solution in 2017 by partnering with China Merchants Bank, a global leader in commercial banking, to launch a multi-strategy equity investment FoF, which offers investors a more diversified alternative investment option. The partnership with China Merchants Bank also reflects leading institutions' acknowledgment of CEL's asset allocation capability.

4. **Strength in product diversification and continuous innovation**

   CEL offers a diverse range of fund products in multiple currencies, including RMB, US dollar and Hong Kong dollar, with different investment horizons, such as long-term private equity investments, medium- to long-term mezzanine funds and open-end secondary market funds. Our funds offering has an extensive industry coverage including real estate, consumption upgrade, intelligent manufacturing, healthcare and pan-entertainment. As such, we are well-positioned to capture the golden opportunities in every industry.

   In terms of product innovation, CEL has partnered with leading players in the investment industry, successfully building the Co-GP model to facilitate the foray into emerging industries. For example, CEL and Focus Media jointly launched a New Industry Investment Fund. We also partnered with IDG, which specialises in TMT investments, to launch the Everbright-IDG Industrial Fund.

   Towards the end of the year, CEL and Walden International, a world-renowned investment firm, acted as co-managers to launch Walden CEL Global Fund – I. The fund will focus on investing in companies along the industry chains of semiconductor and electronic technology, including innovative chip makers, AI and hardware-software integration providers. In addition, the fund will introduce the high-end technologies and innovative models of its portfolio companies into the China market, so as to produce a high-quality projects stream for CEL in China; generate synergy within the industry; and to provide stronger support to the technological upgrade and development in China's semiconductor industry.

OUTLOOK

In 2018, overall condition and sentiment across global markets have been relatively upbeat, as the world economy stays on the path of recovery. China maintains its robust momentum with GDP growing at a pace of 6.9% in 2017. The acceleration in wealth accumulation has led to greater demand for asset management, creating a benign backdrop for the business.

Despite improving economic fundamentals, the US is at the start of a rate hike cycle. The pace at which interest rates rise will impact fund flows, and balance sheet cuts and tightening fiscal policies will also reduce the amount of investable capital in the market. Meanwhile, China is expected to tighten rules and regulations on the asset management industry in 2018. As a cross-border asset manager, CEL needs to exercise prudence and continue to monitor the geopolitical and fiscal risks facing cross-border investments, making adjustment to its positioning as needed.

In terms of fundraising, we expect macro environment in the asset management market to remain positive in 2018 with continual growth in demand. Given the immense regulatory pressure on China's insurance and banking sectors, institutional investors from these industries will seek to partner with investment firms with scale and a leading market position. Against this backdrop, CEL has continued to build on its established brand name and strong track record by leveraging the support of China Everbright Group. We expect fundraising to maintain robust growth over a long period of time.

Regarding investments, years of low interest rates and economic recovery have pushed global asset prices to stretched levels, posing challenges for funds looking for quality projects at reasonable valuations. Nevertheless, as the outlook for economic recovery in the US and Europe becomes more certain, opportunities should continue to emerge in 2018. With our strong experience and market understanding gained through years of investment, as well as the successful launch of our overseas infrastructure and global investment funds, CEL will continue to identify suitable overseas investment opportunities that have solid potential while continuing to participate in the strong growth of China's domestic industries.

As for exit strategies, in light of the changing market conditions, returns generated through IPO exits will likely decline, while exits through M&A is expected to produce higher returns, making it the new go-to channel for exiting investments. Over the years, CEL has accumulated a strong project pipeline. In both the fund management and principal investments segments, we expect to exit from more projects as they mature in 2018. We will continue to open up different exit channels and will seek to maintain the overall stability of our annual divestment gains.

In the year ahead, principal investments will continue to support the growth of our fund business, contribute to balancing the overall performance and liquidity of CEL, as well as inject new projects into our funds in a timely manner. The complementary model of principal investments and fund management will continue to maximise returns for CEL.

In terms of platform development, CEL has completed the integration and setup of two major platforms, namely FoFs and institutional sales. Going forward, the platform will play a key role in centralising sales and the expansion of project streams. At the same time, the continuing optimisation of the big data and electronic management platforms will allow back-office functions, including finance, risks management, legal and compliance, and internal audit, to devote much more time in improving management efficiency, and thereby provide stronger support to the growth of frontline operations.

Through 20 years of effort, CEL has grown into a leading player in China's cross-border investment and asset management industry. We have entered 2018 stronger than ever, and we will continue to identify market opportunities and remain focused and ambitious as we work together with our shareholders, investors, business partners and staff to open a new chapter in asset management industry of China and beyond.

FINANCIAL POSITION

As at 31 December 2017, the Group's total assets amounted to HK$72.9 billion with net assets amounted to HK$42.3 billion. Equity attributable to equity shareholders of the Company per share was HK$24.1, increased by 9.0% compared with the end of 2016. As at 31 December 2017, the Group's interest-bearing debt ratio increased to 57.8% (2016: 49.6%).

FINANCIAL RESOURCES

The Group adopts a prudent approach to cash and financial management to ensure proper risk control and low cost funds. It finances its operations primarily with internally generated cash flow and loan facilities from banks. As at 31 December 2017, the Group had cash and bank balances of HK$5.2 billion, decreased by HK$0.8 billion compared with the end of 2016. Currently, most of the Group's cash, representing 87%, is denominated in Hong Kong dollars and Renminbi.

BORROWING

The Group will review and ensure sufficient banking facilities to reserve resources to support its business development. As at 31 December 2017, the Group had banking facilities of HK$18.88 billion, of which HK$6.89 billion had not been utilised. The banking facilities were of 1 to 5 years terms. The Group had outstanding bank loan of HK$11.99 billion, increased by 13.8% compared with the end of 2016. All the outstanding bank loans were unsecured as at 31 December 2017. During the year, the Group issued corporated bonds with principal amount of RMB2.5 billion. The interest-bearing borrowings were mainly denominated in Renminbi, representing about 55% of the total, and the remaining were mainly denominated in US and Hong Kong dollars.

PLEDGE OF ASSETS

As at 31 December 2017, no fixed deposits were pledged to secure banking facilities. 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 were secured against liabilities to the prime brokers. As at 31 December 2017, assets deposited with the prime brokers included HK$1,306 million and HK$160 million which formed part of the Group trading securities and debtors respectively.

CONTINGENT LIABILITIES

As at 31 December 2017, the Company issued financial guarantees to 2 subsidiaries. The Board does not consider it probable that a claim will be made against the Company under the guarantees. The maximum liability of the Company as at 31 December 2017 for the provision of the guarantees related to the facilities utilised by the subsidiaries was HK$8,186 million.

EMPLOYEES

As at 31 December 2017, the Group had 320 employees. Total staff costs for the period under review amounted to approximately HK$525 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.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$0.6 per share for the year ended 31 December 2017 (2016: HK$0.5 per share). Together with the interim dividend of HK$0.25 per share already paid, the aggregate dividends for the year is HK$0.85 per share (2016: HK$0.75 per share).

The final dividend, subject to shareholders' approval at the forthcoming annual general meeting, is expected to be paid on Thursday, 21 June 2018 to those shareholders whose names appeared on the register of members of the Company on Monday, 11 June 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Friday, 11 May 2018 to Thursday, 17 May 2018, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for attendance of the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 10 May 2018.

The register of members of the Company will also be closed from Friday, 8 June 2018 to Monday, 11 June 2018, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 7 June 2018.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at Ball Room, Level 3, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 17 May 2018 at 3:00 p.m.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were no purchase, sale or redemptions of the Company's listed securities by the Company 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.

The Corporate Governance Code (the "CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has been duly adopted by the Board as the code on corporate governance practices of the Company.

The Board would like to confirm that, subsequent to careful examination and review, the Company has complied with the CG Code for the year ended 31 December 2017. Except there is not a specific terms of appointment of Mr. Tang Shuangning, who was redesignated as the Non-executive Director of the Company with effect from 12 December 2016. However, pursuant to the Articles of Association of the Company, Mr. Tang shall retire by rotation and will subject to re-election at least once every three years. Mr. Tang Shuangning resigned as the Non-executive Director of the Company on 16 March 2018.

Details of the Company's implementation of its Corporate Governance, details of the Audit & Risk Management Committee, the Nomination Committee and the Remuneration Committee, can be found in the "Corporate Governance Report" and the "Risk Management Report" set out in pages 62 to 91.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a "Code for Securities Transactions by Directors and Relevant Employees" (the "Code") which is no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors, the Directors confirmed that they have complied with the required standard of dealings set out in both the Code and the Model Code for the year ended 31 December 2017.

By order of the Board
China Everbright Limited
Chen Shuang
Executive Director and Chief Executive Officer

Hong Kong, 28 March 2018

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

About This Report

This is the second Environmental, Social and Governance (ESG) Report ("Report") of China Everbright Limited ("CEL") (stock code: 165.HK), which encompasses the environmental, social and governance performance of CEL's headquarters in Hong Kong and our regional offices in Beijing, Shanghai, Shenzhen and Qingdao in Mainland China.

This Report was prepared with reference to the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Main Board Listing Rules of Hong Kong Stock Exchanges and Clearing Limited. This Report covers operations of our Hong Kong headquarters and regional offices in Mainland China for the period from 1 January 2017 to 31 December 2017.

This Report is available in English and Traditional Chinese. An electronic version of the Report can be accessed on our website www.everbright.com.

We welcome your comments and feedback on our Report and sustainability performance. Please email us at media@everbright.com.

CEL's Approach to ESG Management

2017 marks the 20th anniversary of the establishment of China Everbright Limited. Based in Hong Kong and with a strong backing of Mainland China, CEL has ridden years of continued growth to become a leading cross-border investment and asset management platform among Chinese-funded companies. Despite the volatility of international and domestic financial markets in recent years, CEL has capitalized on a solid foundation and visionary strategies to maintain stable operation and achieve strong growth in AUM, expanding its reach overseas beyond Hong Kong and the Mainland China. During this time, the Group has driven maximum benefits and built long-term relationships based on mutual trust with various stakeholders, including shareholders, investors, clients, business partners and employees.

CEL's environment, social and governance performance is outlined in the following chapters of the Report:

Our Clients and Collaborating Partners; Our Shareholders and Investors

In order to enhance communications and interactions with our fund investors and business partners, six Everbright Investment Conference were held from 2012 to 2017, attracting more than 2,300 attendees in total, including institutional investors and business partners from around the globe. A celebration cocktail commemorating CEL's 20th anniversary was held during the Everbright Investment Conference 2017, showcasing our performances in the past 20 years and the blueprint of our future development with our stakeholders.

Our Employees

Employees are CEL's most important asset. In 2017, the Group has organised 6,837 hours of training to our 320 employees, including 22 broad-based training sessions. The Group was also dedicated in providing a healthy and safe working environment and promoting work-life balance to our employees. Our volunteering team encourages employees to get involved in volunteering services to give back to the society. In 2017, CEL volunteering team has received the 'Drive for Corporate Citizenship Volunteer Team' from the Hong Kong Productivity Council for two consecutive years.

Our Community

As a CSR-committed company, CEL is devoted in charitable services. CEL has been a strong supporter of a wide range of charitable events in Hong Kong and China, covering our four main themes namely "Bright Companion", "Vitality Everbright", "Education Support", and "Art Promotions". Our contributions include: forming a close partnership with Lifeline Express to treat cataract patients in poverty-stricken areas; title sponsoring "Orbis • Everbright Moonwalkers" to raise funds to restore eyesight to patients around the world; supported the founding of Dalton School Hong Kong, offering a world-class learning environment for students; title sponsoring "China Everbright Voice of The Stars Story-Telling Scheme" to help cultivate a better understanding and greater awareness of Chinese history among Hong Kong's young people; jointly launching "Everbright Teachers' Heritage Discovery Tour" with education workers to provide Hong Kong teachers the opportunity to visit heritage sites and understand new development in mainland China; becoming a long term partner of Hong Kong Ballet and title sponsoring a number of classical ballet productions. Since the establishment of the China Everbright Charitable Foundation, our charitable donations have amounted to over HK$50 million.

[1] In this report, we focus on our asset management and investment operations in Hong Kong and Mainland China.

Our Environment

CEL understands the importance of sustainable development and environmental protection. We have been closely monitoring our greenhouse gases emission and waste generation. CEL is dedicated to maximizing the Group's operational efficiency while minimizing the environmental impacts created through greenhouse gas management, energy conservation, waste management and recycling, material purchase and resource utilisation. During the reporting period, our greenhouse gas emission intensity per employee reduced by 15% compared with the previous year.

In recognition of the Group and China Everbright Charitable Foundation's work, CEL has been awarded a "Caring Company" and "Caring Organisation" for 7 consecutive years. This acknowledges the Group's efforts and involvement in corporate social responsibility.

Our Clients and Collaborating Partners

CEL's Macro Asset Management platform connects the thriving Mainland China and Hong Kong markets, both possessing huge potential. In recent years, the Group has also actively sought overseas investment and cooperation opportunities. In order to strengthen confidence of fund investors and business partners, the Group employs a proven mechanism in risk management, protects mutual capital and benefits, and focuses on personnel retention. CEL seeks to establish a long term and trusting relationship with clients and partners.

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

In the last decade, the financial sector was heavily impacted by market turbulence from the global financial crisis. The collapse of large financial institutions led to a review of fundamental thinking about the equilibrium between rapid business expansion and risk control. By leveraging its sound corporate governance and risk management system (please refer to the Corporate Governance and Risk Management Reports in our 2017 Annual Report for details), the Group has managed to achieve fast yet steady growth in notably bearish investment environment, while capturing opportunities by expanding its business horizons as markets recovered. In order to enhance communications and interactions with fund investors and business partners, the Group held its first Everbright Investment Conference in 2012, which received positive feedback from attendees as well as CEL's various business units. The conference has been held every year since then, which took place in Sanya, Shanghai, Xiamen, Chongqing, Qingdao, and Hong Kong respectively, has attracted more than 2,300 attendees in total including institutional investors and business partners from around the world. Attendees are updated on the latest developments in CEL's macro asset management platform, the Group's strategies and prospects, its fund operations, and its business developments and advantages. They also take advantage of the opportunity to explore synergistic collaborations across sectors and areas. Since the 2014 event CEL has also invited key journalists from Hong Kong and the Mainland, enabling the wider business and financial community to learn the latest news about the Group through leading media outlets.

To commemorate CEL's 20th anniversary, a celebration cocktail was held during the 2017 Everbright Investment Conference to share the success of our performance in the past 20 years as well as our future development blueprint with over 500 stakeholders. Officiating guests for the event included Mr. CY LEUNG, Vice-Chairman of the National Committee of the Chinese People's Political Consultative Conference; Mrs. Carrie LAM, Chief Executive of the HKSAR Government; Mr. CHEN Dong, Deputy Director of the Liaison Office of the Central People's Government in the HKSAR; Mr. HU Jianzhong, Deputy Commissioner of the Office of the Commissioner of the Ministry of Foreign Affairs of the PRC in the HKSAR; Mrs. Rita FAN, Member of the Standing Committee of the Twelfth Session of the National People's Congress; and Mr. LIU Mingkang, former chairman of the China Banking Regulatory Commission. Other guests included presidents of Chinese banks in Hong Kong, senior management of monetary authorities and other collaborating partners.

Our Shareholders and Investors

To enhance corporate transparency, the Group places significant emphasis on maintaining strong communication channels and close contact with shareholders and investors. In 2017, the Group has participated in 16 investor forums organized by CICC, CITIC, HSBC, Citibank, JP Morgan, etc. The Group has participated and organised 86 one-on-one conferences and more than 50 teleconferences to shed lights on its strategies and performance through exchange in a sustainable, genuine, accurate and complete manner with nearly 400 institutional investors and analysts from across the globe. Highlights of these conferences are available under the "Investor Relations" section of the Group's website.

As of December 2017, 14 analyst reports on the Group have been published by 6 well-known institutions, and a number of research reports have been published by other institutions. The Group also summarised shareholder reports for the Board's review on regular basis. The report, which is generated from the analysis of a series of investor relations work carried out through multiple surveys on shareholder profile throughout the year on shareholdings and patterns, included external communications, investor feedback and changes in stock price, allows the Board to better understand investors' opinions and suggestions regarding CEL's development strategies.

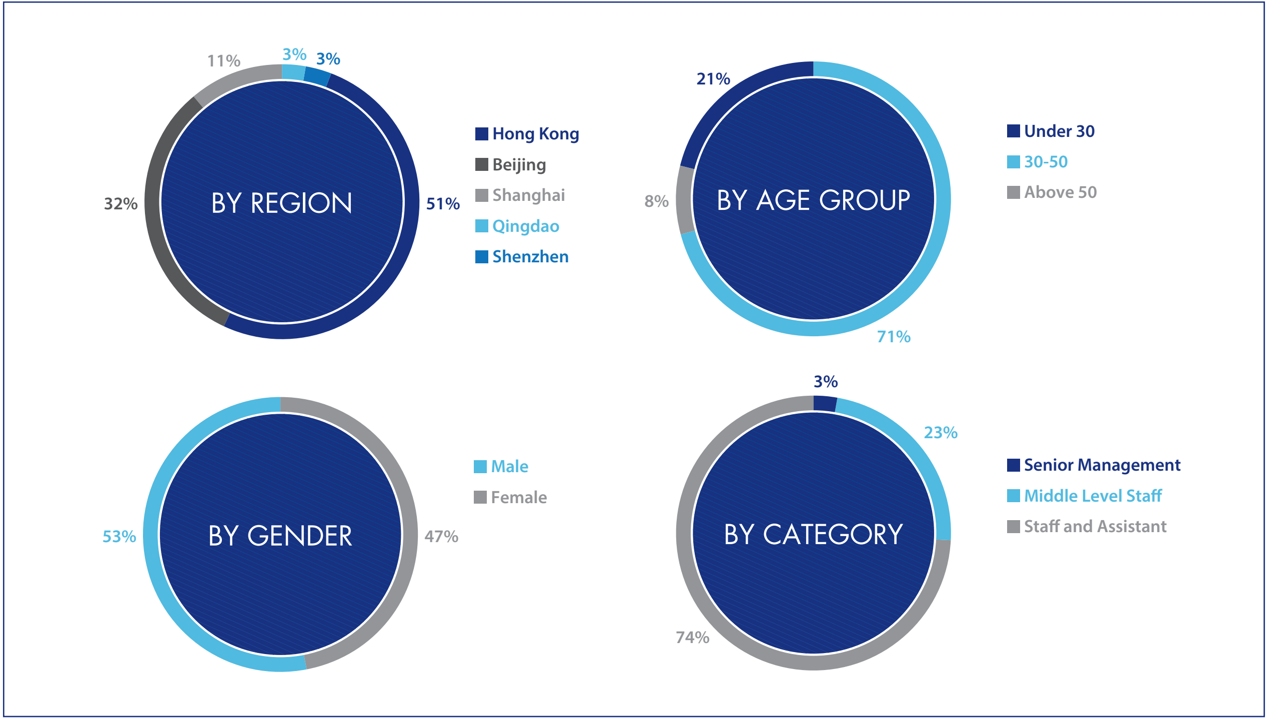
For the ease and convenience of investors and shareholders, CEL's website (www.everbright.com) underwent a face lift in 2017 with a compelling layout design and functionality to support its business growth and international branding. The website revamp reorganised the structure and design of the pages, including the removal, addition and rearrangement of contents. A mobile version of our website has also been set up for the ease and interest of mobile phone users. Our clients and investors can communicate closely and share information with our fund management teams via the login function for funds on the website. In 2015, CEL also launched its WeChat public account (WeChat ID: chinaeverbright), providing another convenient and diversified information channel for stakeholders and the public.

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

Our Employees

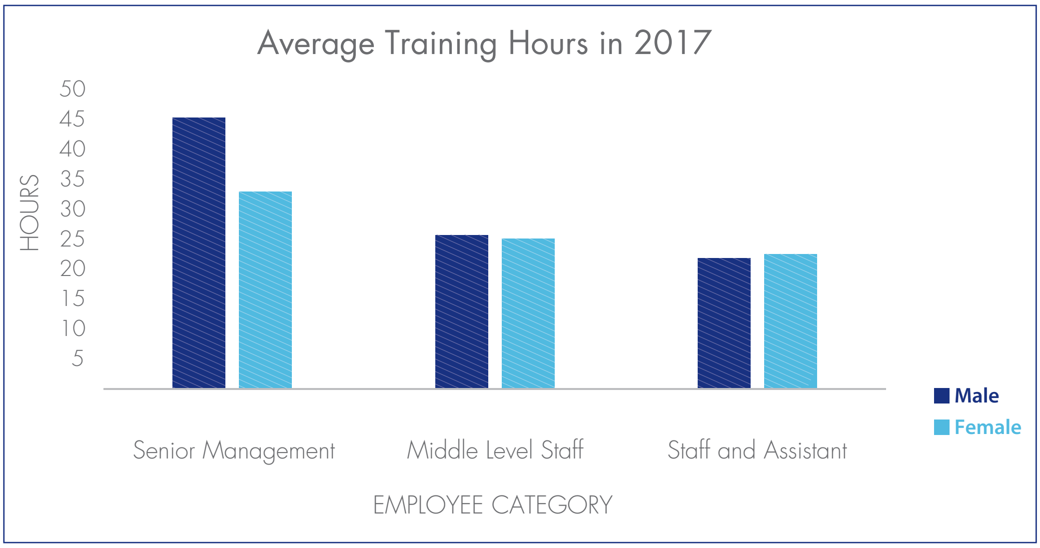
CEL sees its employees as partners and considers them its most important asset. The Group recruits top-notch talent from the financial sector and builds its distinguished management team in accordance with the principle "Create Value to Share Value". Employees are able to share the fruits of the Group's success, creating economic value and enhancing work efficiency.

The Group is dedicated to promoting equality in the workplace and has employed staff from different age groups. As of 31 December 2017, the Group has 320 employees, 163 of which are employed in Hong Kong.



Employee Training and Development

According to the Group's "Training and Development Policy", all new joiners have an annual 30-hour training target, while existing employees' target is 20 hours. In order to further standardise employee development programmes, the Group has developed a training system, which sets an annual training target hour with respective to the years of service of employees, and taking it into consideration during appraisals. This encourages employees' involvement in both internal and external training activities, boosting their personal skill sets to align with the Group's development strategies, hence increasing the Group's competitiveness in the industry. During the reporting period, the Group has organised 6,837 hours of training to our employees, including 22 broad-based internal training sessions, covering topics such as business ethics, anti-money laundering, taxation, risks, macroeconomic trends, soft skills and others. All employees are required to participate in the training. To encourage employees' continuous learning, The Group has rolled out an online learning platform in 2017.



The Group also arranges exchange visits every year for employees in Hong Kong and the Mainland to enrich their experiences and exchange views. The Group has been arranging exchange tours between Hong Kong and Mainland China since 2013, allowing employees across regions to enrich their knowledge of our business operations in Mainland China and foster closer collaboration and communication between our teams. In line with its growing overseas activities, the Group has organised overseas training for outstanding employees in the past. In addition, the Group held "Investment Salon" seminars where specialists were invited to give speeches on financial investment and help colleagues better understand the scope of investment across various industries.

Our first town hall meeting for all CEL employees from different regions – Hong Kong, Beijing, Shanghai, Qingdao and Shenzhen, was held in conjunction with our 20th Anniversary and Award Presentation Gala in Hong Kong in November 2017. Awards were presented to employees who have served the company for 10, 15 and 20 years and with outstanding performance.

New hires receive a clear overview of the Group through regular training sessions on human resources, brand culture and compliance. The Group also arranges meetings to facilitate conversation between senior management and new hires, which not only enables better understanding of employees and their views, but also enhances contact and interaction. Entry-level new hires are automatically enrolled into our mentor-mentee programme, which provides support and guidance in adapting to our corporate culture and working environment.

Health and Safety

CEL employs various occupational health and safety precautions. In order to provide a healthy and safe working environment, the Group has formulated an Occupational Health and Safety Policy, and we take part in annual fire drills and regularly carry out inspections on fire service equipment and emergency exits to ensure employee' well-being in the workplace.

The Group operates in accordance with relevant regulations and the Occupational Safety and Health Ordinance in Hong Kong and Labour Law of the People's Republic of China in the Mainland, to ensure equipment and systems are properly maintained, and are used under organized, clean and safe conditions.

Communication and Connection

CEL puts considerable effort into maintaining productive information exchange and interaction with its employees via various means of communication. The Group uses an internal email system, "Partner Express", as the platform for publishing company news and real-time information. Institutional investors and media receive relevant content in the form of presentations and press releases. The "Partner", CEL's bimonthly electronic periodical, integrates key business information, branding development and snapshots of employee life together in one handy publication, which is disseminated through online media to keep colleagues in the Mainland and Hong Kong in close contact. The Group also publishes hard copies of the "Partner" by consolidating all the copies of the year into a single book, to accommodate employees' reading habits. In order to offer greater convenience to employees and improve work efficiency, CEL has developed an online collaborative Office Automation Platform with comprehensive functions and mobile apps, allowing employees to access company information and conduct administrative work from anywhere, whether they are in or out of the office.

Volunteering Services

In 2012, CEL set up a volunteer team to encourage employees to contribute to society by participating in charitable initiatives. This programme also serves to further enhance camaraderie among employees. Over the past few years, CEL's volunteer team has visited nursing homes, special child-care centres, sheltered workshops. It also prepared meals for elderly with Food Angel, and joined a garden maintenance activity at a historical monument. The team also participated in the "Sowers Action Challenging – Charity Hiking" for four consecutive years. A parent-child visit to Shangdong, Heilongjiang, Guiyang, and Jilin at the eyetrain hospital by Lifeline Express were also among the many volunteering services we participated in, which are well supported by our colleagues. In 2016 and 2017, CEL's volunteer team was awarded the "Drive for Corporate Citizenship Volunteer Team" logo from Hong Kong Productivity Council for two consecutive years in 2016 and 2017.

Our management team and colleagues participated in the "Orbis • Everbright Moonwalkers" fund raising event in December 2017 and was awarded "Top Fundraising Award", "Most Participants Award" and Gold Award in "Corporate Fundraising Award". CEL regularly organises activities for our volunteering team to give back to society.

Work-Life Balance

In the past few years, the Group has built a closer partnership with employees through various initiatives, including timely information-sharing, diverse company activities, staff welfare programmes and incentives. These efforts have also resulted in meaningful contributions to the Group's business success in terms of establishing fund teams, and retaining and recruiting the best talent.

September has been the Group's "Work-Life Balance Month" since 2015. Training activities such as hiking and photography courses; cultural activities such as discounted tickets to ballet performances; recreation activities such as orienteering competitions, and sports activities such as booking of badminton courts, forming of a basketball team in industry basketball league etc., are designed to meet different interests of employees. In September 2017, the Group launched the "Walking Marathon", a steps counting competition, and invited all employees to participate to encourage work-life balance. To further promote the importance of a healthy living, CEL also hosts an annual family day, where family members of our employees are invited to our workplace.

Recognitions

For three consecutive years since 2015, the Hong Kong Productivity Council and the Promoting Happiness Index Foundation has jointly awarded a "Happy Company" label to CEL in recognition of its commitment to building a caring corporate culture and recognising employees' quality of life. This was evidenced by the Group's conscientious efforts to create a pleasant working environment for employees. In addition, CEL was awarded for outstanding achievement in the Employers Retraining Board Manpower Developer Award Scheme, recognising the Group's effort in talent development, and was also named as Family-Friendly Employers by the Home Affairs Bureau and the Family Council, praising the company's effort in promoting core-values relating to work-life balance, allowing employees a healthy compromise between work and family.

Our Community

As a company committed to corporate social responsibility, CEL is a strong supporter of disaster and poverty relief. The Group also contributes long-term support to many social service projects, most of which are unique, sustainable in nature, and benefit those who are often overlooked in society and given limited resources and support.

In 2008, CEL has established the China Everbright Charitable Foundation (CECF), a charitable organisation recognised by the Hong Kong Government. Since its establishment, CEL has been a strong supporter of a wide range of charitable events since the establishment of the foundation, covering our four main themes namely "Bright Companion", "Vitality Everbright", "Education Support", and "Art Promotions". Our contributions include: forming a close partnership with Lifeline Express to treat cataract patients in poverty-stricken areas; title sponsoring "Orbis • Everbright Moonwalkers" to raise funds to restore eyesight to patients around the world; supported the founding of Dalton School Hong Kong, offering a world-class learning environment for students; title sponsoring "China Everbright Voice of The Stars Story-Telling Scheme" to help cultivate a better understanding and greater awareness of Chinese history among Hong Kong's young people; forming partnership with Caritas Family Crises Support Centre to launch the Everbright Project serving the middle class; supported Social Workers Across Borders to launch the "Project Companion • Professional Social Workers Greater China Scheme" to train up social workers in China; jointly launching "Everbright Teachers' Heritage Discovery Tour" with education workers since 2013 to provide Hong Kong teachers the opportunity to visit heritage sites and understand new development in mainland China, where teachers are then required to prepare a lesson plan to share their experiences with their students so as to nurture Hong Kong students' sense of belonging to our motherland; also becoming a long term partner of various art organisations in Hong Kong, including Hong Kong Ballet, Opera Hong Kong, Hong Kong Arts Festival, and Hong Kong Repertory Theatre to promote the development of arts in Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

Bright Companion

CEL's Chinese and English name of "Everbright" denotes the company's vividness and optimism, in line with our aim to create a bright future and support to the needy through our actions. In recent years, CEL has supported sigh-saving campaigns of "Lifeline Express" and "Orbis", hoping to restore eyesight to the visually impaired around the world.

"Lifeline Express": A mobile eye-train hospital providing free surgical operations for cataract patients in remote, poverty-stricken areas in the Mainland

Over the past couple of years, CEL has formed a close partnership with Lifeline Express, becoming one of the largest funding sources helping the charity treat cataract patients in poverty-stricken areas in the Mainland. CEL has served as the sponsor of Lifeline Express' annual fundraising dinner for six consecutive years. It has made substantial donations in support of the Lifeline Express Charity Golf Day fund raising events. From 2014 to 2017, the Group arranged a parent-child group to visit the eyetrain hospital and cataract patients in Shandong, Heilongjian, Guizhou and Jilin, providing help for paramedics and bringing love to patients. In 2016, with the support from CEL, Lifeline Express has, for the first time, travelled outside of China to Sri Lanka, providing treatments to the blind.

"Orbis • Everbright Moonwalkers": Supporting international sight-saving campaign by the Orbis

CEL has partnered with Orbis, the world's largest sight-saving organisation across the globe, for the first time in 2017 as the title sponsor of their annual flagship fund-raising event "Moonwalkers". This event gives the participants the chance to experience the joy of restored vision by experiencing the loss of eyesight through a walk from dark to light, symbolizing the blind being able to walk out of darkness. Over 120 staff and other families have participated; money raised for this event will be used for supporting the global sight-saving program of Orbis.

Vitality Everbright

CEL has an energetic a corporate image thanks to our staff and managements' enthusiasm for sports. Through participating in various running/walkathon events, CEL has made substantial donations to a number of charitable organisations.

Oxfam Trailwalker

For the second consecutive year, the Group's CEO, Mr. Chen Shuang, led two teams during the 2017 Oxfam Trailwalker, Hong Kong's largest fund-raising hiking activity, in which the Group managed to raise HK$100,000 in 2017. The fastest team managed to complete a 100 km hiking trail in 28 hours and 44 minutes.

UNICEF Charity Run

Our CEO, Mr. Chen Shuang, also participated in "UNICEF Charity Run – Leadership Challenge Run" on behalf of CECF for the second year. CECF made a donation to the UNICEF in support of their work to prevent the transmission of HIV in developing countries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

Education Support

Since the establishment of CECF, the Group has supported various community projects relating to education, care for children and young people, as well as the environment, by way of giving back to people across the society.

Dalton School Hong Kong — A top-notch teaching team, boasting a world-class learning environment for children

After years of preparation and support from CECF, Dalton School Hong Kong (DSHK) was officially opened in mid-August 2017. DSHK is a new non-profit, bilingual primary school teaching in both Mandarin and English. What sets DSHK apart from other schools is its unique child-centred program based on the world-renowned Dalton plan, along with its partnership with the esteemed Tsinghua University Primary School to provide a strong emphasis of Chinese language, culture and values. Establishing an international school not only meets its extraordinary demand, but also elevates the potential and knowledge of students in Hong Kong on the eastern and western culture by integrating their respective education disciplines, creating a competitive edge for the next generation.

"China Everbright Voice of the Stars Story-Telling Scheme": A project to promote understanding and greater awareness of Chinese History among young generation in Hong Kong

To help cultivate a better understanding and greater awareness of Chinese history among the younger generation in Hong Kong, CEL launched the "China Everbright Voice of The Stars Story-Telling Scheme" in 2016. Title-sponsored by CEL, the project is run by Endeavour Education Centre Limited with a mission to provide opportunities for local youths to learn more about China's history and culture, and acquire a more solid understanding of the country's development. Through different avenues and platforms, and by organising a diverse range of activities, the project aims to help the younger generation develop a historical perspective and sense of belonging to China, as well as cultivate a positive attitude towards learning so that youths will contribute to the future development of Hong Kong and China. The project reprinted Illustrated Chinese History for Children, a set of 14 books published in Taiwan, for distribution as gifts to over 900 primary and secondary schools in Hong Kong. The books are intended to engage students with interesting stories and cultural anecdotes from China's past. In addition, celebrities were invited to make audio recordings of excerpts from the books for broadcasting on Endeavour Education Centre's website in a story-telling format. An online quiz is also set up, with prizes create interests among students and their parents in reading these books together – an activity that will promote closer family ties.

"Everbright Teachers' Heritage Discovery Tour": A programme for Hong Kong teachers to visit the Mainland

In late 2012, CEL collaborated with the Hong Kong Federation of Education Workers to jointly launch the "Everbright Teachers' Heritage Discovery Tour", a national education programme providing Hong Kong teachers with a chance to visit heritage sites and understand new development in China. Focusing on a different cultural topic every year, the programme brings 40 to 50 Hong Kong teachers to the Mainland to exchange ideas with local educators and visit ancient historic sites, which helps enhance the teachers' knowledge of Chinese history in culture.

The Group has sponsored the tour for five consecutive years, a 5-day Everbright Teachers' Heritage Discovery Tour 2017 was organised in late July, with the theme of "Cultural Tour in the South of the River". Teachers from Hong Kong experienced the Chinese culture and history in their visits to historical heritages such as Hanshan Temple, Plum Garden, and former residence of Dr Sun Yat-sun etc. From 2013 to 2017, participating teachers visited Nanjing, Jiangyin, Taicang, Wuxi, Suzhou, Zhangjiagang, Shanghai and other cities to develop a better understanding of local culture. After these visits, participating teachers are required to prepare a lesson plan to share their experiences with their students as an inspiration, so as to nurture the sense of belonging of Hong Kong students to our motherland.

Art Promotions

Throughout the years, CEL has promoted local art development by supporting various local art organisations in Hong Kong, promoting widespread interest among the general public for the refinement and elegance of arts.

Hong Kong Ballet

Since 2015, CEL has been title sponsoring the classical productions of Hong Kong Ballet including "Nutcracker", "Swan Lake" and "Don Quixote". In 2017, to celebrate the 20th anniversary of the establishment of HKSAR and CEL, CEL was invited by Hong Kong Ballet to be the official tour sponsor for its mainland tour – "Mixed Bill" programs and became a long term partner of Hong Kong Ballet. Through donations to Hong Kong Ballet's "Accessibility Fund", the Group offered free tickets to families in the New Territories to enjoy ballet performance for the second year running.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT *(CONTINUED)*

Opera Hong Kong

In 2017, to celebrate the 20th anniversary of the establishment of the HKSAR, CEL sponsored the grand scale opera – "Aïda" and was the Sole Sponsor of the performance on 13 October. "Aïda" was a co-production between Opera Hong Kong and the Shanghai Opera House with famous tenor Warren Mok, as the Producer.

Other Community Projects and Donations

Over the past few years, CEL has supported disaster relief efforts following the Sichuan and Qinghai earthquakes, Victims of the typhoons in Taiwan, and people living in impoverished areas in the Mainland. The Group has also helped the Central Conservatory of Hong Kong Foundation and the Jackie Chan Charitable Foundation organize fundraising events. In 2017, the Group has supported numerous community projects relating to childcare and teenagers, including the sponsoring "Yo Dancical" party by Youth Outreach, an organization that is committed in turning at-risk teenagers into positive teenagers; funding the "Daddy Daughter Ball" hosted by The Child Development Centre to help children with special educational needs in Hong Kong; sponsoring Musicus Society Fundraising Gala Dinner to promote music and arts among artists around the world; sponsoring Wu Zhi Qiao 10th Anniversary Dinner to raise funds to enhance students' understanding of Mainland China, and foster their development in integrity and commitment to society and life. Since its establishment, CECF's donations to all these charitable activities have exceeded HK$50 million.

Contributing to Socioeconomic and Cultural Activities

CEL is involved in promoting socioeconomic and cultural activities through its knowledge and influence of the financial sector. The Group's management holds a number of honourable positions in the financial industry, including Honorary Chairman of the Chinese Financial Association of Hong Kong; Vice Chairman of the Chinese Securities Association of Hong Kong; the ninth Rotating Chairman of China Mergers and Acquisitions Association, the Standing Committee Member of the Center for China and Globalization and the visiting professor of East China University of Political Science and Law. Since 2013, Mr. Chen Shuang, CEO of the Group, has served as a non-official member of the Financial Services Development Council of Hong Kong (FSDC), which has made many practical recommendations to the Hong Kong Government in relation to the internationalization of the renminbi and development of the Hong Kong financial market. Together with other members of the FSDC's Mainland Opportunities Committee, they released a report entitled "Chinese Enterprises "Going Global": Opportunities and Hong Kong's Policy Responses". This report analysed the business opportunities for Hong Kong resulting from growing trends of Chinese enterprises going global and put forward 16 suggestions for policy reform to the HKSAR government. Mr. Chen Shuang, was also appointed as a non-official JP by the HKSAR Government for his contributions in the finance industry and the society.

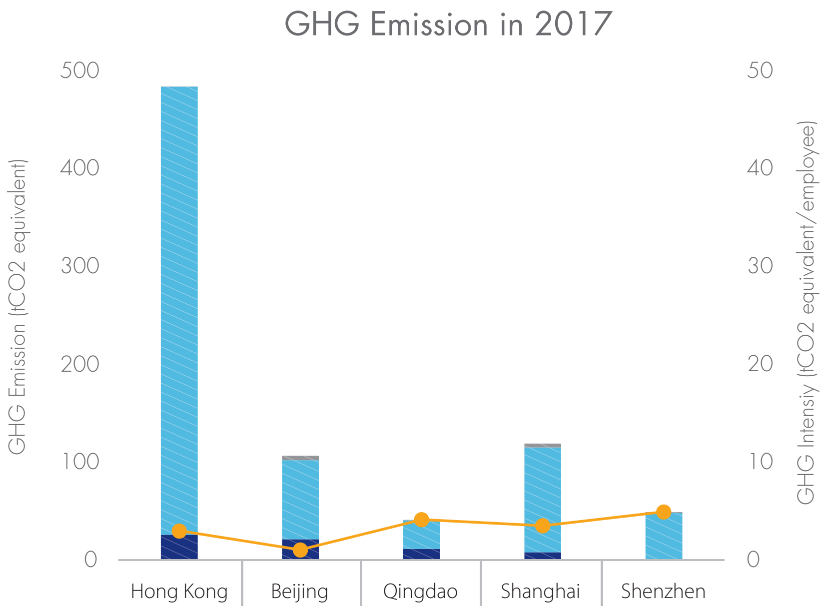
Our Environment

CEL understands the importance of sustainable development and environmental protection, and has been investing in environmental protection and renewable energy enterprises since 2006, including Goldwind Science and Technology Co., Ltd, CECEP Wind Power Corporation Co., Limited, Beijing Jingneng Clean Energy Co., Limited, Chongqing Taike Environmental Protection Technology Co., Guodian Northeast China Environmental Protection Industry Group Co.,Ltd., Zhenjian Prosperous Environmental Protection Co., Ltd, Beijing JeeGreen Technology Co., Ltd, Anhui Yuanchen Environmental Protection Polytron Technologies Inc., Shenyang Shengyuan Water Affairs Co., Ltd, Dalian Wastewater Treatment Project, etc. The group also supports the overall development of the environmental protection sector.

In our offices, CEL has identified energy and paper usage, and waste generations as its key environmental impact. Therefore, the Group has instituted various environmental protection policies, aiming to minimize its environment impact while sustaining its operational efficiency at the same time.

Greenhouse Gases Emission and Management

Effective management of greenhouse gases (GHG) emission is one of the pressing topics in environmental protection. Our GHG emissions are calculated according to "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purpose) in Hong Kong"[1]. The emission intensity will be used as a reference for the Group in monitoring GHG emission performance in the future. Our overall GHG emission intensity in 2017 has been reduced by 15% compared to previous year, at 2.5 tCO_2 equivalent/employee.



	Hong Kong	Beijing	Qingdao	Shanghai	Shenzhen
Other Indirect GHG Emission (Scope 3)	<0.1	4.6	0.6	4.0	0.8
Indirect GHG Emission (Scope 2)	457.8	80.8	29.0	107.0	48.4
Direct GHG Emission (Scope 1)	26.0	21.3	11.6	8.2	N/A
Intensity	3.0	1.0	4.1	3.5	4.9

[1] The calculation is referenced to the "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings in Hong Kong (2010 Edition)". Emissions factors for electricity purchased is referenced to the information released by HEC in 2016 and "Regional Baseline Grid Emission Factor in China 2015". Direct GHG emissions (scope 1) include fuel consum ption; indirect GHG emissions (scope 2) include electricity con sumption; other indirect GHG emissions (scope 3) include paper waste disposal and water cons umption.

Energy Conservation

Energy consumption is the major cause of environmental distress. CEL has initiated different measures to reduce energy usage. In order to cultivate awareness in environmental protection among employees, the Group has a strict requirement on employees' conduct, so as to reduce energy use in day-to-day operations. Employees are encouraged to conserve energy by turning off their computers and monitors after working hours through the Group's office policy. Our printers are switched into energy-saving mode automatically when not in use to reduce energy usage. Notices on turning off computers and monitors before leaving the office are sent out to all employees before long holidays.

Energy Consumption in 2017

	Consumption	Energy Consumption Intensity
Electricity	952,914 (kWh)	2,978 (kWh/employee)
Fuel	24,784 (L)	77(L/employee)

Waste Management and Recycling

Waste is generated mainly from office operations. Cultivating a habit of recycling among employees is key in our environmental protection initiative. A paper recycling box is placed next to every printers to make paper cycling easier for all employees. Employees are also encouraged to recycle toner cartridges. The waste collection service is provided by the building's management and disposed by designated waste collectors.

During the reporting period, we have recycled 4,610 kg of paper and 80 cartridges[2].

	Hong Kong	Beijing	Qingdao	Shanghai	Shenzhen
Waste Disposal	24,453	24,800	357	5,456	558
Intensity	150.0	240.8	35.7	160.5	55.8

2 Includes Hong Kong and Qingdao offices.

Material Use

In order to lessen the burden on our environment, CEL pays special attention when sourcing materials. As printing paper ranks the top out in our material consumption, the Group has a strict requirement in choosing printing paper. Both Hong Kong and the Mainland offices use FSC-certified paper from responsible forest resources which dissuades deforestation. Paper publications such as CEL's annual report and our business cards and envelopes are also printed on FSC-certified paper. When purchasing office equipment, the Group would opt for printers with energy conservation functions and energy-saving lightings such as LED lights.

To reduce our impact on the environment in our supply chain, the Group chooses environmentally responsible suppliers. We select suppliers that are environmentally- or green- certified for our renovation works. Our printing paper suppliers are ISO 14001 certified, proven to possess an effective environmental management system.

Resource Utilisation

Reducing wastage is one of the Group's operational principles. Efforts have been made in different aspects to conserve resources and reduce waste generation. The Group's online collaborative Office Automation Platform and Mobile app now cover various procedures for daily administration, management and approval, which has enabled the paperless office concept. Last year, the Board of Directors and Board of committees have implemented "paperless meetings" to support environmental protection. In addition, the default printing modes for new hires are set to black-and-white and employees are also encouraged to make photocopies with recycled paper.

Green Activities

Besides implementing environmental friendly measures in the office, the Group has also incorporated environmental protection elements in employees' daily activities and in turn hoping to disseminate the message in their social services group.

Historical Monument Garden Maintenance at Island House Conservation Studies Centre

CEL jointly organised a volunteer programme with World Wide Fund (WWF) Hong Kong for a historical monument maintenance activity. Under the guidance of WWF's staff, our volunteers helped to maintain the garden inside the Island House Conservation Studies Centre as they mowed the garden and planted new plants. Our volunteers gained a deeper understanding of environmental conservation and how to live a more sustainable life.

Environmental, Social and Governance Content Index

China Everbright Limited's 2017 Environmental, Social and Governance Report is prepared with reference to the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Main Board Listing Rules of Hong Kong Stock Exchanges and Clearing Limited. The following table provides an overview on the Subject Areas, Aspects and their General Disclosures, as well as the Key Performance Indicators (KPI), which are either referred to the relevant chapters of the Report or supplemented with additional information.

KPIs	Description	Cross-reference/Remarks
Environmental		
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws of regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Our Environment (Page 54)
KPI A1.1	The types of emissions and respective emissions data.	We do not generate significant emissions in our office operations.
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Our Environment (Page 54)
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	We do not generate any hazardous waste in our operations.
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Our Environment (Page 54)
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Our Environment (Page 54)
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Our Environment (Page 54)
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw material.	Our Environment (Page 54)
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Our Environment (Page 54)
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Not applicable Our water supply is provided by the building's management. We have included bottled water consumption (13,000 L) in our GHG emission calculation.
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Our Environment (Page 54)
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable

KPIs	Description	Cross-reference/Remarks
Environmental (continued)		
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Our Environment (Page 54)
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Our Environment (Page 54)
Social		
Employment and Labour Practice		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Our Employee (Page 45)
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Our Employee (Page 45)
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	By gender: Male: 17.4% Female: 9.4% By age group: Under 30: 23.6% Between 30 and 50: 9.8 % Above 50: 27.9% By location: Hong Kong: 11.0% Mainland China: 16.6%
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Our Employee (Page 45)
KPI B2.1	Number and rate of work-related fatalities.	There are no cases of work-related fatalities during the reporting period.
KPI B2.2	Lost days due to work injury.	The total number of lost days due to work-related injury is 1 day during the reporting period.
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Our Employee (Page 45)

KPIs	Description	Cross-reference/Remarks
Employment and Labour Practice (continued)		
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Our Employee (Page 45)
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Our Employee (Page 45)
KPI B3.2	The average training hours completed per employee by gender and employee category.	Our Employee (Page 45)
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Our operations do not involve any child or forced labour. We strictly follows the "Recruitment Policy" in recruiting employees to prevent child and forced labour.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Please refer to General Disclosure.
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Please refer to General Disclosure.
Operating Practices		
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Our Environment (Page 54)
KPI B5.1	Number of suppliers by geographical region.	Not applicable
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Not applicable

KPIs	Description	Cross-reference/Remarks
Operating Practices (continued)		
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	We strive to safeguard client assets, protect the interests of all stakeholders and at the same time meet our statutory responsibilities as a Hong Kong listed company and parent of a number of regulated entities. Please refer to the Risk Management section in our 2017 Annual Report for more information.
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not applicable
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
KPI B6.4	Description of quality assurance process and recall procedures.	Not applicable
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Please refer to General Disclosure.
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	All employees are required to strictly follow the "Anti-Money Laundering Policy". We have also formulated a "Whistleblowing Policy" to facilitate an effective internal monitoring system.
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	There are no legal cases regarding corrupt practices during the reporting period.
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Please refer to the Corporate Governance section of our 2017 Annual Report.
Community		
Aspect B8: Community Investment		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Our Community (Page 49)
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Our Community (Page 49)
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Our Community (Page 49)

CORPORATE GOVERNANCE REPORT

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

Governance Principles and Structure

China Everbright Limited ("CEL" or "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 abiding by the laws and regulations of Hong Kong and observing the rules and guidelines issued by the relevant regulatory authorities such as the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The Company also constantly reviews its corporate governance practices to meet international and local best practices including the Corporate Governance Code ("the Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). One of the core values of the Company is that the highest standard of integrity is essential to business development.

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

The Board would like to confirm that, subsequent to careful examination and review, other than the deviation from the Code A.4.1 providing that Non-executive Directors should be appointed for a specific term and subject to re-election, the Company has complied with the Code for the year ended 31 December 2017. There was no specific term of appointment of Mr. Tang Shuangning, who was redesignated as the Non-executive Director of the Company with effect from 12 December 2016. However, pursuant to the Articles of Association of the Company, Mr. Tang would be subject to retirement by rotation and re-election at least once every three years. Mr. Tang Shuangning resigned as the Non-executive Director of the Company on 16 March 2018.

Board

Composition of the Board

The Company is led by the Board that is effective and of quality. The Board acts honestly and fiducially and 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 of Executive Directors and Non-executive Directors, including Independent Non-executive Directors ("INEDs"). As at the date of this report, the Board has 8 members including:

Name of Directors	Title
Executive Directors	
Dr. Cai Yunge	Chairman
Mr. Chen Shuang	Chief Executive Officer
Mr. Tang Chi Chun, Richard	Chief Financial Officer
Mr. Zhang Mingao	Chief Investment Officer
Mr. Yin Lianchen	Chief Investment Officer
Independent Non-executive Directors	
Mr. Seto Gin Chung, John	Independent Non-executive Director
Dr. Lin Zhijun	Independent Non-executive Director
Dr. Chung Shui Ming, Timpson	Independent Non-executive Director

Note: Mr. Tang Shuangning resigned as the Non-executive Director of the Company on 16 March 2018.

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

All directors are management officers with extensive 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 and diligent and has devoted sufficient time and efforts to handle the Company's affairs.

INEDs provide CEL 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 advice on issues relating to CEL's strategies, performances, conflicts of interest and management processes, which ensure that the interests of all shareholders are taken into account.

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

All the existing directors (including 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.

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

Board Diversity

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

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

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

Under the current board combination, all directors possess extensive experience in financial industry and management. In addition, not less than one-third of them are Independent Non-executive Directors ("INEDs"), of whom some are experts in strategic development, financial and/or risk management. Biographical details of the professional experience, skills and knowledge of the directors are available in "Directors and Senior Management" section on pages 105 to 108.

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

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

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 CEL 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 retirement by 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.

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 by the Company.

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 CEL's long term strategy and monitors the implementation thereof;
- monitors and controls CEL's operations and financial performance through reviews and approves its annual business plan financial budget, and ensures CEL has adequate resources, staff qualification and experience in accounting, financial reporting and internal audit functions;
- ensures timely and accurate disclosure to and communication with stakeholders;
- approves the annual and interim results to ensure the integrity of CEL's accounting and financial reporting system and compliance with the relevant laws and standards;
- reviews and monitors risk management and internal control of CEL to ensure the appropriate internal control system are in place, including systems for risk management, financial and operational control;
- monitors the effectiveness of CEL's practices in corporate governance and corporate social responsibility, ensuring good corporate governance and compliance; and
- monitors performance of the Management.

The Board authorises the Management to carry out the approved strategies. The Management is responsible for the day-to-day operation of the Company 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 from the Board before making decisions or entering into any commitments on behalf of the Company. The Board regularly reviews the Mandate, and will update and amend the Mandate when appropriate.

Corporate Governance Functions

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

1. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Company;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and

5. to review the Company's compliance with the Code and disclosure in the Corporate Governance Report under Appendix 14 to the Listing Rules.

During the year under review, the Board had performed the above duties, including review of the following documents related to the corporate governance policies and practices:

- Terms of Reference of the Board;
- Mandate;
- Risk Management Policy;
- Corporate Governance Report;
- Internal Control Report;
- Risk Management Report; and
- Environmental, Social and Governance Report.

Division of Responsibilities between the Chairman and the Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer are held by Dr. Cai Yunge and Mr. Chen Shuang respectively. Their roles are distinct and are clearly established and stipulated in their terms of reference. 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 organising the business of the Board, setting its agenda to take full account of the important issues facing CEL and the concerns of all directors, ensuring that adequate time is available for thorough discussion of critical and strategic issues, 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 stakeholders, ensures that timely and adequate information, which must be accurate, clear, complete and reliable, is delivered to the directors to fulfill their duties. The Chairman is also overseeing and giving guidance to the Management in order to enhance the functions of the Board. The Chief Executive Officer is responsible for leading the Management, who implements and executes the important policies and development strategies approved by the Board with the assistance of the Management. The Chief Executive Officer is also directly responsible for the day-to-day operation of the Company, conducts the affairs of the Company in accordance with the practices and procedures adopted by the Board and promotes the highest standards of integrity, probity and corporate governance within the Company and regularly reports to the Board.

The Terms of Reference of the Board, which are published on the Company's website www.everbright.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 in order to ensure that Committee members 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 Board shall also promptly update and revise the Terms of Reference according to its needs, and the updated Terms of References of the Board will also be uploaded timely to the Company's website and the website of the Stock Exchange for public inspection.

Training and Support for Directors

The Listing Rules require directors to understand their responsibilities as directors of listed companies. To ensure that newly appointed directors have adequate understanding of the responsibilities as directors of listed companies as well as the operations and business of CEL, the Board has set up an induction system for new directors. The Company Secretary inducts each of the new directors following their appointments becoming effective, and the induction includes a description of directors' duties, the Listing Rules, introduction of corporate governance structure and the businesses of the Company.

To ensure that all existing directors have a regular updates of their knowledge, so that they can form informed recommendations and advice 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 CEL, to give directors a balanced and understandable assessment of the Company's performance, position and prospects, together with reports to the directors about latest information on the Company's operation, investor relations reports, and reading materials in relation to directors' responsibilities. The said reading materials are mainly used for providing Board members with information on significant changes in the regulatory requirements applicable to both the directors and the Company, the latest developments in the industry and the latest development in corporate governance practices in a timely manner, which can update their knowledge and skills associated with directors' duties. The contents and information contained in the "monthly circulars" to Board members are of sufficient details to enable the directors to perform relevant duties under Rule 3.08 and Chapter 13 of the Listing Rules.

Apart from the regular Board meetings, the Company Secretary also arranges meetings between Board members and front-line business teams in a timely manner, which enable the Board members to enhance understanding of the front-line business development of the Company. 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 developing and updating their knowledge and skills.

Apart from the above training offered by the Company, based on the training records provided to the Company by the directors, the directors also participated in the following trainings during 2017:

Directors	Type of trainings
Executive Directors	
Cai Yunge	C
Chen Shuang	A, B, C
Tang Chi Chun, Richard	A, C
Zhang Mingao	A
Yin Lianchen	A, B
Non-executive Director	
Tang Shuangning	C
Independent Non-executive Directors	
Seto Gin Chung, John	A, C
Lin Zhijun	A, C
Chung Shui Ming, Timpson	A, C

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

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

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

Attendance of the Directors at Board, Board Committee and General Meetings

A total of 5 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. Unscheduled supplementary meetings may also take place as and when necessary with reasonable notice. Formal notices were sent to all directors at least 14 days before the meeting being 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 were 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. The Board ensures that directors, especially non-executive directors, are provided with sufficient resources in the furtherance of their duties as Board/Committee members, including obtaining further information if necessary or seeking independent professional advice accordingly at the cost of the Company.

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 Company Secretary reported matters arising from previous Board meeting and the relevant follow-up actions taken.

The Board can also seek the advice and services from the Company Secretary, the Designated 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 of the Board to meet all INEDs in the absence of the executive directors and the management.

Attendance rate

The attendance rate of the directors at board meetings and various Board committee meetings as well as the general meetings of the Company in 2017 is set out below:

Directors/members	Board Meeting	Nomination Committee Meeting	Audit & Risk Management Committee Meeting	Remuneration Committee Meeting	Strategy Committee Meeting	General Meeting
Tang Shuangning (Note 1)	0/5	n/a	n/a	n/a	n/a	0/1
Cai Yunge	5/5	2/2	n/a	5/5	1/1	1/1
Chen Shuang	5/5	n/a	n/a	n/a	1/1	1/1
Tang Chi Chun, Richard	5/5	n/a	n/a	n/a	n/a	1/1
Zhang Mingao (Note 2)	1/1	n/a	n/a	n/a	n/a	n/a
Yin Lianchen (Note 3)	3/4	n/a	n/a	n/a	1/1	n/a
Seto Gin Chung, John	5/5	2/2	6/6	5/5	1/1	1/1
Lin Zhijun	5/5	2/2	6/6	5/5	1/1	1/1
Chung Shui Ming, Timpson	5/5	2/2	6/6	5/5	1/1	0/1

Notes:

1 Mr. Tang Shuangning resigned as Non-executive Director of the Company on 16 March 2018.

2 Mr. Zhang Mingao joined the Board on 14 December 2017.

3 Mr. Yin Lianchen joined the Board on 15 June 2017.

Every director performs his duties as director at all times in good faith, objectively, with diligence and in the best interest of CEL. The directors have to spend substantial 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 meetings and giving in-depth understanding to the follow-up issues under the agenda after the meetings. The Company also requires 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 believes all directors devoted sufficient time and efforts to deal with matters of the Group, and other commitments do not affect the effectiveness of their contribution to or the time available for CEL.

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: the Executive Committee, the Audit and Risk Management Committee, the Nomination Committee, the Remuneration Committee and the Strategy Committee. In addition, the Board will, if necessary, authorise an independent board committee comprising all INEDs to review, approve and monitor the connected transactions (including continuing connected transactions) in accordance with the requirements of the relevant laws and regulations. The Terms of Reference of the Board clearly define the terms of reference of the Board Committees. The Board Committees can make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances within the power as delegated by the Board. The Board Committees submit their reports on their work semi-annually. 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.

Management is responsible for providing the Board and Board Committees with adequate and timely information which is complete and reliable and which will enable directors to make an informed decision on matters placed before them. Where any director requires more information than provided voluntarily by Management, he will make further enquiries, to which Management must respond quickly and effectively. The Board and individual directors have separate and independent access to the Senior Management.

Executive Committee

The Executive Committee was established in 2005. 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. The Executive Committee currently comprises 5 members: Dr. Cai Yunge (Chairman of the Board), Mr. Chen Shuang (Chief Executive Officer), Mr. Tang Chi Chun, Richard (Chief Financial Officer), Mr. Zhang Mingao and Mr. Yin Lianchen. Dr. Cai Yunge, the Chairman of the Board, is also the Chairman of the Executive Committee. In 2017, the Executive Committee approved a number of major issues through written resolutions.

Audit and Risk Management Committee

The Audit and Risk Management Committee was established in 1999 and formerly known as the Audit Committee ("the Committee"). The Board is aware that risk management and control is one of the core parts of CEL's business operation. In February 2006, the Committee entirely consisting of all INEDs was renamed as Audit and Risk Management Committee, and further to the terms of reference required to be performed by the Audit Committee under the Listing Rules, it also assists the Board in formulating and monitoring the risk management strategy and related framework and policy of the Company. The Chief Risk Officer and Risk Management Department assist the Committee in performing the daily risk management function with guidance of the Committee in order to ensure that the risk management and internal control systems have been implemented and complied with. The Committee assists the Board in fulfilling its responsibilities relating to the supervision of the financial statements, internal control, internal audit and external audit of the Company. The written terms of reference of the 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 on the Company's website. In short, the Committee mainly assists the Board in performing its role in the Company in the following areas, among others:

Internal Audit Function

- to conduct annual audit planning reviews with the Internal Auditor, at which time the Internal Audit Department will review the general adequacy of the accounting systems and internal control system and will outline the indicated internal audit programme in respect of the Company and its subsidiaries for review and guidance by the Committee;
- to conduct audit activity reviews with the Internal Auditor, at which time the Internal Auditor will highlight the significant events and findings which, in their opinion, require the Committee's knowledge and/or attention. As background preparation for such reviews, the Internal Auditor will be invited to attend the Committee meetings to present the internal audit reports in respect of the Company and its subsidiaries. The Committee will discuss the reports and report the summary of reports as appropriate to the Board;
- to ensure that co-ordination between the Internal and External Auditors is adequate and that the internal audit function has adequate resources and appropriate standing within the Company; and
- to review and monitor the effectiveness of the internal control system, the internal audit function and the annual audit plan based on a risk methodology process.

In addition, pursuant to paragraphs C.2 and C.3.3 of the Code, the Committee conducted an annual review of the effectiveness of the risk management and internal control systems of the Company with the assistance of the Risk Management Department and the Internal Audit Department. The internal control review of the Group covered all material aspects, including financial, operational and compliance controls as well as risk management. Upon completion of the review, the Committee considered that the key areas of the Company's risk management and internal control systems were reasonably implemented and were able to prevent material misstatements or losses, safeguard the Company'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.

External Auditors

- to appoint, retain, dismiss and replace the Company's External Auditors, subject to endorsement by the Board and final approval and authorisation by the Shareholders of the Company in General Meeting, and to approve the remuneration and terms of engagement of the External Auditors, and any questions of its resignation or dismissal; and monitor the associated fees and independence of the External Auditors to ensure that the performance of non-audit services does not impair the independence of the External Auditors in connection with their audit. Each non-audit service to be performed by the External Auditors shall be separately identified in connection with its pre-approval;

- to meet the External Auditors at least annually, in the absence of management, to discuss matters relating to any issues arising from the audit and any accounting, financial reporting or internal control matters the External Auditors may wish to raise;

- to review and monitor the effectiveness of the audit process in accordance with applicable standards and discuss with the External Auditors the nature and scope of the audit and reporting obligations before the audit commences;

- to review the work of the External Auditors (including the resolution of any disagreement between management and the External Auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, the scope of their audit and any other services, and approve the fees for and terms of their services;

- review with the External Auditors recent or anticipated developments in accounting principles or reporting practices that may affect the Company or the scope of the audit; and discuss major anticipated audit problems, if any;

- to review results of audits performed by the External Auditors including any changes in accounting procedures and/or the system of internal controls noted or developed during the audit examination along with matters of controversy, if any, with management, determine appropriate actions required on significant control weaknesses, and recommend such actions to the Board of Directors; and

- to review the External Auditors' management letter, any material queries raised by the External Auditors to Management about accounting records, financial statements or systems of control and Management's response.

Finance Reporting

- to review and monitor the completeness, accuracy and fairness of half-year and annual financial statements before submission to the Board with particular regard to changes in accounting policies and practices, major judgmental areas, adequacy of disclosure, consistency within the financial statements and with prior disclosures, any significant audit adjustments, the going concern assumption and any qualifications, compliance with any applicable legal requirements and accounting standards and compliance with the requirements of the Listing Rules and other legal requirements in relation to financial reporting.

The Committee will invite Chief Financial Officer, Chief Risk Officer, Head of Internal Audit Department and External Auditors to attend all its meetings. The Committee will consider any significant and unusual items that are, or may need to be, reflected in the report and financial statements, and will give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

Risk Management

Pursuant to paragraphs C.2.3 and C.2.4 of the Code, with assistance of the Chief Risk Officer and with Risk Management Department, the Committee considers and reports to the Board for its review of:

(a) the changes, since the last review, in the nature and extent of significant risks, and how the Company responds to changes in its business and the external environment;

(b) the scope and quality of Management's ongoing monitoring of risks and of the internal control system and the work of internal audit;

(c) the monitoring results, which enable it to assess control of the Company and the effectiveness of risk management;

(d) significant control failings or weaknesses identified (if any) and the extent that they have caused unforeseen outcomes or contingencies that could have material impact on the Company's financial performance or condition; and

(e) the effectiveness of the processes for financial reporting and Listing Rules compliance.

In addition, the Committee monitors the Company to disclose the following in the Risk Management Report:

(a) the process used to identify, evaluate and manage significant risks;

(b) additional information to explain its risk management processes and internal control system;

(c) an acknowledgement by the Board that it is responsible for the internal control system and reviewing its effectiveness;

(d) the process used to review the effectiveness of the internal control system; and

(e) the process used to resolve material internal control defects for any significant problems disclosed in its Annual Reports and Financial Statements.

A comprehensive analysis of the risks affecting the businesses of the Company and the associated mitigation measures is set out in the Risk Management Report on pages 84 to 91.

Corporate Governance

- reviewing and dealing with the Company's accounting, financial reporting and internal audit functions, the effectiveness of the Company's corporate governance structures and its implementation;
- overseeing the Company to abide by any applicable laws and comply with regulations of the relevant regulators and maintain its business ethics; and
- making recommendations to the Board where necessary, and carrying out duties within the delegated authority of the Board.

Whistleblowing

The Audit and Risk Management Committee is responsible for monitoring the use and effectiveness of the whistleblowing policy for employees and other stakeholders who deal with the Company to raise concerns, in confidence, with the Committee about possible improprieties in any matter related to the Company, including but not limited to improprieties in financial reporting, internal control and audit matters. The Audit and Risk Management Committee also needs to ensure that proper arrangements are in place for fair and independent investigation of these improprieties and for appropriate follow-up action; to receive, review and act upon any report regarding evidence of any material violation of securities law or breach of fiduciary duty or similar violation by the Company or any agents thereof, if such a report is submitted to the Committee by an attorney or otherwise.

The work performed by the Audit and Risk Management Committee in 2017 included the review and, where applicable, approval of:

- the Company's financial statements for the year ended 31 December 2016 and the annual results announcement thereof, which were recommended to the Board for approval;
- the Company's interim financial statements for the six months ended 30 June 2017 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 Department;
- the re-appointment of external auditors, and the audit fees, non-audit fees payable to external auditors for the annual audit and interim review; and
- CEL's internal audit plan and key areas of the internal audit work focus for 2018.

In addition, the Audit and Risk Management Committee also assisted the Board in performing the internal control and risk management function, including:

- to review the systems of financial control, internal control and risk management;
- to discuss the internal control system with Management to ensure that Management has performed its duty to have an effective internal control system. This discussion should include:

    (a) an annual review of the adequacy of resources, staff qualifications and experience, training programmes and budget of accounting, internal audit and financial reporting function;

    (b) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and Management's response to these findings of CEL;

    (c) to review financial and accounting policies and practices. Special meetings may be called at the discretion of the Chairman or the request of Senior Management to review significant control or financial issues;

    (d) to review the annual general representation letter from the CEO and CFO; and

    (e) to review the internal audit function and monitor its effectiveness of the Company.

The Audit and Risk Management Committee currently comprises three members, and all members including the chairman are INEDs. It is chaired by Dr. Chung Shui Ming, Timpson, who has professional qualifications and wide experiences in financial business. The remaining members are Mr. Seto Gin Chung, John, who has wide experiences in financial business, and Dr. Lin Zhijun, who has appropriate professional qualifications and experiences in financial matters. Six Audit and Risk Management Committee meetings were held during the year with an attendance rate of 100%.

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 Company's overall development directions and related requirements required by the Listing Rules. The Nomination Committee assists the Board in fulfilling its supervisory role over the Company in the following areas, among others:

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- to assess the independence of INEDs annually;
- 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;
- to make recommendations to the Board on the appointment or re-appointment of senior management; and
- to monitor the implementation of Board Diversity Policy of the Company and review and report Board Diversity related matters to the Board annually.

For the recruitment of directors and senior management, the Nomination Committee first takes into account the skills, knowledge and experiences of the Board and Board Committees, and the business requirements of the Company 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 four members: Dr. Lin Zhijun, Mr. Seto Gin Chung, John, Dr. Cai Yunge and Dr. Chung Shui Ming, Timpson. 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 2017 and the Nomination Committee held two meetings in the year in relation to making recommendation to the Board for new Board members' appointment, the review of the structure, size and composition (including skills, experience and knowledge) of the Board and the Board Committees, assessing the independence of the independent non-executive directors, and discussing and making recommendation to the Board on the re-election of the retiring Directors at the forthcoming 2018 annual general meeting of the Company etc.. The attendance rate of the Nomination Committee meeting is 100%.

Remuneration Committee

The Remuneration Committee, which was established in 2005, as delegated by the Board, 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 Company in the following areas, among others:

- to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to determine, with delegated responsibility, remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- to assess the performance of executive directors and to approve the terms of executive directors' services contracts;
- to ensure the fairness and reasonableness of the overall human resources and remuneration policies of the Company;
- to make recommendations to the Board on the remuneration of non-executive directors and INEDs;
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company;
- 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 2017 included the review and, where applicable, approval of:

- the performance appraisal of the executive directors and senior management for year 2016;
- the proposal on staff bonus (including the senior management) for year 2016 and salary adjustments for year 2017 for the Company;
- the incentive scheme of the Company; and
- the policies on performance appraisal of the Company'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 Company, directors and senior management's remuneration should be appropriate and reflect their duty and responsibility to fulfill the expectations of the shareholders and meet regulatory requirements. 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 is 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. The Board, based on the recommendations of the Remuneration Committee, approves the remuneration policy of the Company. Currently the principal components of the Company's remuneration package for executive directors and senior management include the basic salary, a discretionary bonus and other benefits in kind. A significant portion of the executive directors' or senior management's discretionary bonus is based on the Company's and the individual's performance during the year in order to achieve the appropriate compensation level. None of the directors is entitled to determining 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 seeks professional advice in appropriate circumstance at the cost of the Company.

The remuneration received by each of the directors in 2017 is 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, is submitted to the general meeting every year for approval. For 2016, the remuneration approved by shareholders at the general meeting is as follows:

The director's fee for the year ended 31 December 2017 is HK$200,000 for each INED who has served for one full year and pro-rated for INED who did not serve for 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 a Board meeting;

(b) HK$5,000 for attending a meeting of the Remuneration Committee, Nomination Committee and Strategy Committee; and

(c) HK$18,000 for the chairman of the Audit and Risk Management Committee attending its meeting and HK$14,000 for other members.

There is no director's fee for the year ended 31 December 2017 for executive directors/non-executive directors.

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

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

The Remuneration Committee currently has 4 members comprising Mr. Seto Gin Chung, John, Dr. Cai Yunge, 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 five meetings were held by the Remuneration Committee during the year with an attendance rate of 100%.

Remuneration of Directors and Senior Management

The remuneration of the members of the senior management by band for the year ended 31 December 2017 is set out below:

Remuneration Bands (HK$)	Number of persons
Below HK$500,000	1
HK$6,500,001 to HK$7,000,000	1
HK$7,000,001 to HK$7,500,000	1
HK$7,500,001 to HK$8,000,000	2
HK$9,000,001 to HK$9,500,000	1
HK$13,500,001 to HK$14,000,000	1
HK$17,000,001 to HK$17,500,000	1

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

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 Company. The Strategy Committee is chaired by Mr. Seto Gin Chung, John, an INED, and currently has 7 members: Mr. Seto Gin Chung, John, Dr. Cai Yunge, Mr. Chen Shuang, Mr. Zhang Mingao, Mr. Yin Lianchen, Dr. Lin Zhijin and Dr. Chung Shui Ming, Timpson. The Strategy Committee convenes physical meeting regularly each year with a focus to review the strategic positioning and development planning of the Company.

Independent Board Committee

An Independent Board Committee will be formed from time to time to make recommendation and advice to the independent shareholders on voting the Company's connected transaction and continuing connected transaction or other transaction of the Company or its subsidiaries that required independent shareholders' approval at extraordinary general meeting.

Accountability and Audit

CEL aims to ensure disclosures provide meaningful information and do not give a misleading impression. As part of the Company's system of internal control, the Management Decision Committee members will submit a "Representation Letter" to the Board, in which they give their confirmation that "the competence of the accounting records, the compliance of financial reporting, the accuracy of the fair value of the investment projects, the information provided to External Auditors and Board members are full range, complete, correct and without omission, covering financial and relevant non-financial information". The letter forms the supporting documents for the Board to sign off the Representation Letter to the External Auditors.

Internal Control

The Board has the responsibility of ensuring that the Company maintains sound and effective internal control to safeguard the Company'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 Company's objectives. In addition to safeguarding the Company's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations. CEL implemented budget management, and the yearly budget is executed upon approval by the Audit & Risk Management Committee and the Board. The budget implementation will be reviewed periodically by the Board to ensure the effectiveness of budget management and financial reporting.

The Company's risk management and internal control systems include several different functions: business units, operations, risk management, compliance, institutional sales, brand management, legal and company secretarial, finance and accounting, human resources, information technology, administration, internal audit and etc., which constitute a comprehensive operating system for the Company. Riding on the concept of comprehensive risk management and internal control systems, the Management of the Company establishes detailed governing procedures in all levels, which are monitored by qualified professionals with extensive management experience and continuously updated according to the Company's latest business development.

The Company's monitoring structure

In order to fully control the level of risk and to monitor the internal management effectively, the Company integrates the requirements of risk management and internal control into the corporate management and business processes by setting up "three lines of defense":

1st. The risk management of frontline departments
In response to the business condition and its development, the business units perform systematic analysis, verification, management and monitoring on risk factors from different perspectives, such as strategic risk, market risk, financial risk, operational risk and etc. Management sets business goals and the overall risk limits at both business unit level and Company level. Based on the nature of the business activities, the Management sets up approval, verification and monitoring processes to ensure the business development and risk management complement each other, and to ensure that the business goals can be achieved by managing risk effectively. By adopting a comprehensive, systematic and proactive framework of risk management and internal control, the Company's business will be developed more effectively and efficiently.

2nd. Continuously monitoring of middle and back office
The middle and back offices, including: Finance and Accounting, Operations, Legal, Compliance and Company Secretarial, Risk Management, and Information Technology must set up relevant internal control and management systems to monitor the risk exposures, supplement and update the internal control and management procedures based on the latest business development and changes of risk. Meanwhile, back offices and business units work independently to perform financial, operational and compliance monitoring as well as risk management functions within the Company.

3rd. The independent review of internal audit
Internal audit is an independent department carrying out objective review and providing advisory service. It uses systematic and standardized approach to evaluate whether the operating activities, risk management and internal control are appropriate and effective. The director of Internal Audit reports directly to the Audit and Risk Management Committee on its work while the monitoring and daily administrative matters of the department are reported to the Chief Risk Officer.

Based on the risk oriented principle, Internal Audit compiles annual audit plan and rolling audit plan to make sure that its audit covers all business and operation processes and their related risks. In accordance with the annual audit plan approved by the Audit and Risk Management Committee, Internal Audit reviews the effectiveness of the Company's risk management and internal control systems, and prepares internal audit reports quarterly for the Audit and Risk Management Committee to review and the relevant management to follow up. Internal Audit also submits the audit follow-up reports quarterly to ensure that the relevant management has taken appropriate actions towards the audit suggestion which aims at improving the risk management and internal control procedures.

Based on the results of the relevant internal audit and assessment of internal control, Internal Audit develops, implements and updates the internal audit strategy so as to improve the quality of audit.

The review of risk management and internal control by the Board

Risk Management Department prepares the risk management report on a quarterly basis and submits it to the Audit and Risk Management Committee for review. The report outlines the risks faced by CEL, changes in business activities, compliance issues and recommendations. In addition, the Board reviews the effectiveness of CEL's risk management and internal control systems with the assistance of Audit and Risk Management Committee, which covers all material control including financial, operational and compliance control, and the risk management system. Also, the results of the review of the effectiveness of the Company's risk management and internal control systems were reported to the Audit and Risk Management Committee and the Board by the Internal Audit Department at the year end. The Board acknowledged that the risk management and internal control systems of the Company during the review period were effective and adequate.

The Board acknowledges that it has the ultimate responsibility to ensure that there are sound and effective financial control and accounting, and internal audit 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, and internal audit functions yearly, under the assistance of the Chief Financial Officer, Chief Risk Officer and the Internal Audit Department. The scope of the review covers the staffing and back-up resources, their relevant working experiences and years served, recognized professional qualifications, the adequacy of budget for training and the corresponding training. The results of the annual review were reported to the Audit and Risk Management Committee and the Board.

The Audit and Risk Management Committee and the Board consider that the material aspects of the Company's risk management and 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 system has basically fulfilled the requirements of the Code as set out in Appendix 14 of the Listing Rules regarding risk management and internal control systems in general.

In addition, CEL has established and implemented the following internal control system:

- 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 Company; and operated in compliance with laws and regulations under effective risk control.

- The Management formulated and continually monitored the implementation of the Company'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 Company 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 risk.

- The Chief Risk Officer of the Company is responsible for the routine risk management work of the Company and for supporting and assisting the Management in defining and evaluating the risk exposures of the Company's businesses and conducting the co-ordination thereof. He assesses, identifies and records the risk structure of the Company and ensures the relevant business units are aware of such issues. The Chief Risk Officer regularly reports to the Audit and Risk Management Committee and the Management Decision Committee. The Risk Management Department assists the Chief Risk Officer in carrying out his duties.

- The Audit and Risk Management Committee reviews the letter of recommendation submitted by the external auditors to the Management in connection with the annual audit. The Internal Audit Department is responsible for ensuring that the recommendations are promptly followed, and will also periodically report the status of the implementation thereof to the Audit and Risk Management Committee and keep the Management informed with updated information.

Risk Management

With assistance of the Audit and Risk Management Committee, the Board is responsible for evaluating and determining the nature and extent of the risks that it is willing to take in achieving the Company's strategic objectives. With assistance of the Risk Management Department and the Management, the Audit and Risk Management Committee is responsible for ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems. The management's written confirmation on the effectiveness of the risk management and internal control system's structure, their implementation and monitoring to the Board has been set out in the said "Risk Management Report".

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 specifically, the Company received confirmation from the directors that they have complied with the required standards set out in the said manual and the Model Code throughout the year of 2017.

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 Ernst & Young ("EY"), the Group's external auditors, on their audit procedures, and the results were satisfactory. Upon the recommendation of the Audit and Risk Management Committee, the Board had proposed that EY be re-appointed as auditors of the Group. Subject to the approval by the shareholders at the Company's 2018 annual general meeting, the Board will authorize the Audit and Risk Management Committee to determine the remuneration for EY.

For 2017, the total fee charged by EY for audit services was HK$10,848,000 and non-audit services was HK$1,384,000 for the review of the interim financial statements and other services. For 2016, the total fee charged by EY for audit services was HK$10,177,000 and non-audit services was HK$1,209,000 respectively.

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 2017 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 Company and to prevent and detect fraud and other irregularities.

The directors consider that in preparing the financial statements in the 2017 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. Directors ensure that the Financial Statements are prepared so as to give a true and fair view of the financial status, operations and cashflow states of the reporting period.

Effective Disclosure Mechanism and Handing Inside Information

The Board reviews and monitors from time to time the effectiveness of the Company's disclosure process for reports, announcements and price sensitive information. It encourages and takes necessary steps to disclose information in a timely manner and to ensure the information concerning the Company is expressed and communicated in a clear and objective manner that enables the shareholders and the public to appraise the position of the Company to make informed investment decisions.

The Company's "Inside Information Policy" maintains procedures and internal control for the handling and dissemination of its inside information. The Board is aware of its obligations under the Listing Rules. The overriding principle is that information which is expected to be inside information should be announced immediately when it is the subject of a decision. The Company has stated in its "Inside Information Policy" that it has a strict prohibition on the unauthorised use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Company's affairs. A member of the Management Decision Committee is identified and authorised to act as the Company's spokesperson and respond to enquiries in allocated areas of issues.

Communication with Shareholders and Shareholders' Rights

Annual General Meeting

The Board attaches a high degree of importance to non-interrupted communications with shareholders, especially direct dialogue with them at the Company's annual general meetings. Shareholders are encouraged to actively participate in such meetings. Members of the Board, including the Chairman and INEDs, and representatives of EY were present at the Company's 2017 annual general meeting held on 25 May 2017 to address to questions and comments raised by shareholders.

In addition, the Company also provided further information on the 2017 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.

Shareholders' Communication Policy

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

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

Shareholders' Rights

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

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

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

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

  The request –

  (a) must state the general nature of the business to be dealt with at the meeting;

  (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;

  (c) may consist of several documents in like form;

  (d) may be sent in hard copy form or in electronic form to the Company Secretary at the Company's registered office (46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong) or by way of email to ir@everbright.com; and

  (e) must be authenticated by the person or persons making it.

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

- the procedures for making proposals at shareholders' meetings:

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

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

  (b) not fewer than 50 shareholders who have a right to vote on the resolution at the general meeting to which the requests relate.

  The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal, must be deposited at the registered office of the Company (46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong) not less than six weeks before the general meeting. The Company will take appropriate actions and make necessary arrangements, and the shareholders concerned will be responsible for the expenses incurred in giving effect thereto in accordance with the requirements under Sections 615 and 616 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 will 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 will 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@everbright.com. The Company Secretary will direct enquiries received to appropriate Board member(s) or the Chairman of the Board Committee(s) who is in charge of the areas of concern referred therein for further handling. The Board, assisted by the Company Secretary, would make its best efforts to ensure that all such enquiries are addressed in a timely manner.

Investor Relations and Communication

The Company believes that communicating with the shareholders and investors by electronic means (in particular through the Company's website) is an efficient way of delivering information in a timely and convenient manner. An "Investor Relations" section is available on the Company's website at www.everbright.com. Information published on the Company's website is 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 are posted on the website of the Company as soon as possible once the materials are published. The contents published by the Company regarding 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 is 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.

Sustainable Corporate Social Responsibility

The Company attaches great importance to corporate social responsibility. The Board is committed to undertaking corporate social responsibility by strengthening relationship with its stakeholders with a view to contributing to the sustainable development of the economy, society and environment. The Company consistently supports and participates in activities that are beneficial to the community. Please refer to the "Environmental, Social and Governance Report" set out on pages 40 to 61 of this Annual Report.

Company Secretary

The Company Secretary of the Company is the Head of the Legal, Compliance and Company Secretarial Department of the Company 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 Secretary confirmed that for the year under review, he has taken no less than 15 hours of relevant professional training.

The Company Secretary reports to the Chairman and the Chief Executive Officer of the Company. The Company's Articles of Association state that the appointment and removal of the Company Secretary is a matter for the Board. Changes and appointment of Company Secretary are dealt with by a physical Board meeting rather than a written resolution.

The Company Secretary plays an important role in supporting the Board and Board Committees by ensuring good information flow within the Board and that Board policy and procedures are followed. All Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable law, rules and regulations, are followed. The Company Secretary also plays an essential role in the relationship between the Company and its shareholders, including by assisting the Board in the discharge of its obligations to shareholders pursuant to the Listing Rules. The Company Secretary also ensures that the Board and Board Committee members can access all employees, directors, agents or consultants for information, and obtain independent professional opinions at the cost of the Company.

RISK MANAGEMENT REPORT

The Scope of Risk Management & Internal Controls

The Board seeks to achieve an appropriate balance between taking risk and generating returns for shareholders and is accountable for the Company's ongoing monitoring of risk and of the internal controls. It considers the most significant risks facing the Company and the relevant risk management.

Independent Non-executive directors oversight of the risk management process is exercised through the Audit and Risk Management Committee with respect to standards of integrity, financial reporting, risk management and internal controls.

The Chief Risk Officer, who reports directly to the Audit and Risk Management Committee, has responsibility for the risk and control framework of the Company and the independent monitoring and reporting of risks and controls.

Risk Management Framework:

The Company's risk management framework is designed to support the delivery of the Company's strategic objectives. The key principles that underpin risk management in the Company are:

- The Board and the Management Decision Committee promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner; and

- The over-riding priority is to protect the Company's long-term viability and reputation and produce sustainable, medium to long-term returns.

Risk management is embedded within all areas of the business. The Company expects individual behaviors to mirror the culture and core values of the Company. All employees share the responsibility of upholding the Company's risk and control culture and supporting effective risk management to enable the Company to deliver its strategy.

Internal Control Framework:

The Company operates a "three lines of defense" framework for managing and identifying risks.

The first line of defense against undesirable outcomes is the business function and the respective line managers. Department heads of their own business areas take the lead role with respect to implementing and maintaining appropriate controls.

Line management is supplemented by oversight functions, such as Risk Management, Operations, Finance and Accounting, Legal, Compliance and Company Secretarial, which constitute the second line of defense.

Internal Audit provides retrospective, independent assurance over the operation of controls and is the third line of defense. The internal audit program includes reviews of risk management and internal control processes and recommendations to improve the control environment.

Communication of Risk & Internal Control Review Reports

Risk events are captured by the business and assessed and approved through a workflow by the second line of defense. Lessons learned from risk events can require specific reports and periodic updates. Issues can also be raised when there are control failings and inefficient processes identified or through regular continuous monitoring or deep dive reviews by the second and third line of defense teams.

The Audit and Risk Management Committee holds a regular meeting quarterly for assessing control of the Company and the effectiveness of risk management.

The Chief Risk Officer, supported by Risk Management Department and other relevant internal control departments mentioned-above, maintains the Company's risk and internal control review report, which summarises the Company's key risks and internal control matters, key risk indicators, and identified any changes to Company's risk and internal control profile (more details on the Company's risk and internal control review, please refer to the relevant page of Corporate Governance Report).

The risk and internal control review report is updated quarterly and the Chief Risk Officer provides an update at each quarterly Audit and Risk Management Committee meeting where the Committee members contribute views and raise questions to ensure the risk management and internal controls are effective and in place.

Effectiveness of Financial Reporting & Listing Rule Compliance

With support and input from the External Auditor, the Audit and Risk Management Committee has considered, challenged and reviewed financial reporting of the Company, assessed whether suitable accounting policies have been adopted, whether management have been made appropriate estimates and judgments and whether disclosures in published financial statements are fair, balanced and understandable.

The compliance of meeting regulatory requirements (including the Listing Rules' Compliance) is supported by Legal, Compliance and Company Secretarial Department. The Audit and Risk Management Committee has considered and assessed the relevant regulatory compliance through the compliance review section in the quarterly risk and internal control review report. The compliance review has summarised the status of regulatory and compliance matters, corrective actions and the recommendation to the Committee for the enhancements of the relevant compliance matters.

In regard to the above, the Audit and Risk Management Committee has considered the Company's processes for financial reporting and Listing Rules' Compliance is effective.

Process of Assessment and Management of Significant Risks

Chief Risk Officer, supported by Risk Management Department, reviews the business of the Company in order to ensure that business risks are considered, assessed and managed as integral part of the business. There is an ongoing process for identifying, evaluating and managing the Company's significant risks.

The Company's risk assessment process includes the monitoring of key strategic and financial metrics considered to be indicators of potential changes in its risk profile. In addition, the Company considers the impact of any changes and developments on its risk profile, strategic delivery and reputation quarterly.

Additionally, the risk assessment is conducted using a top down approach that is complemented by a bottom up assessment process. The top down approach considers the external environment and the strategic planning process to identify the most consequential and significant risks to the Company. The bottom up approach ensures a comprehensive risk assessment process that identifies and priorities key risks; analyses data to verify key trends; and provide management with a view of events that could impact the achievement of business and process objectives.

The Company uses the above to identify a number of significant risks. It then evaluates the impact and likelihood of each significant risk, with reference to associated measures and key performance indicators. The adequacy of the risk mitigations plans is then assessed and, if necessary, additional actions are agreed and then reviewed.

Main Features of Risk Management and Internal Control

Terms of Reference

The Board operates within clearly defined terms of reference, and it reserves certain matters for its own consideration and decision. It has established appropriate committees, such as the Executive Committee, the Audit and Risk Management Committee, the Nomination Committee, the Remuneration Committee, the Strategy Committee, the Independent Board Committee, to oversee risk and control activities.

These committees also have clearly defined terms of reference. The Board and Committee processes are fundamental to the effectiveness of the Company's risk management and internal control.

Risk Management & Internal Control

The Company maintains a comprehensive risk management and internal control framework and has clearly defined procedures for identifying and escalating risk and internal control concerns throughout the organization. This framework helps the Company to safeguard client assets, protect the interests of all stakeholders and meet our responsibilities as a Hong Kong listed company and parent of a number of regulated entities.

The risk management and internal control framework also form the basis upon which the Board reaches its conclusions on the effectiveness of the Company's risk management and internal control.

Board Responsibility on Risk Management & Internal Control

The Board has overall responsibility for the Company's system of internal control framework, the ongoing monitoring of risk management and internal control and reviewing their effectiveness periodically.

The system of control is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Process of Reviewing the Effectiveness of Risk Management & Internal Control

On behalf of the Board, the Audit and Risk Management Committee carried out the annual assessment of the effectiveness of the risk management and internal control during 2017, including those related to the financial reporting process. In addition, the Committee considered the adequacy of the Company's risk management arrangements in the context of the Company's business and strategy.

In carrying out its assessment, the Committee considered reports from the Chief Financial Officer, Internal Audit Department and also from the External Auditor which enabled an evaluation of the effectiveness of the Company's risk management and internal control, and no significant failings or weaknesses were identified.

The Committee keeps under review the Company's risk management arrangements and internal control through quarterly reports.

The risk and internal control review report sets out changes in the level or nature of the risks faced by the Company, developments in risk management and operational events, including significant errors and omissions (if any). The report also outlines key compliance issues and recommendations for the enhancement of regulatory risk mitigation. This independent report allowed the Committee to consider the key risks and internal control matters faced by the Company and assessments of risk tolerance. Key topics discussed by the Committee included operational, investment, regulatory, legal, counterparty credit, acquisition integration, technology and financial risks, contingent liabilities and internal control.

Internal Audit Department reviews progress against a rolling plan of audits approved by the Committee, and reports significant findings from audits and their subsequent remediation, and recommendations to improve the control environment to the Committee quarterly. The Committee has authority to appoint or remove the Department Head of Internal Audit, who reports directly to the Committee. The Committee is accountable for approving the objectives set by the Department Head of Internal Audit, appraising his/her performance against those objectives and for recommending his/her remuneration to the Company. The Committee also has responsibility for approving the Internal Audit budget and being satisfied that the Internal Audit function has appropriate resources and continues to be effective.

Review of Key Risks

The following table on the following pages summaries the key risks and uncertainties that are inherent within both the Company's business model and the market in which we operate along with the high level controls and processes through which we aim to mitigate them. The risk factors mentioned below do not purport to be exhaustive as there may be additional risks that the Company has not yet identified or has deemed to be immaterial that could have a material adverse effect on the business.

Key Risk	Changes in 2017	Mitigating factors
Financial **Liquidity Risk** • Risk of failing to meet the Company's contractual or payment obligations in a timely manner.	• The Company has continued to hold sufficient cash balances to fulfill its obligations under normal or stressed environment.	• The Company's cash position, available facilities and forecast cash flows are closely monitored by Finance and Accounting Department under the oversight of Risk Management Department. • The Company performs long term forecasts and use stress tests to assess the Company future liquidity and short term forecasts to closely monitor any change of liquidity need.
Financial Leverage Risk • Key risk that arises from high financial leverage occurs when a company's return on asset does not exceed the interest on the loan, which greatly diminishes a company's return on equity and profitability. • Additionally, high financial leverage may raise the risk of failing to fulfill the relevant requirements form loan covenants (if any) and resulting in technical default.	• Higher financial Leverage as a result of the new issue of Panda bonds by the Company and the increasing demand on capital for new investments, yet it is still within a reasonable level.	• The Company has projected the firm-wide cash flows, return and profitability at least annually. After consideration from the perspective on financial control and risk management, the Management advises the Board regarding the optimized financial leverage ratio and relevant limits for approval. • The approved financial leverage ratio and relevant limits are closely monitored by Finance and Accounting Department and Risk Management Department regularly.

Key: Risk level increased Risk level decreased No significant change in risk level

RISK MANAGEMENT REPORT *(CONTINUED)*

Key Risk	Changes in 2017	Mitigating factors
Foreign Currency Risk • Risk that the Company's financial position is exposed to adverse movements in exchange rates.	• Appreciation of RMB during the year has direct or indirect positive impact on the Company's financial position as majority of our assets are invested in RMB. • The new issue of RMB Panda bonds by the Company has further alleviated Company's asset and liability currency mismatch, reducing currency mismatch risk.	• Monitor asset exposures by currency regularly and the foreign currency rate movement. • Improve currency matching between asset and liability, reducing currency mismatch risk. • Perform sensitivity analysis on the effect of change in foreign currency rates.
Interest Rate Risk • Change of the interest rate will have negative impact on the Company and its relevant portfolios if there is an interest rate mismatch of the assets and liabilities.	• Cost of borrowing increased with the increase in the interest rate of USD/HKD. • The new issue of RMB Panda bonds by the Company has reduced the impact caused by the increase in the interest rate of USD/HKD.	• Monitoring on interest rate mismatch and sensitivity test are performed regularly. • The Company has managed to increase the proportion of loans in RMB and Panda bonds to mitigate the impact from the increase in the interest rate of USD/HKD.
Investment **Market Risk** • Risk arises from market movements, which can cause a fall in the value of investments.	• Although equity market and bond market in China and Hong Kong went up in 2017, global financial market uncertainty has generally increased, and downside risk has been accumulating, overall market risk did not decrease.	• Limits on the aggregate amount of seed capital investment and diversification of the assets invested. • The Company actively develops businesses which are fee bases so that our return and profitability are not solely calculated by reference to the market value of investments and AUM.

Key: Risk level increased · Risk level decreased · No significant change in risk level

Key Risk	Changes in 2017	Mitigating factors
Credit Risk • Risk exposed to credit losses if borrowers are unable to repay loans and outstanding interest and fees. • In addition, the Company has exposure to counterparties with which we place deposits or trades, and derivative contracts.	• The Company's provision on loan in percentage did not have significant change and kept at a reasonable level. • Our counterparty risks are broadly unchanged.	We seek to minimize our credit risk from our lending by: • Lending on a majorly secured basis with significantly emphasis placed on the underlying security. • Manage to maintain consistent and conservative loan to value ratios and short-term tenor. • Operating strong control and governance both within business units and with oversight by Risk Management Department. Our exposures to counterparties are mitigated by: • Seek to diversify our exposures across different counterparties. • Continuous monitoring of credit quality of our counterparties within approved set limits.
Operational **Operational Risk** • Risk of losses through inadequate or failed internal processes, people or systems or through external events.	• The Company's Operations Department set up in 2015 expand rapidly and enhance continuously the identification, control and management on operational risks.	• Our control systems are designed to ensure operational risks are mitigated to an acceptable level. • Three lines of defend model abovementioned is key point. • Risk and control assessments are used to identify and assess key operational risks. Associated controls are assessed with regard to their design and performance. Where required, processes and controls are enhanced to improve the control environment. • We manage risk events through identification, reporting and resolution with the aim of preventing risk events from recurring. • Relevant trading/investment management systems are implemented and enhanced continuously to mitigate relevant operational risks.

Key: Risk level increased   Risk level decreased   No significant change in risk level

Key Risk	Changes in 2017	Mitigating factors
Legal and Regulatory Risk • Changes to the existing legal, regulatory and tax environments and failure to comply with existing requirements may materially impact the Company. • Failing to treat customers fairly, safeguard client assets or provide advice/products contrary to clients' best interest may damage our reputation and may lead to legal or regulatory sanctions including litigation and customer redress. This applies to current, past and future business.	Risk level increased • The changes in legal and regulatory requirements in recent years lead to additional reporting requirements, operational complexity and cost to the Company.	• Legal, Compliance and Company Secretarial Department tracks legal and regulatory developments to ensure the Company is prepared for both local and global changes. In addition to developing policies, delivering training and performing monitoring checks, they provide advice to other departments to ensure compliance with legal and regulatory requirements. They also work with project groups to implement key regulatory changes. • Governance and control processes to review and approve new funds/products. • Training for relevant staff regarding the legal and regulatory requirements for running the Company's businesses. • Continuous monitoring of key legal, regulatory and tax developments to anticipate their potential impact.
Information Technology Risk • Risk of failure to keep up with changing customer expectations or manage upgrades to existing technology may impact the Company performance.	No significant change in risk level • The Company continued to invest and upgrade its IT infrastructure and systems, including corporate data warehouse, investment management system and order management system.	• The Company continues to invest in its IT infrastructure, data management system, reporting system and other software/systems. • We has strong governance in place to oversee our major IT projects. • We have in place business continuity and disaster recovery plans.

Key: Risk level increased Risk level decreased No significant change in risk level

Key Risk	Changes in 2017	Mitigating factors
Loss of Key Personnel Risk • Risk of failure to recruit or retain appropriately skilled and experienced staff may have a material adverse effect on the Company's operations and implementation of its strategy.	• Annual staff turnover generally has no significant change in 2017.	• The Company seeks to attract, develop, encourage and retain staff through comprehensive human resources policy. • Improve staff performance by comprehensive and transparent appraisal policy. • Design and implement appropriate remuneration and benefit packages to maintain employee loyalty. • Contracts for relevant roles have restrictive covenants and enhanced notice periods are in place for key staff. • Comprehensive training is offered to all staff for personal and team development. • We have teams with complementary skill sets and this team based approach seeks to avoid reliance on any one individual.
Reputational		
Reputational Risk • Risk that negative publicity regarding the Company will lead to client redemptions and a decline in AUM and revenue. • The risk of damage to the Company's reputation is more likely as a result from one of the other key risks materializing rather than as a standalone risk.	• The Company's brand continued to strengthen in recent years as evidence by positive feedback from clients, increasing AUM and social recognition.	• High standards of conduct and a principled approach to regulatory compliance are integral to our corporate culture and values. We consider key reputational risks when initiating changes in strategy or operating model. • Reputational risk is primarily mitigated through the effective mitigation of the other key risks. • Our risk appetite, risk and compliance policies, governance structures and reward mechanism include significant focus on issues and behaviors that could positively affect the Company's reputation.

Key: Risk level increased   Risk level decreased   No significant change in risk level

DIRECTORS' REPORT

The board of directors hereby presents the Annual Report together with the audited financial statements of China Everbright Limited ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31 December 2017.

Principal Activities and Business Review

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. Further discussion and analysis of these activities and business review as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 26 to 39, the Risk Management Report set out on pages 84 to 91 respectively of this Annual Report. The discussion on the Group's environmental policies and performance, the Group's key relationships with employees, customers and suppliers, and the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, can be found in the ESG Report set out on pages 40 to 61 of this Annual Report. These discussions form part of this Directors' Report.

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 notes 4 and 41 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2017 are set out on page 114 of this Annual Report.

The directors recommend the payment of a final dividend of HK$0.6 per share for the year ended 31 December 2017 (2016: HK$0.5 per share).

Major Customers and Suppliers

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

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

Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 195 of this Annual Report.

Property, Plant and Equipment and Investment Properties

Movements in property, plant and equipment and investment properties are set out in note 15 to the financial statements.

Properties

Particulars of major properties held by the Group as at 31 December 2017 are set out on page 196 of this Annual Report.

Charitable Donations

Charitable donation made by the Group for the year ended 31 December 2017 amounted to HK$24,026,000.

Subsidiaries, Associates and Joint Ventures

Details of the Company's principal subsidiaries, associates and joint ventures as at 31 December 2017 are set out in notes 16, 17 and 18 to the financial statements respectively.

Bank Loans

Particulars of bank loans of the Group as at 31 December 2017 are set out in note 25 to the financial statements.

Bond Payable

Particulars of bond payable of the Group as at 31 December 2017 are set out in note 28 to the financial statements.

Share Capital

Details of the movement in share capital of the Company during the year are set out in note 30 to the financial statements.

Purchase, Sale or Redemption of Listed Securities

There were no purchases, sales or redemptions of the Company's listed securities by the Company during the year.

Reserves

Distributable reserves of the Company as at 31 December 2017 as calculated under the Companies Ordinance amounted to HK$2,058,280,000 (2016: HK$1,424,579,000). The movement in the Company's reserves are set out in note 32 to the financial statements.

Borrowings and Interest Capitalised

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

Equity-Linked Agreements

Save as disclosed in this Annual Report, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

Connected Transaction

The connected transaction disclosed in accordance with the Listing Rules on the Stock Exchange is as follows:-

On 28 November 2017, 宜興光控投資有限公司 ("CEL Yixing") (a wholly owned subsidiary of the Company) entered into a transfer agreement (the "Transfer Agreement") with Everbright Pramerica Assets Management Co., Ltd. ("Everbright Pramerica") (for and on behalf of the asset management scheme (the "Asset Management Scheme") established under 光大保德信光大安心債1號資產管理計劃), pursuant to which CEL Yixing has agreed to transfer, and Everbright Pramerica (for and on behalf of the Asset Management Scheme) has agreed to acquire the corresponding trust beneficial rights and all rights and obligations of the principal of the assembled funds trust scheme established under 平安盈港通10號集合資金信託計劃 in the sum of RMB46,592,434.65 at a consideration of RMB59,000,000.

China Everbright Group Ltd. ("CE Group"), through its wholly owned subsidiary China Everbright Holdings Company Limited ("CE Hong Kong"), is interested in approximately 49.74% of the total issued share capital of the Company and is a controlling shareholder of the Company. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Everbright Pramerica is an associate of CE Group. Accordingly, Everbright Pramerica is a connected person of the Company pursuant to the Listing Rules and the transactions contemplated under the Transfer Agreement constitute a connected transaction for the Company under Chapter 14A of the Listing Rules.

The above transaction was subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement as set out in Chapter 14A of the Listing Rules.

Continuing Connected Transaction

Set out below is the information in relation to certain continuing connected transactions involving the Company and/or its subsidiaries, particulars of which were previously disclosed in the announcements of the Company and are required under the Listing Rules to be disclosed in the annual report and financial statements of the Company.

CE Group is the holder of 100% of the equity interest in CE Hong Kong. CE Hong Kong is the indirect controlling shareholder of the Company which indirectly holds approximately 49.74% equity interest in the Company. Accordingly, CE Group is a controlling shareholder of the Company, and thus CE Group and its associates are connected persons of the Company. The ongoing arrangements between the Group and CE Group and its associates entered into (including, among other things, deposit services, asset management services, brokerage services, custodian services and tenancy agreement) are continuing connected transactions of the Company.

(1) Deposit Services

CE Group through its associate China Everbright Bank ("CE Bank"), provides deposit services to the Group, including current and fixed term deposits. The deposit services are subject to the standard terms and conditions of CE Group and its associates. The Company monitors the ongoing transaction amounts of the Deposit Services and setting out that the aggregate maximum daily bank balance maintained with CE Bank to be lower than the annual cap calculated with reference to 5% of the relevant applicable percentage ratios in accordance with the Listing Rules. In particular, the annual cap for the transactions of Deposit Services was calculated daily with reference to 5% of the daily market capitalization of the Company and during the year ended 31 December 2017, none of the daily aggregate bank balance maintained with CE Bank exceed the annual cap calculated at 5% of the relevant applicable percentage ratios.

(2) Asset management services, brokerage services and custodian services

On 14 May 2015, the Company entered into the following framework agreements (collectively the "Framework Agreements") with CE Group setting out the basis upon which members of the Group to carry out the transactions contemplated under the Framework Agreements with CE Group and/or its associates for the three financial years ended 31 December 2017. The duration of the Framework Agreements was commenced on 14 May 2015 and expired on 31 December 2017. CE Group, being the controlling shareholder of the Company, is a connected person of the Company under the Listing Rules and therefore the entering into of the Framework Agreements by the Company and the transactions contemplated under the Framework Agreements constitute continuing connected transactions of the Company under the Listing Rules.

(a) Finance Lease Services

Although the Group has not yet provided any finance lease services to CE Group, the Group has begun to leverage on its resources, including business connections and expertise, to develop finance leasing business with CE Group.

Material terms:

- The Group shall provide finance leasing to relevant members of CE Group in respect of assets to be set out in each individual agreement by the parties thereto, by means of the Group acquiring assets from CE Group and leasing them back to CE Group.
- The finance leasing provided shall be on normal commercial terms which are arrived at upon arm's length negotiations and are no less favourable than those available to similar or comparable independent third parties.
- The finance lease services provided under the Finance Lease Framework Agreement shall be non-exclusive. CE Group is at liberty to obtain finance lease services from third parties and the Group is at liberty to provide third parties with finance lease services.

The annual cap for the transactions under the Finance Lease Services Framework Agreement for the year ended 31 December 2015, 31 December 2016 and 31 December 2017 are all set at HK$4,000,000,000. There were no relevant transactions during the year ended 31 December 2017.

(b) Asset Management Services

The Group provides asset management services (including investment advisory services) to relevant members of CE Group.

Material terms:

- The Group shall provide asset management services (including investment advisory services) to CE Group in respect of assets in the asset management services accounts designated by CE Group.
- The asset management services (including investment advisory services) provided shall be on normal commercial terms which are arrived at upon arm's length negotiation and are no less favourable than those available to similar or comparable independent third parties offered by the Group.
- The asset management services (including investment advisory services) provided under the Asset Management Services Framework Agreement shall be non-exclusive. CE Group is at liberty to obtain asset management services (including investment advisory services) from third parties and the Group is at liberty to provide third parties with asset management services (including investment advisory services).

The annual cap for the transactions under the Asset Management Services Framework Agreement for the year ended 31 December 2015, 31 December 2016 and 31 December 2017 are set at HK$360,000,000, HK$720,000,000 and HK$1,200,000,000 respectively. The transaction amount under the Asset Management Services Framework Agreement for the year ended 31 December 2017 was approximately HK$21,553,000.

(c) Brokerage Services

The Group places cash, equity and debt securities in brokerage accounts with CE Group and its associates, and CE Group and its associates provide brokerage and ancillary services to the Group for customers of the Group, funds established and/or managed by members of the Group as well as proprietary trading of members of the Group (where such transactions constitute continuing connected transactions of the Company under the Listing Rules) in accordance with the relevant rules and regulations, as well as custodianship of the cash, equity and debt securities.

Material terms:

- CE Group and its associates shall provide to the Group for customers of the Group, funds established and/or managed by members of the Group as well as proprietary trading of members of the Group (where such transactions constitute continuing connected transactions of the Company under the Listing Rules) brokerage and ancillary services in accordance with the relevant rules and regulations, and custodianship of the cash, equity and debt securities.

- The brokerage services provided shall be on normal commercial terms which are arrived at upon arm's length negotiations and are no less favourable than those obtained by the Group from independent third parties, and on terms no less favourable than the most favourable terms offered by CE Group and its associates to similar or comparable independent third party customers.

- The brokerage services provided under the Brokerage Services Framework Agreement shall be non-exclusive and the Company is at liberty to obtain brokerage services from third parties.

The annual cap for the transactions under the Brokerage Services Framework Agreement for the year ended 31 December 2015, 31 December 2016 and 31 December 2017 are all set at HK$28,000,000. The transaction amount under the Brokerage Services Framework Agreement for the year ended 31 December 2017 was approximately HK$46,000.

(d) Custodian Services

CE Group and its associates provide custodian services to the Group, including safekeeping of assets in custodian accounts, monitoring of investment activities, and reporting. The transactions are conducted through custodian accounts opened with CE Group and its associates in the relevant Group company's name.

Material terms:

- CE Group and its associates shall provide to the Group custodian services including safekeeping of assets in custodian accounts, monitoring of investment activities, and reporting.

- The custodian services provided shall be on normal commercial terms which are arrived at upon arm's length negotiations and are no less favourable than those obtained by the Group from independent third parties, and on terms no less favourable than the most favourable terms offered by CE Group and its associates to similar or comparable independent third party customers.

- The custodian services provided under the Custodian Services Framework Agreement shall be non-exclusive and the Company is at liberty to obtain custodian services from third parties.

The annual cap for the transactions under the Custodian Services Framework Agreement for the year ended 31 December 2015, 31 December 2016 and 31 December 2017 are all set at HK$28,000,000. The transaction amount under the Custodian Services Framework Agreement for the year ended 31 December 2017 was approximately HK$810,000.

(3) Tenancy agreement

On 22 November 2017, CEL Management Services Limited ("CELMS"), a wholly-owned subsidiary of the Company, as the tenant, entered into a tenancy agreement ("Tenancy Agreement") with Newepoch Group Limited, a wholly-owned subsidiary of CE Hong Kong, as the landlord, for leasing office premises situated on Rooms 4101, 4105 and 4106, 41st Floor of Far East Finance Centre, No. 16 Harcourt Road, Hong Kong, for a term of 3 years from 22 November 2017 and to 21 November 2020 at a monthly rental of HK$779,786, exclusive of rates and management fees and other charges.

The annual caps for the Tenancy Agreement for the Company's financial years ended 31 December 2017 and three years ending 31 December 2018, 31 December 2019 and 31 December 2020 shall not exceed HK$252,000, HK$9,358,000, HK$8,578,000 and HK$7,547,000 respectively. The transaction amount under the Tenancy Agreement for the year ended 31 December 2017 was approximately HK$252,000.

Reviewed by independent non-executive directors and the auditor

The independent non-executive directors had reviewed the above continuing connected transactions for the year ended 31 December 2017 and confirmed that the transactions were:

(a) entered into in the ordinary and usual course of business of the Group;

(b) conducted on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and

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

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Directors

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

Executive Directors:

Dr. Cai Yunge, Chairman
Mr. Chen Shuang, Chief Executive Officer
Mr. Tang Chi Chun, Richard, Chief Financial Officer
Mr. Zhang Mingao, Chief Investment Officer
Mr. Yin Lianchen, Chief Investment Officer

Non-executive Director:

Mr. Tang Shuangning (resigned on 16 March 2018)

Independent Non-executive Directors:

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

The Company has received an annual confirmation of independence from each of three Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules and the Company considers all the INEDs to be independent.

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 Chi Chun, Richard, Mr. Seto Gin Chung, John and Dr. Chung Shui Ming, Timpson, being directors who have been longest in office since their last re-election, shall retire by rotation. The Company has received a letter from Mr. Seto Gin Chung, John confirming that he will not seek for re-election at the Annual General Meeting. Mr. Tang Chi Chun, Richard and Dr. Chung Shui Ming, Timpson, being eligible, will offer themselves for re-election at the Annual General Meeting. In addition, in accordance with Article 87, Mr. Zhang Mingao and Mr. Yin Lianchen, being new Directors appointed by the Board during the year, will retire and, being eligible, will offer themselves for re-election at the Annual General Meeting.

Director of Subsidiaries

Other than certain directors and senior management named in the section headed "Directors and Senior management" as set out on pages 105 to 108 of this Annual Report, the name of persons who have served on the board of the subsidiaries of the Company during the financial year ended 31 December 2017 are available on the Company's website under "Investor Relations" columns.

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

As at 31 December 2017, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (as defined by Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under section 352 of the SFO are as follows:

1a. Long position in shares of the Company:

Name of director	Total	Personal interest	Family interest	Corporate interest	% of total issued Shares
Tang Chi Chun, Richard	719,000	719,000	–	–	0.04
Yin Lianchen	26,000	26,000	–	–	0.00
Chung Shui Ming, Timpson	50,000	50,000	–	–	0.00

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

Name of director	Total	Personal interest	Family interest	Corporate interest	% of total issued Shares
Yin Lianchen	160,000	160,000	–	–	0.00

1c. Long position in shares of associated corporation of the Company, namely China Aircraft Leasing Group Holdings Limited ("CALC"):

Name of director	Total	Personal interest	Family interest	Corporate interest	% of total issued Shares
Chen Shuang	400,000	400,000	–	–	0.06
Tang Chi Chun, Richard	200,000	200,000	–	–	0.03

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

3. Long position in underlying shares of equity derivatives of associated corporation of the Company, namely CALC:

Name of directors	Capacity/nature of interest	Number of underlying shares held	Approximately % of issued shares
Chen Shuang	beneficial owner	10,000,000 (Note)	1.47

Note: These interests represented the interests in underlying shares in respect of the share options granted by CALC to its directors pursuant to its Post-IPO Share Option Scheme.

As at 31 December 2017, save as disclosed herein, none of the directors and chief executives of the Company had interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO as recorded in the register of directors' and chief executives' interests and short positions.

Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in this Annual Report, no transactions, arrangements or 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 or his connected entities had a material interest, whether directly or indirectly, subsisted 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' and Other Persons' Interest and Short Positions in Shares and Underlying Shares

The Company has been notified of the following interests in the Company's issued shares at 31 December 2017 amounting to 5% or more of the ordinary shares in issue:

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

Notes:

(1) Huijin is indirectly wholly-owned by the State Council of the People's Republic of China and holds 55.67% equity interest of China Everbright Group.

(2) China Everbright Group holds 100% of the issued shares of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong holds (1) 100% of the issued shares of Datten Investments Limited ("Datten") which in turn holds 100% of the issued shares of Honorich Holdings Limited ("Honorich") and (2) 100% of the issued shares of Everbright Investment and Management Limited ("EIM"), respectively. Out of the 838,306,207 ordinary shares, 832,273,207 ordinary shares are held by Honorich. The remaining 6,033,000 ordinary shares are held by EIM. Accordingly, China Everbright Group is deemed to be interested in 832,273,207 ordinary shares held by Honorich and 6,033,000 ordinary shares held by EIM.

Save as disclosed above, as at 31 December 2017, the directors were not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Permitted Indemnity Provision

The Articles of Association of the Company provides that subject to provisions of the Companies Ordinance, every director or other officer of the Company, shall be indemnified out of the asset of the Company against all cost, charges, expenses, losses and liabilities which he or they may sustain or incur in or about the execution of his or their office or otherwise in relation thereto.

The Company has taken out insurance against the liabilities and costs associated with defending any proceedings which may be brought against the directors and other officers of the Company and its subsidiaries.

Competing Interest

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

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".

Audit and Risk Management Committee

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

The Audit and Risk Management Committee and the Management have reviewed the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group for the year ended 31 December 2017. The terms of reference of the Audit and Risk Management Committee and a summary of the duties discharged in 2017 have been set out in the section on "Corporate Governance Report".

Retirement Schemes

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

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

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

The Group's total contributions to these schemes charged to the consolidated statement of profit or loss during the year ended 31 December 2017 amounted to approximately HK$2.9 million.

Sufficiency of Public Float

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

Other Information

Final Dividend

The Board has resolved to recommend the payment of a final dividend of HK$0.6 per share for the year ended 31 December 2017 (2016: HK$0.5 per share). Together with the interim dividend of HK$0.25 per share already paid, the aggregate dividend for the year is HK$0.85 per share (2016: HK$0.75 per share).

The final dividend, subject to shareholders' approval at the forthcoming annual general meeting, is expected to be paid on Thursday, 21 June 2018 to those shareholders whose names appeared on the register of members of the Company on Monday, 11 June 2018.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 11 May 2018 to Thursday, 17 May 2018, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for attendance of the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 10 May 2018.

The register of members of the Company will also be closed from Friday, 8 June 2018 to Monday, 11 June 2018, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 7 June 2018.

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

On 18 December 2015, the Company as borrower entered into a facility letter with an independent third party bank as lender for an uncommitted revolving loan facility of up to US$300 million (or in equivalent Hong Kong dollars or Renminbi) with maturity date falling on 31 March 2018. Under the said facility letter, it will be an event of default if CE Hong Kong ceases to be the single largest shareholder of the Company. Upon the occurrence of the above event, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 18 December 2015, a wholly owned subsidiary of the Company as borrower, the Company as guarantor entered into a facility agreement with a syndicate of banks for a term loan of up to US$200 million (or its equivalent in Hong Kong dollars or Renminbi) for a period of 36 months from the date of the said facility agreement. Under the said facility agreement, it will be an event of default if CE Hong Kong ceases to maintain its stance as the single largest shareholder to exercise management control in the Company. Upon the occurrence of the above event, the facilities under the said facility agreement together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 15 July 2016, a wholly owned subsidiary of the Company as borrower, the Company as guarantor entered into a facility letter with an independent third party bank as lender for a term loan of up to US$150 million (or in equivalent Hong Kong dollars or Renminbi) for a period of 5 years from the signing date of the said facility letter. Under the said facility letter, it will be an event of default if CE Hong Kong ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 22 July 2016, a wholly owned subsidiary of the Company as borrower, the Company as guarantor entered into a facility letter with an independent third party bank as lender for a term loan of up to US$100 million (or in equivalent Hong Kong dollars or Renminbi) for a period of 36 months from the signing date of the said facility letter. Under the said facility letter, it will be an event of default if CE Hong Kong ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 28 July 2016, the Company as borrower entered into a facility agreement with an independent third party bank as lender for a term loan facility of up to US$200 million (or in equivalent Hong Kong dollars or Renminbi). The facilities under the said facility agreement shall be for a period of 60 months from the date of the said facility agreement if denominated in United States dollars or Hong Kong dollars and for a period of 36 months from the date of the said facility agreement if denominated in Renminbi. Under the said facility agreement, it will be an event of default if CE Hong Kong (i) ceases to beneficially own at least 45% of the total issued share capital of the Company or (ii) ceases to be the single largest shareholder or maintain management control of the Company or (iii) ceases to be beneficially wholly owned, directly or indirectly, by a state body in the People's Republic of China. Upon the occurrence of any of the above events, the facilities under the said facility agreement together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 10 February 2017, a wholly owned subsidiary of the Company as borrower, the Company as guarantor entered into a facility agreement with an independent third party bank as lender for a term loan of up to HK$1.5 billion (or in equivalent United States dollars or Renminbi) for a period of 36 months from the date of the said facility agreement. Under the said facility agreement, it will be an event of default if CE Hong Kong (i) ceases to beneficially own at least 45% of the total issued share capital of the Company or (ii) ceases to be the single largest shareholder or maintain management control of the Company or (iii) ceases to be beneficially wholly-owned, directly or indirectly, by a state body of the People's Republic of China. Upon the occurrence of any of the above events, the facilities under the said facility agreement together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 16 March 2017, a wholly owned subsidiary of the Company as borrower, the Company as guarantor entered into a facility letter with an independent third party bank as lender for (i) a term loan of up to US$100 million (or in equivalent Hong Kong dollars or Renminbi) for a period of 36 months from the signing date of the said facility letter; (ii) a term loan of up to US$300 million (or in equivalent Hong Kong dollars or Renminbi) for a period of 60 months from the signing date of the said facility letter; and (iii) a revolving loan and/or standby letters of credit of up to US$150 million (or in equivalent Hong Kong dollars or Renminbi) being subject to annual review by such lender. Under the said facility letter, it will be an event of default if CE Hong Kong (i) ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company; or (ii) ceases to be beneficially wholly-owned, directly or indirectly, by a state body of the People's Republic of China. Upon the occurrence of any of the above events, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 13 April 2017, the Company entered into a facility letter pursuant to which an independent third party bank has agreed to grant a revolving and term loan of up to HK$1.5 billion (or its equivalent in the United States dollars or Renminbi) for a period of 3 years from the signing date of the said facility letter. Under the said facility letter, it will be an event of default if CE Hong Kong ceases to be the single largest shareholder of the Company. Upon the occurrence of the above event, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 31 July 2017, the Company as borrower entered into a facility agreement with an independent third party bank as lender for a term loan of up to US$80 million (or in equivalent Hong Kong dollars) for a period of 60 months from the date of the said facility agreement. Under the said facility agreement, it will be an event of default if CE Hong Kong (i) ceases to beneficially own, directly or indirectly, at least 40% of the total issued share capital of the Company or (ii) ceases to be beneficially wholly-owned, directly or indirectly, by a state body of the People's Republic of China. Upon the occurrence of any of the above events, the facilities under the said facility agreement together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

As at 31 December 2017, the circumstances giving rise to the obligations under Rules 13.18 of the Listing Rules continued to exist.

Auditors

KPMG retired as the auditors of the Company and did not seek for re-appointment at 2016 annual general meeting ("2016 AGM") of the Company held on 18 May 2016.

Ernst & Young ("EY") was appointed as the auditors of the Company at the 2016 AGM in place of the retiring auditors KPMG.

EY will retire and, being eligible, will offer themselves for re-appointment. A resolution for the re-appointment of EY as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Save as disclosed above, there has been no other change in auditors of the Company in any of the preceding three years.

By order of the Board
China Everbright Limited
Cai Yunge
Chairman

Hong Kong, 28 March 2018

DIRECTORS AND SENIOR MANAGEMENT

Director

Dr. Cai Yunge

Chairman

Dr. Cai Yunge, aged 46, is the Chairman of the Board of the Group. Dr. Cai is the Deputy General Manager of China Everbright Group Limited, the Vice-chairman and General Manager of China Everbright Holdings Company Limited, and Executive Director and Chairman of China Everbright International Limited (Stock Code: HK257). Currently he is the Vice Chairman of The Hong Kong Chinese Enterprises Association. He holds a master degree in Business Administration from The University of Warwick, UK and a doctoral degree in Economics from the Financial Research Institute of the People's Bank of China. He holds the title of Senior Economist. Before joining the Company, Dr. Cai has served as the Secretary to the board, the General Manager of Executive Office of China Everbright Bank Company Limited (Stock Code: HK6818, SH601818), Deputy Chief of the Development and Reform Commission of Guangdong Province, Division Chief of the General Office and Deputy Division Chief of Banking Supervisory Department II of the China Banking Regulatory Commission. He joined the Board in November 2016.

Mr. Chen Shuang, *Justices of the Peace*

Chief Executive Officer

Mr. Chen Shuang, JP, aged 50, is a Member of the Executive Committee and the Strategy Committee of the Board, the Chief Executive Officer and the Chairman of the Management Decision Committee of the Group. He is responsible for the overall operation of the Group. Mr. Chen is also an Executive Director and Deputy General Manager of` China Everbright Holdings Company Limited and an Executive Director and Chairman of China Aircraft Leasing Group Holdings Limited (stock code: HK1848). He is the Chairman of Everbright Jiabao Co., Ltd. (stock code: SH600622). He is currently a Non-official Member of Financial Services Development Council, the Permanent Honorary Chairman of Chinese Financial Association of Hong Kong, the Chairman of Hong Kong Aircraft Leasing and Aviation Finance Association, the Visiting Professor of East China University of Political Science and Law, the Vice-Chairman of China Mergers and Acquisitions Association, the Vice-Chairman of Chinese Securities Association of Hong Kong, the Strategic Committee Member of France China Foundation and the Council Member of Chinese Foundation for Lifeline Express. 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 25 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 56, is the Chief Financial Officer of the Group. He has overall responsibility for the financial resources planning, allocation, control and reporting; with the focus for efficient and effective implementation of the Group's strategic and operation goals. Mr. Tang is a Member of Executive Committee of the Board. Mr. Tang is a Non-executive Director of China Aircraft Leasing Group Holdings Limited (stock code: HK1848). He was a Director of Everbright Securities Company Limited (stock code: SH601788, HK6178) from February 2008 to January 2011. Mr. Tang is a Certified Public Accountant and is a graduate of the Accountancy Department, Hong Kong Polytechnic (now known as Hong Kong Polytechnic University). He is a Member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a Founding Member of Hong Kong Business Accountants Association. He has over 30 years of experience in audit, investment, accounting and finance. Since 1990, Mr. Tang had been engaged as head of the financial and operational functions of various international financial institutions. He joined the Group in September 2005 and joined the Board in July 2007.

Mr. Zhang Mingao

Chief Investment Officer

Mr. Zhang Mingao, aged 50, is a Member of the Executive Committee and the Strategy Committee of the Board, the Chief Investment Officer and a Member of the Management Decision Committee of the Group. He was the General Manager of Asset Management Department of China Everbright Bank Company Limited (stock code: SH601818, HK6818) ("Everbright Bank"). Since Mr. Zhang joined Everbright Bank in 1999, he was the Risk Director of Everbright Bank (Suzhou Branch), the Risk Director of SME Department of Everbright Bank (Headquarter), and the President of Everbright Bank (Wuxi Branch). Mr. Zhang holds a Bachelor of Economics degree in Rural Financial Professional from Nanjing Agricultural University. He has over 28 years of experience in the financial industry and management. He joined the Board in December 2017.

DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

Mr. Yin Lianchen

Chief Investment Officer

Mr. Yin Lianchen, aged 52, is a Member of the Executive Committee and the Strategy Committee of the Board, the Chief Investment Officer and a Member of the Management Decision Committee of the Group. He is also a Director of Everbright Securities Company Limited (stock code: SH601788, HK6178) and a Member of board of supervisors of China Everbright Bank Company Limited (stock code: SH601818, HK6818). Mr. Yin was the Officer of the Beijing Head office of China Everbright Group Limited, prior to joining our Group. He was formerly the Vice President of Beijing Yonder Environment Engineering Company Limited and the Chief Representative of China of Moody's KMV. He was the General Manager of the Human Resource and Corporate Administration Department, the Director of Corporate Communications Department and Managing Director of the Insurance Brokerage Department successively of the Group from 2002 to 2006. He was also worked for several key positions in People's Bank of China Headquarter from 1990 to 2001. Mr. Yin holds a Bachelor degree of Management and Master degree of Accounting from Tianjin Nankai University. Mr. Yin has rich experience in financial and corporate management. Mr. Yin joined the Board in June 2017.

Mr. Seto Gin Chung, John

Independent Non-executive Director

Mr. Seto Gin Chung, John, aged 69, 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: HK34) and the Chairman and Independent Non-executive Director of Hop Hing Group Holdings Limited (stock code: HK47). Mr. Seto was a Non-executive Director of Sateri Holdings Limited (stock code: HK1768) from 2010 to 2013. He was an Independent Director of Everbright Securities Company Limited, a company incorporated in PRC, from 2005 to 2007. He was the Chief Executive Officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a Non-executive Director of Hong Kong Exchanges and Clearing Limited (stock code: HK388) 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 38 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 63, 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 Associate Vice Precident and the Dean of the School of Business in Macau University of Science and Technology. During August 1998 to December 2014, he was a Professor and Head of the Department of Accountancy and Law in Hong Kong Baptist University. He is also an Independent Non-executive Director of Sinotruk (Hong Kong) Limited (Stock Code: HK3808), SpringLand International Limited (stock code: HK1700), Dali Foods Group Company Limited (Stock Code: HK3799), CITIC Dameng Holdings Limited (Stock Code: HK1091) and BOCOM International Holdings Company Limited (Stock Code: HK3329). All are listed on the Stock Exchange of Hong Kong Limited. Dr. Lin holds a Master's degree in Science in Accounting from University of Saskatchewan in Canada and a Doctorate's degree in Economics (Accounting) from Xiamen University. Dr. Lin worked as a Visiting Professor in The University of Hong Kong and Tenured Professor in the Faculty of Management of Lethbridge University in Canada. Dr. Lin worked at the Toronto office of an international accounting firm (now known as "Deloitte") in 1982-1983. 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. Dr. Lin is also an Author of a series of professional articles and books. Dr. Lin joined the Board in September 2005.

Dr. Chung Shui Ming, Timpson, *Gold Bauhinia Star, Justices of the Peace*

Independent Non-executive Director

Dr. Chung Shui Ming, Timpson, GBS, JP, aged 66, is a Member of the National Committee of the 13th Chinese People's Political Consultative Conference. He is also the Pro-Chancellor of City University of Hong Kong. Besides, Dr. Chung is an Independent Non-Executive Director of China Unicom (Hong Kong) Limited (stock code: HK762), Glorious Sun Enterprises Limited (stock code: HK393), Miramar Hotel and Investment Company, Limited (stock code: HK71), China Overseas Grand Oceans Group Limited (stock code: HK81), China Construction Bank Corporation (stock code: HK939), Jinmao (China) Hotel Investments and Management Limited (stock code: HK6139) and China Railway Group Limited (stock code: HK390, SH601390). Dr. Chung was an Independent Director of China State Construction Engineering Corporation Limited (stock code: SH601668 from December 2007 to January 2018). From November 2012 to June 2016, Dr. Chung served as an Independent Non-executive Director of Henderson Land Development Company Limited (stock code: HK12). Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a Member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of the Hong Kong Special Administrative Region, a Member of the Managing Board of the Kowloon-Canton Railway Corporation, a Member of the Hong Kong Housing Authority and a Member of the Disaster Relief Fund Advisory Committee. Dr. Chung holds a Bachelor of Science degree from the University of Hong Kong and a Master's degree in Business Administration from the Chinese University of Hong Kong. Dr. Chung also received an Honorary Doctoral degree in Social Science from the City University of Hong Kong in 2010. Dr. Chung is a Fellow Member of the Hong Kong Institute of Certified Public Accountants. Dr. Chung joined the Board in August 2012.

Senior Management

Mr. Tsang Sui Cheong, Frederick

Mr. Tsang Sui Cheong, Frederick, aged 58, is the Chief Risk Officer of the Group and a Member of the Management Committee. He is in charge of the group's risk matters. Mr. Tsang is a Chartered Financial Analyst and was President of The Hong Kong Society of Financial Analysts Limited from 2012 to 2015. In November 2016, Mr. Tsang has been appointed as a Member of the Process Review Panel for the Securities and Futures Commission, for a term from November 2016 to October 2018. He was also appointed as a Member of the Hong Kong Securities and Futures Commission's (SFC) Advisory Committee, from 2011 to 2017, Mr. Tsang was a Member of the Securities and Futures Appeals Tribunal from 2009 to 2015. He is a holder of Bachelor's degree in Arts and Master's degree in Arts, majored in Economics and Finance. Mr. Tsang joined the Group in February 2000. He has over 33 years of experience in the financial industry.

Ms. Wong Tung Hung

Ms. Wong Tung Hung, aged 49, is the Chief Administration Officer of the Group and a Member of Management Decision Committee, mainly responsible for management of human resources, information technology and corporate administration of the Group. She has extensive human resources and administration experience in both China and Hong Kong and has been working in the Group for more than 20 years. Ms. Wong holds a Bachelor degree in Arts from Fudan University. Prior to joining the Group, Ms. Wong worked in several well-known mass media in both China and Hong Kong.

Mr. Yang Ping

Mr. Yang Ping, aged 48, is the Chief Investment Officer and a Member of Management Decision Committee of the Company. He is in charge of Asset Management business of Secondary Market Investment. Previously, he was responsible for the establishment, investment and management of Macquarie Everbright Greater China Infrastructure Fund and Everbright Ashmore China Real Estate Fund. Before joining China Everbright Limited, he served as Head of the Research Institute of China Southern Securities Co. Ltd. and a Private Equity fund in China, where he was responsible for macro-industry & company research, investment of the PE fund and achieved excellent performance. The restructuring project Xiang Zhong Yi (now renamed as Hunan Investment) conducted by Mr. Yang was the first ST listed company "whole restructuring" case in China and was ranked Top Ten Influential Restructuring Case by Security News in 1999. He received a PhD degree in Economics from The Shanghai Academy of Social Sciences and Bachelor degree of Law from East China University of Political Science and Law. Mr. Yang has over 21 years' experience in securities research and asset management. Mr. Yang joined the Group in December 2007.

DIRECTORS AND SENIOR MANAGEMENT *(CONTINUED)*

Mr. Pan Ying

Mr. Pan Ying, age 48, is the Chief Investment Officer and a Member of the Management Decision Committee of the Group. He is responsible for Everbright Jiabao and EBA Investment's real estate business, Everbright Prestige Capital and CEL Financial Technology business. He also assists to manage the Super Project Acquisition Fund Department I & II. Prior to joining the Group, he worked for the Foreign Exchange Reserve Department of SAFE (China's State Administration of Foreign Exchange), and established SAFE Investment Company, Ltd., a wholly owned subsidiary of the People's Bank of China which had AUM of more than HKD 20 billion, based in Hong Kong. Mr. Pan joined Seagate, an asset management company in Los Angeles, in 1998. In 2004, he co-founded SeaBright, where he acted as CEO, with China Everbright. Launching CEL's first and second Special Opportunities Fund that focused on PE investment in China. Mr. Pan has years of investment experience. He received a BA in Economics from the Management School of Xi'an Jiaotong University in China.

Mr. So Hiu Pang, Kevin

Mr. So Hiu Pang, Kevin, aged 42, is the Chief Strategy Officer and a member of the Management Decision Committee. He is responsible for strategic research, external publicity, corporate branding and investor relations of the Group, as well as providing assistance to the CEO. Mr. So joined the Group since 2006. Prior to joining the Group, he was formerly the head of the General Affairs Division of the Executive Committees Office in China Everbright Holdings Company Limited. Mr. So holds a Master's Degree in Business Administration from Hong Kong Polytechnic University and a Bachelor's Degree in Economics from Xiamen University. He was also a member of the third, the fourth and the fifth Election Committees of Hong Kong Special Administrative Region and a member of the twelfth session of All-China Youth Federation. He has extensive knowledge and experience in management and financial industry.

Company Secretary

Mr. Chan Ming Kin, Desmond

Mr. Chan Ming Kin, Desmond, aged 48, is the General Counsel and Company Secretary and a Member of the Management Decision Committee and the Investment Decision Sub-Committee of the Group. He is in charge of Legal, Compliance and Company Secretarial Department. He is a Member of the Board of Directors of Everbright Securities Company Limited (stock code: SH601788, HK6178). 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 22 years' experience in private practice and as an in-house counsel. Mr. Chan is also a Fellow of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA EVERBRIGHT LIMITED
(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Everbright Limited (the "Company") and its subsidiaries (the "Group") set out on pages 114 to 194, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT *(CONTINUED)*

Key audit matters (continued)

Key audit matters	**How our audit addressed the key audit matters**
Valuation of Level 3 financial investments	
Refer to significant accounting policies in note 2(f), accounting estimates and judgements in note 42(a)(i), and disclosures of fair values of financial instruments in note 39 to the financial statements. The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particular those that include significant unobservable inputs, involve management using subjective judgements and assumptions. With different valuation techniques, inputs and assumptions applied, the valuation results can vary significantly. As at 31 December 2017, the Group's financial assets measured at fair value amounted to HK$39,018,910,000, representing 53.5% of the total assets. Financial instruments which had significant unobservable inputs in the valuation, and hence were categorised within Level 3 of the fair value hierarchy, involved a higher degree of uncertainty in their valuation. As at 31 December 2017, 71.2% of the Group's financial assets measured at fair value were categorised within Level 3.	We evaluated and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, including independent price verification, independent model validation and approval. We focused on the valuation techniques, inputs and assumptions of financial instruments that were classified as Level 3 in the fair value hierarchy for individually significant items. We involved our valuation specialists to assist in evaluating the valuation techniques, inputs and assumptions through comparison with the valuation techniques that are commonly used in the market, and the validation of observable inputs using external market data. We assessed the Group's disclosures of the fair value hierarchy and its related disclosures in note 39 to the financial statements.

Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matters
Accounting for unconsolidated structured entities managed by the Group and its affiliates	
Refer to significant accounting policies in note 2(c), critical accounting judgements in applying the Group's accounting policies in note 42(b)(i), and disclosures of involvement with unconsolidated structured entities in note 37 to the financial statements. The Group and its affiliates, acting as the general partners or investment managers of a number of structured entities (such as investment funds and collective investment schemes), have certain power to govern the financing and operating policies of these entities. The Group is also exposed to the variability of returns from the performance of these structured entities, through its entitlement to the management fee, performance fee and also its interests in these entities. Whether the Group acts as an agent or a principal in managing these entities requires significant management's judgment. As at 31 December 2017, the carrying value of the interests held by the Group in unconsolidated structured entities managed by the Group and its affiliates amounted to HK$6,101,690,000 was recognised in financial assets designated at fair value through profit or loss in the consolidated statement of financial position. Given the level of judgement involved in assessing the Group's control over these structured entities, we determined this to be a key audit matter.	We reviewed the legal structures and the relevant constituent documents of these structured entities to assess the power held by the Group in making key operating and financing decisions and its exposure to variable returns from these structured entities. We also assessed whether the Group acted as an agent or a principal, considered any power held by other parties that enable the removal of the Group as the general partners or investment managers and assessed whether such power and rights are substantive. We reviewed whether any substantive rights held by any other parties in the structured entities in combination with the Group's decision-making power and its level of exposure to the variable returns, constituted control by the Group over these structured entities on a case by case basis. We assessed the Group's disclosures of the unconsolidated structured entities in note 37 to the financial statements.

Other information included in the Annual Report

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

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

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

The directors of the Company are assisted by the Audit and Risk Management Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Wong Shu Hing.

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Continuing operations			
Turnover	4	**8,454,405**	8,069,450
Operating income	4	**1,766,955**	2,169,815
Other net income	4	**3,761,710**	5,215,115
Staff costs	5	**(525,255)**	(462,295)
Depreciation and amortisation expenses		**(30,960)**	(23,803)
Impairment losses	6	**(277,997)**	(614,054)
Other operating expenses		**(379,661)**	(272,182)
Profit from operations	6	**4,314,792**	6,012,596
Finance costs	7	**(749,311)**	(572,182)
Share of profits less losses of associates	17	**1,300,456**	1,227,495
Share of profits less losses of joint ventures	18	**72,018**	73,828
Net gain on deemed disposal of interest in associates		**–**	160,631
Profit before taxation		**4,937,955**	6,902,368
Income tax	9	**(853,497)**	(1,308,119)
Profit from continuing operations		**4,084,458**	5,594,249
Discontinued operations			
Profit from disposal group held for sale	10	**207,604**	78,747
Profit for the year		**4,292,062**	5,672,996
Profit attributable to equity shareholders of the Company			
Continuing operations		**3,940,738**	4,012,349
Discontinued operations		**207,604**	62,033
		4,148,342	4,074,382
Non-controlling interests		**143,720**	1,598,614
Profit for the year		**4,292,062**	5,672,996
Basic and diluted earnings per share	14		
Continuing operations		**HK$2.338**	HK$2.381
Discontinued operations		**HK$0.123**	HK$0.037
		HK$2.461	HK$2.418

The notes on pages 120 to 194 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 2017

	Note	2017 HK$'000	2016 HK$'000
Profit for the year		**4,292,062**	5,672,996
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss			
– Net movement in investment revaluation reserve of available-for-sale securities		**(777,545)**	(3,967,193)
– Share of other comprehensive income of associates		**819,239**	(355,835)
– Share of other comprehensive income of joint ventures		**39,854**	(80,179)
– Exchange reserve		**450,575**	(1,426,698)
	13	**532,123**	(5,829,905)
Total comprehensive income for the year		**4,824,185**	(156,909)
Attributable to:			
Equity shareholders of the Company		**4,804,364**	(741,388)
Non-controlling interests		**19,821**	584,479
Total comprehensive income for the year		**4,824,185**	(156,909)

The notes on pages 120 to 194 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	31 December 2017 HK$'000	31 December 2016 HK$'000
Non-current assets			
Property, plant and equipment	15	**465,379**	475,376
Investment properties	15	**45,600**	78,700
Amount due from an associate	17(d)	**1,000,000**	1,000,000
Amounts due from investee companies	20	**187,276**	276,698
Investments in associates	17(a)	**18,753,254**	16,087,252
Investments in joint ventures	18(a)	**916,208**	351,445
Available-for-sale securities	19	**12,196,855**	15,113,907
Financial assets designated at fair value through profit or loss	20	**24,705,555**	16,469,069
Advances to customers	21	**–**	572,130
Finance lease receivables		**–**	20,138
Other assets		**678,586**	–
		58,948,713	50,444,715
Current assets			
Financial assets designated at fair value through profit or loss	20	**–**	737,250
Advances to customers	21	**4,350,612**	1,174,508
Finance lease receivables		**21,374**	38,565
Amount due from an associate	17(d)	**–**	1,648,988
Debtors, deposits and prepayments	22	**1,393,768**	3,331,336
Trading securities	23	**2,116,500**	1,103,311
Cash and cash equivalents	24	**5,178,356**	5,959,534
		13,060,610	13,993,492
Assets classified as held for sale	10	**908,948**	3,057,129
		13,969,558	17,050,621
Current liabilities			
Amounts due to investee companies	20	**–**	(211,632)
Amount due to an associate	17(e)	**–**	(44,896)
Trading securities	23	**(130,581)**	(151,826)
Bank loans	25	**(2,611,257)**	(4,147,432)
Creditors, deposits received and accrued charges	26	**(2,208,123)**	(1,226,925)
Other financial liabilities	27	**(266,930)**	(2,217,119)
Notes payable		**(57,000)**	(27,000)
Provision for taxation		**(667,116)**	(1,046,821)
		(5,941,007)	(9,073,651)
Liabilities classified as held for sale	10	**(426,502)**	(955,708)
		(6,367,509)	(10,029,359)
Net current assets		**7,602,049**	7,021,262
Total assets less current liabilities		**66,550,762**	57,465,977

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(CONTINUED)*

As at 31 December 2017

	Notes	**31 December 2017 HK$'000**	31 December 2016 HK$'000
Non-current liabilities			
Bank loans	25	**(9,374,977)**	(6,387,706)
Other financial liabilities	27	**(1,262,866)**	(1,443,893)
Notes payable		**–**	(30,000)
Bond payable	28	**(12,414,675)**	(8,998,400)
Deferred tax liabilities	29	**(1,153,249)**	(1,119,583)
		(24,205,767)	(17,979,582)
NET ASSETS		**42,344,995**	39,486,395
CAPITAL AND RESERVES			
Share capital	30	**9,618,097**	9,618,097
Reserves		**31,052,314**	27,591,394
Total equity attributable to equity shareholders of the Company		**40,670,411**	37,209,491
Non-controlling interests		**1,674,584**	2,276,904
TOTAL EQUITY		**42,344,995**	39,486,395

Approved and authorised for issue by the Board of Directors on 28 March 2018 and signed on behalf of the Board by:

Cai Yunge
Director

Chen Shuang
Director

The notes on pages 120 to 194 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

		Attributable to equity shareholders of the Company									
	Note	Share capital HK$'000	Option premium reserve HK$'000	Investment revaluation reserve HK$'000	Goodwill reserve HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
As at 1 January 2016		9,618,097	1,242	11,686,839	(668,499)	(259,340)	821,755	18,166,071	39,366,165	3,581,344	42,947,509
Net investment by non-controlling shareholders		–	–	–	–	–	–	–	–	(1,888,919)	(1,888,919)
Dividends paid	12	–	–	–	–	–	–	(1,263,940)	(1,263,940)	–	(1,263,940)
Share of capital reserve of an associate		–	–	–	–	(151,346)	–	–	(151,346)	–	(151,346)
Profit for the year		–	–	–	–	–	–	4,074,382	4,074,382	1,598,614	5,672,996
Other comprehensive income for the year		–	–	(3,539,167)	–	–	(1,276,603)	–	(4,815,770)	(1,014,135)	(5,829,905)
As at 31 December 2016 and 1 January 2017		9,618,097	1,242	8,147,672	(668,499)	(410,686)	(454,848)	20,976,513	37,209,491	2,276,904	39,486,395
Net investment by non-controlling shareholders		–	–	–	–	(93,924)	–	–	(93,924)	(622,141)	(716,065)
Dividends paid	12	–	–	–	–	–	–	(1,263,940)	(1,263,940)	–	(1,263,940)
Share of capital reserve of an associate		–	–	–	–	14,420	–	–	14,420	–	14,420
Profit for the year		–	–	–	–	–	–	4,148,342	4,148,342	143,720	4,292,062
Other comprehensive income for the year		–	–	(898,119)	–	–	1,554,141	–	656,022	(123,899)	532,123
As at 31 December 2017		9,618,097	1,242	7,249,553	(668,499)	(490,190)	1,099,293	23,860,915	40,670,411	1,674,584	42,344,995

The notes on pages 120 to 194 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	**2017 HK$'000**	2016 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	40(a)	**(805,590)**	(1,244,367)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(9,220)**	(8,016)
Proceeds from disposal of investment properties		**38,260**	–
Purchase of available-for-sale securities		**(22,820)**	(553,184)
Purchase of financial assets designated at fair value through profit or loss		**(11,823,550)**	(9,543,604)
Decrease in other financial liabilities		**(1,856,473)**	(1,203,353)
Investments in associates		**(1,824,366)**	(1,749,849)
Net cash from losing control of subsidiaries		**(144,619)**	(560,926)
Purchase of disposal group held for sale		**–**	(1,177,283)
Payment in obtaining control of a subsidiary		**–**	(180,081)
Net cash from disposal group held for sale		**379,211**	–
Investment in joint ventures		**(345,258)**	(11,248)
Proceeds from disposal of available-for-sale securities		**3,733,557**	4,709,288
Proceeds from disposal of financial assets designated at fair value through profit or loss		**7,315,964**	6,543,999
Proceeds from disposal of an associate		**1,091,309**	1,295,626
Bank interest received		**69,371**	57,110
Dividend from investments in equity securities		**596,381**	1,053,701
Dividend from associates		**427,977**	848,637
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		**(2,374,276)**	(479,183)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(3,179,866)**	(1,723,550)
FINANCING ACTIVITIES			
Issue of shares in subsidiaries to non-controlling shareholders		**263,446**	52,196
Redemption of shares by non-controlling shareholders		**(7,907)**	(601,551)
Proceeds from bank loans		**15,987,449**	13,565,535
Repayment of loan from a fellow subsidiary and shareholder		**–**	(1,000,000)
Proceeds from issue of bond payable		**2,955,875**	8,998,400
Repayment of bank loans		**(14,698,806)**	(16,338,964)
Dividends paid to non-controlling shareholders		**(850,587)**	(446,638)
Dividends paid		**(1,263,940)**	(1,263,940)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**2,385,530**	2,965,038
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(794,336)**	1,241,488
CASH AND CASH EQUIVALENTS			
Beginning of year		**5,959,534**	4,688,256
Exchange rate adjustments		**13,158**	29,790
End of year	24	**5,178,356**	5,959,534

The notes on pages 120 to 194 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Activities

China Everbright Limited (the "Company") is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. The Company considers Honorich Holdings Limited, a company incorporated in the British Virgin Islands, to be the immediate holding company of the Company and Central Huijin Investment Limited ("Huijin"), to be the ultimate holding company of the Company. Huijin is a state-owned investment company incorporated in accordance with China's Company Law. Huijin, was established in December 2003 and mandated to exercise the rights and the obligations as an investor in major state-owned financial enterprises, on behalf of the State. In September 2007, the Ministry of Finance issued special treasury bonds and acquired all the shares of Huijin from the People's Bank of China. The acquired shares were injected into China Investment Corporation ("CIC") as part of its initial capital contribution. However, Huijin's principal shareholder rights are exercised by the State Council. The members of Huijin's Board of Directors and Board of Supervisors are appointed by and are accountable to the State Council. No financial statements were prepared by these companies available for public use.

The principal activity of the Company is investment holding. The Company, through its subsidiaries, associates and joint ventures, 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 the 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 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interests in associates and joint ventures.

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

– investment properties (note 2(h));

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

– derivative financial instruments (note 2(g)).

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

Non-current assets and disposal group held for sale are stated at the lower of the carrying amount and fair value less costs to sell (see note 2(v)(i)).

2. Significant Accounting Policies (continued)

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

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

The accounting 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 42.

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.

(c) Subsidiaries and non-controlling interests

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

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

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

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

2. Significant Accounting Policies (continued)

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(v)(i)).

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as, when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Involvement with unconsolidated structured entities is disclosed in note 37.

(d) Associates and joint ventures

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

(d) Associates and joint ventures (continued)

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

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

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (see note 2(l)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(v)(i)).

(e) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

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

(f) Other investments in debt and equity securities

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

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

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

2. Significant Accounting Policies (continued)

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

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

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 the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investment revaluation reserve, except for impairment losses (see note 2(l)). As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses (see note 2(l)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(s)(v) and (vi), respectively.

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

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

(g) Derivative financial instruments

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

(h) Investment properties

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

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

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).

2. Significant Accounting Policies (continued)

(i) Other property and equipment

The following items of property and equipment are stated in the consolidated statement of financial position 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, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Depreciation

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

– Interest in leasehold land held for own use under operating leases is depreciated over the unexpired terms of leases

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired terms of leases and their estimated useful lives, being not more than 50 years after the date of purchase

– Leasehold improvements	5 years
– Furniture, fixtures and equipment	5 years
– Motor vehicles	5 years

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

(k) Leased assets

(i) Classification of assets leased to the Group

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

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

2. Significant Accounting Policies (continued)

(k) Leased assets (continued)

(ii) Finance lease

Where the Group is the lessor under a finance lease, the Group recognises the minimum lease payments receivable by the Group as a finance lease receivable and records the unguaranteed residual value as an asset within the same category at the commencement of the lease terms. The difference between (a) the aggregate of the minimum lease payments and the unguaranteed residual value and (b) their present value (presented in the consolidated statement of financial position as finance lease receivables) is recognised as unearned finance income. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make plus any residual value guaranteed to the lessor by the lessee, or a party unrelated to the lessor.

Unearned finance income is allocated to each period during the lease term using the effective interest method that allocates each rental between finance income and repayment of capital in each accounting period in such a way that finance income is recognised as a constant periodic rate of return (implicit effective interest rate) on the lessor's net investment in the lease. Lease agreements for which the base rent is based on floating interest rates are included in minimum lease payments based on the floating interest rate existing at the commencement of the lease; any increase or decrease in lease payments that result from subsequent changes on floating interest rate is recorded as an increase or a decrease in finance lease income in the period of the interest rate change.

Initial direct costs, such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease, are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

See notes 2(m) and 2(l) for accounting policies for derecognition and impairment of finance lease receivables.

(iii) Operating lease charges

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

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

2. Significant Accounting Policies (continued)

(l) Impairment of assets

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

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

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect of the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

– For trade and other current receivables, finance lease 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).

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

– For available-for-sale securities, the cumulative loss that had been recognised in the investment revaluation reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

– Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in the investment revaluation reserve.

– Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

2. Significant Accounting Policies (continued)

(l) Impairment of assets (continued)

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

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

(ii) Impairment of other assets

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

– Property and equipment (other than properties carried at revalued amount);

– Pre-paid interests in leasehold land classified as being held under an operating lease;

– Intangible assets;

– Investments in subsidiaries, associates and joint ventures in the Company's statement of financial position; 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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest Group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. Significant Accounting Policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Recognition of impairment losses*

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

– *Reversals of impairment losses*

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

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

(m) Accounts receivable and other receivables

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

Finance lease receivables are regarded as loans and receivables for the purpose of derecognition and impairment.

(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.

2. Significant Accounting Policies (continued)

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks 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 statement of cash flows.

(p) Employee benefits

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

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

(ii) Termination benefits

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

(q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements 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 end of the reporting period, 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 purposes 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.

2. Significant Accounting Policies (continued)

(q) Income tax (continued)

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

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

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

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

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

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

2. Significant Accounting Policies (continued)

(r) Provisions and contingent liabilities

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

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

(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 fees 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 finance leases

Rental income receivable under finance leases is recognised in profit or loss using the effective interest rate implicit in the lease over the term of the lease. Contingent rent is recognised as income in the period in which it is earned.

(iv) 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.

(v) 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.

(vi) Interest income

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

2. Significant Accounting Policies (continued)

(t) Translation of foreign currencies

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

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

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

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

(u) Borrowing costs

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

(v) Non-current assets and disposal group held for sale and discontinued operations

(i) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale. The relevant asset can be classified as current asset if it meets the criteria to be classified as held for sale.

2. Significant Accounting Policies (continued)

(v) Non-current assets and disposal group held for sale and discontinued operations (continued)

(i) Non-current assets held for sale (continued)

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures) and investment properties. These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

(ii) 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 (see (i) above), 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 consolidated statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; 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 operation.

(w) 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.

2. Significant Accounting Policies (continued)

(w) 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); and

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

(x) 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.

3. Changes in accounting policies and disclosure

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 40(c) to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

4. Turnover, Operating Income and Other Net Income

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

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

	2017 HK$'000	2016 HK$'000
Operating income		
Consultancy and management fee income	**506,760**	811,699
Interest income on financial assets not at fair value through profit or loss		
– bank deposits	**69,371**	57,110
– advances to customers	**294,558**	145,426
– unlisted debt securities	**34,305**	33,591
Dividend income		
– listed investments	**214,457**	427,589
– unlisted investments	**361,554**	643,621
Net realised gain/(loss) on trading securities		
– equity securities	**184,019**	63,686
– debt securities	**3,457**	6,258
– derivatives	**(201)**	(669)
Net unrealised gain/(loss) on trading securities		
– equity securities	**83,437**	(56,196)
– debt securities	**7,917**	11,973
– derivatives	**1,634**	(2,879)
Rental income from investment properties	**2,851**	23,626
Rental income from finance leases	**2,836**	4,980
	1,766,955	2,169,815
Other net income		
Net realised gain on disposal of available-for-sale securities	**2,058,420**	2,594,412
Net realised gain on disposal of financial assets designated at fair value through profit or loss	**309,216**	1,058,729
Net realised loss on discharge of a financial liability designated at fair value through profit or loss	**(202,996)**	–
Changes in unrealised profit or loss on financial assets designated at fair value through profit or loss	**1,172,703**	(1,272,180)
Gain on losing control of subsidiaries	**60,384**	2,307,678
Gain on disposal of investment properties	**360**	–
Reversal of impairment loss on debtors, deposits and prepayments	**5,657**	572
Reversal of impairment loss on amount due from an investee company	**–**	3,076
Realised gain on disposal of associates	**293,503**	344,378
Net exchange (loss)/gain	**(33,929)**	118,364
Net surplus on revaluation of investment properties	**4,800**	14,700
Others	**93,592**	45,386
	3,761,710	5,215,115

5. Staff Costs

	2017 **HK$'000**	2016 HK$'000
Salaries, bonuses and allowances	**489,440**	423,796
Staff welfare and insurance	**24,153**	28,327
Staff training and recruitment	**8,756**	7,452
Pension costs – mandatory provident fund and defined contribution plans	**2,906**	2,720
	525,255	462,295

6. Profit from Operations

Profit from operations is stated after charging the following:

	2017 **HK$'000**	2016 HK$'000
Operating lease rentals in respect of rented premises	**17,839**	25,339
Auditor's remuneration	**10,848**	10,177
Impairment losses on:		
– Available-for-sale securities	**203,247**	548,779
– Amount due from an investee company	**3,423**	10,907
– Advances to customers	**37,605**	43,316
– Debtors, deposits and prepayments	**33,722**	11,052
	277,997	614,054

7. Finance Costs

	2017 **HK$'000**	2016 HK$'000
Interest on bank loans and other borrowings	**749,311**	572,182

The effective interest rate of bank loans and other borrowings was approximately 3.32% (2016: 3.35%) per annum as of 31 December 2017.

8. Directors' and Five Highest Paid Individuals' Emoluments

(a) Directors' emoluments:

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

For the year ended 31 December 2017

	The Group					An associate	The Group and an associate
	Directors' fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2017 Total HK$'000	Discretionary bonuses and other benefits in kind HK$'000	2017 Total HK$'000
Executive directors							
Cai Yunge	–	–	–	–	–	–	–
Chen Shuang	–	3,374	4,726	123	8,223	5,402	13,625
Tang Chi Chun, Richard	–	2,414	4,934	18	7,366	632	7,998
Zhang Mingao (note 1)	–	152	200	–	352	–	352
Yin Lianchen (note 2)	–	2,071	4,453	60	6,584	–	6,584
Non-executive directors							
Tang Shuangning	–	–	–	–	–	–	–
Independent non-executive directors							
Chung Shui Ming, Timpson	200	298	–	–	498	–	498
Seto Gin Chung, John	200	274	–	–	474	–	474
Lin Zhijun	200	274	–	–	474	–	474
	600	8,857	14,313	201	23,971	6,034	30,005

Note 1: Mr. Zhang Mingao was appointed as the Executive Director of the Company with effect from 14 December 2017.

Note 2: Mr. Yin Lianchen was appointed as the Executive Director of the Company with effect from 15 June 2017.

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

(a) Directors' emoluments: (continued)

For the year ended 31 December 2016

	Directors' fee HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	2016 Total HK$'000
Executive directors					
Cai Yunge (note 1)	–	–	–	–	–
Liu Jun (note 2)	–	–	–	–	–
Chen Shuang	–	2,640	8,440	80	11,160
Tang Chi Chun, Richard	–	2,049	5,300	18	7,367
Jiang Yuanzhi (note 3)	–	1,130	2,560	20	3,710
Non-executive directors					
Tang Shuangning (note 4)	–	–	–	–	–
Wang Weimin (note 5)	–	95	–	–	95
Independent non-executive directors					
Chung Shui Ming, Timpson	150	303	–	–	453
Seto Gin Chung, John	150	279	–	–	429
Lin Zhijun	150	279	–	–	429
	450	6,775	16,300	118	23,643

Note 1: Dr. Cai Yunge was appointed as the Deputy Chairman and Executive Director of the Company with effect from 10 November 2016 and has been re-designated as an Executive Director and Chairman of the Company with effect from 12 December 2016.

Note 2: Dr. Liu Jun resigned as the Deputy Chairman and Executive Director of the Company with effect from 10 November 2016.

Note 3: Mr. Jiang Yuanzhi resigned as Executive Director of the Company with effect from 1 September 2016.

Note 4: Mr. Tang Shuangning decided not to act as the Chairman of the Board and was redesignated as a Non-executive Director of the Company with effect from 12 December 2016.

Note 5: Mr. Wang Weimin resigned as Non-executive Director of the Company with effect from 12 December 2016.

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

(b) Five highest paid individuals' emoluments

	2017 HK$'000	2016 HK$'000
Salaries and other emoluments	**14,666**	9,565
Bonuses	**80,552**	52,515
Retirement scheme contributions	**268**	187
	95,486	62,267

	2017	2016
Number of directors	**1**	1
Number of employees	**4**	4
	5	5

Their emoluments were within the following bands:

	Number of individuals	
	2017	2016
HK$7,500,001 to HK$8,000,000	**–**	1
HK$8,000,001 to HK$8,500,000	**–**	1
HK$9,000,001 to HK$9,500,000	**1**	–
HK$11,000,001 to HK$11,500,000	**1**	1
HK$12,500,001 to HK$13,000,000	**–**	1
HK$13,500,001 to HK$14,000,000	**1**	–
HK$17,000,001 to HK$17,500,000	**1**	–
HK$22,000,001 to HK$22,500,000	**–**	1
HK$44,000,001 to HK$44,500,000	**1**	–
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office (2016: Nil).

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

9. Income Tax

The provision for Hong Kong profits tax is calculated at 16.5% (2016: 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 jurisdictions.

The amount of taxation charged to the consolidated statement of profit or loss represents:

	2017 HK$'000	2016 HK$'000
Continuing operations		
Current taxation		
– Hong Kong profits tax	**97,574**	8,300
– Overseas taxation	**660,422**	1,155,240
– Over provision of taxation in prior years	**(182,274)**	(21,042)
Deferred taxation		
– Deferred taxation relating to the origination and reversal of temporary differences	**277,775**	165,621
Income tax	**853,497**	1,308,119

Reconciliation between income tax and accounting profit at applicable tax rates:

	2017 HK$'000	2016 HK$'000
Continuing operations		
Profit before taxation	**4,937,955**	6,902,368
Calculated at the rates applicable to profits in the tax jurisdictions concerned	**893,953**	1,491,161
Tax effect of income not subject to taxation	**(283,917)**	(655,553)
Tax effect of expenses not deductible for taxation purposes	**221,103**	414,230
Tax effect of utilisation of previously unrecognised losses	**(1,816)**	(1,536)
Tax effect of tax losses and other deductible temporary differences not recognised	**206,448**	80,859
Over provision of taxation in prior years	**(182,274)**	(21,042)
Income tax	**853,497**	1,308,119

10. Discontinued Operations

On 6 November 2015, the Group acquired 59% equity interest in Lapmaster Group Holdings, LLC ("Lapmaster"). Lapmaster is headquartered in Chicago, USA, and is a developer and manufacturer for highly engineered precision surface finishing equipment and consumables with global presence. On 15 November 2017, the Group transferred its equity interest in Lapmaster to CEL Global Investment Fund, L.P. (the "Global Investment Fund"), an unconsolidated investment fund managed by the Group.

The Group acquired 100% equity interest in Tirana International Airport SHPK ("Tirana Airport") on 6 October 2016 and the investment was injected into Everbright Overseas Infrastructure Investment Fund LP, a subsidiary, on 14 July 2017. Tirana Airport is the only officially operated civil international airport in Albania.

As at 31 December 2017, the Group classified equity interest in Tirana Airport and the Everbright Overseas Infrastructure Investment Fund LP as disposal group held for sale (the "Disposal Group"), with a view to hold them for resale within one year.

The above equity interests meet the criteria to be classified as held for sale on acquisition in accordance with HKFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. A single amount is presented on the face of the Group's consolidated statement of profit or loss, which comprises the post-tax profit or loss of the Disposal Group and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the Disposal Group constituting the discontinued operations (if any). The aggregate balances of assets and liabilities of the Disposal Group have been presented in the Group's consolidated statement of financial position as assets classified as held for sale and liabilities classified as held for sale respectively.

11. Profit Attributable to Shareholders

Net profit for the year of the Company of approximately HK$1,897,641,000 (2016: approximately HK$1,707,069,000) has been dealt with in the financial statements of the Company.

12. Dividends

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

	2017 **HK$'000**	2016 HK$'000
– Interim dividend declared and paid of HK$0.25 (2016: HK$0.25) per share	**421,313**	421,313
– Final dividend proposed after the end of the reporting period date of HK$0.6 (2016: HK$0.5) per share	**1,011,152**	842,627
	1,432,465	1,263,940

The Board of Directors proposed a final dividend of HK$0.6 per share for the year ended 31 December 2017 (2016: HK$0.5 per share). The proposed final dividend is 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

	2017 **HK$'000**	2016 HK$'000
– Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.5 (2016: HK$0.5) per share	**842,627**	842,627

13. Other Comprehensive Income

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

	2017			2016		
	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	**(1,021,654)**	**244,109**	**(777,545)**	(4,034,516)	67,323	(3,967,193)
Share of other comprehensive income of associates	**819,239**	**–**	**819,239**	(355,835)	–	(355,835)
Share of other comprehensive income of joint ventures	**39,854**	**–**	**39,854**	(80,179)	–	(80,179)
Exchange reserve	**450,575**	**–**	**450,575**	(1,426,698)	–	(1,426,698)
	288,014	**244,109**	**532,123**	(5,897,228)	67,323	(5,829,905)

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

	2017 HK$'000	2016 HK$'000
Available-for-sale securities:		
Changes in fair value recognised during the year, net of tax	**1,077,628**	(1,921,560)
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	**(2,058,420)**	(2,594,412)
– impairment losses	**203,247**	548,779
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	**(777,545)**	(3,967,193)

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 2017 is based on the profit attributable to equity shareholders of the Company for continuing and discontinued operations of HK$3,940,738,000 and HK$207,604,000 respectively, (2016: for continuing and discontinued operations of HK$4,012,349,000 and HK$62,033,000 respectively) and the weighted average number of 1,685,253,712 shares (2016: 1,685,253,712 shares) in issue during the year.

15. Property, Plant and Equipment and Investment Properties

(a) Reconciliation of carrying amount

	Interests in leasehold land held for own use under operating leases HK$'000	Buildings held for own use carried at cost HK$'000	Leasehold improvements HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Investment properties HK$'000
Cost or valuation:						
As at 1 January 2016	456,583	76,851	48,937	66,697	649,068	64,000
Additions	–	–	1,567	6,449	8,016	–
Disposals	–	–	(2,010)	(3,080)	(5,090)	–
Surplus on revaluation	–	–	–	–	–	14,700
Exchange adjustments	–	–	–	(721)	(721)	–
As at 31 December 2016	456,583	76,851	48,494	69,345	651,273	78,700
Representing:						
Cost	456,583	76,851	48,494	69,345	651,273	–
Professional valuation	–	–	–	–	–	78,700
	456,583	76,851	48,494	69,345	651,273	78,700
As at 1 January 2017	**456,583**	**76,851**	**48,494**	**69,345**	**651,273**	**78,700**
Additions	**–**	**–**	**775**	**8,445**	**9,220**	**–**
Disposals	**–**	**–**	**(155)**	**(20)**	**(175)**	**(37,900)**
Surplus on revaluation	**–**	**–**	**–**	**–**	**–**	**4,800**
Exchange adjustments	**–**	**–**	**–**	**530**	**530**	**–**
As at 31 December 2017	**456,583**	**76,851**	**49,114**	**78,300**	**660,848**	**45,600**
Representing:						
Cost	**456,583**	**76,851**	**49,114**	**78,300**	**660,848**	**–**
Professional valuation	**–**	**–**	**–**	**–**	**–**	**45,600**
	456,583	**76,851**	**49,114**	**78,300**	**660,848**	**45,600**

15. Property, Plant and Equipment and Investment Properties (continued)

(a) Reconciliation of carrying amount (continued)

	Interests in leasehold land held for own use under operating leases HK$'000	Buildings held for own use carried at cost HK$'000	Leasehold improvements HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Total HK$'000	Investment properties HK$'000
Accumulated depreciation:						
As at 1 January 2016	58,273	15,473	34,243	47,045	155,034	–
Charge for the year	6,933	1,795	6,056	9,019	23,803	–
Written back on disposal	–	–	–	(2,491)	(2,491)	–
Exchange adjustments	–	–	–	(449)	(449)	–
As at 31 December 2016 and 1 January 2017	**65,206**	**17,268**	**40,299**	**53,124**	**175,897**	**–**
Charge for the year	**6,933**	**1,795**	**2,340**	**8,068**	**19,136**	**–**
Written back on disposal	**–**	**–**	**–**	**(11)**	**(11)**	**–**
Exchange adjustments	**–**	**–**	**–**	**447**	**447**	**–**
As at 31 December 2017	**72,139**	**19,063**	**42,639**	**61,628**	**195,469**	**–**
Net book value:						
As at 31 December 2017	**384,444**	**57,788**	**6,475**	**16,672**	**465,379**	**45,600**
As at 31 December 2016	391,377	59,583	8,195	16,221	475,376	78,700

(b) 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 2017 by RHL Appraisal Limited, an independent professional valuer who has among their staff Fellows of the 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 consolidated statement of financial position at market value.

As at 31 December 2017, 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$1,308,976,000 (2016: HK$1,067,800,000).

Investment properties of HK$45,600,000 (2016: HK$78,700,000) of the Group are rented out under operating leases, of which HK$16,500,000 (2016: HK$14,300,000) are rented to a fellow subsidiary.

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

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

15. Property, Plant and Equipment and Investment Properties (continued)

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

	2017 HK$'000	2016 HK$'000
Held in Hong Kong		
– on long-term lease	**276,645**	278,598
– on medium-term lease	**33,600**	67,500
	310,245	346,098
Held outside Hong Kong		
– on medium-term lease	**177,587**	183,562
	487,832	529,660

(d) Fair value measurement of properties

(i) Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

15. Property, Plant and Equipment and Investment Properties (continued)

(d) Fair value measurement of properties (continued)

(i) Fair value hierarchy (continued)

		Fair value measurements categorised into		
	Fair value HK$'000	**Level 1 HK$'000**	**Level 2 HK$'000**	**Level 3 HK$'000**
Recurring fair value measurement				
Investment properties:				
– Residential – Hong Kong				
As at 31 December 2017	**45,600**	**–**	**–**	**45,600**
As at 31 December 2016	78,700	–	–	78,700

During the year ended 31 December 2017, there were no transfers into or out of Level 3 (2016: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation technique	**Unobservable input**	**Range**
Investment properties	Direct comparison approach	Premium (discount) on characteristic of the properties	-16.7% to 21% (2016: -10% to 15%)

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

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

	2017 HK$'000	2016 HK$'000
Investment properties – Residential – Hong Kong:		
At 1 January	**78,700**	64,000
Disposal	**(37,900)**	–
Net surplus on revaluation of investment properties	**4,800**	14,700
At 31 December	**45,600**	78,700

Net surplus on revaluation of investment properties is recognised as part of the "other net income" (note 4) in the consolidated statement of profit or loss.

16. Investments in Subsidiaries

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

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

16. Investments in Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activities
Everbright New Industries Capital Company Limited	The PRC	Not applicable	RMB160,000,000	70%	Project investment
Everbright San Shan Capital Management Company Limited	The PRC	Not applicable	RMB30,000,000	51%	Provision of asset management services
Fortunecrest Investment Limited	British Virgin Islands	Ordinary	1 Share US$1	100%[1]	Property investment
Janco Development Limited	Hong Kong	Ordinary	2 Shares HK$2	100%	Property investment
Solidpole Limited	Hong Kong	Ordinary	2 Shares HK$2	100%	Investment holding
Windsor Venture Limited	British Virgin Islands	Ordinary	1 Share US$1	100%	Investment holding
Well Logic Investment Limited	Hong Kong	Ordinary	2 Shares HK$2	100%[1]	Property investment
深圳市光控投資諮詢有限公司	The PRC	Not applicable	RMB10,000,000	100%[1]	Provision of consultancy services
Everbright Venture Capital Jiangyin Company Limited	The PRC	Not applicable	RMB259,000,000	53.39%[1]	Venture capital
光大匯益偉業投資管理(北京)有限公司	The PRC	Not applicable	RMB125,300,000	100%[1]	Project investment
光大控股(江蘇)投資有限公司	The PRC	Not applicable	US$100,000,000	100%	Investment

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

16. Investments in Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activities
宜興光控投資有限公司	The PRC	Not applicable	RMB600,000,000	100%[1]	Project investment
重慶光控股權投資管理有限公司	The PRC	Not applicable	RMB100,000,000	100%[1]	Fund management
光控廣域投資(上海)合伙企業 (有限合伙)	The PRC	Not applicable	RMB80,000,000	61.09%[1]	Investment
光大控股(青島)投資有限公司	The PRC	Not applicable	US$78,000,000	100%	Investment
成都光控西部創業投資有限公司	The PRC	Not applicable	RMB180,000,000	100%[1]	Investment
上海光控嘉鑫股權投資管理有限公司	The PRC	Not applicable	RMB50,000,000	100%[1]	Fund management
成都光控安鑫股權投資基金管理有限公司	The PRC	Not applicable	RMB10,000,000	100%[1]	Fund management
青島光控低碳新能股權投資有限公司	The PRC	Not applicable	RMB650,000,000	76.92%[1]	Investment
青島光控新產業股權投資管理有限公司	The PRC	Not applicable	RMB10,000,000	100%[1]	Investment
光大控股(青島)融資租賃有限公司	The PRC	Not applicable	US$30,000,000	100%[1]	Investment
上海光控股權投資管理有限公司	The PRC	Not applicable	RMB600,000,000	100%[1]	Fund management
China Everbright Structured Investment Management Limited	Hong Kong	Ordinary	5,000,000 Shares HK$5,000,000	100%[1]	Investment
CEL Israel Holdings Limited	British Virgin Islands	Ordinary	1 Share US$1	100%[1]	Investment holding
CEL Israel Equity Management Ltd	British Virgin Islands	Ordinary	1 Share US$1	100%[1]	Investment
China Everbright Global Investment Advisors Company Limited	Hong Kong	Ordinary	5,000,000 Shares HK$5,000,000	100%[1]	Provision of advisory services

16. Investments in Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activities
Everbright Hero GP Limited	Cayman Islands	Ordinary	1 Share US$1	100%[1]	Fund management
Everbright Hero, L.P.	Cayman Islands	Not applicable	Not applicable	90.16%[1]	Investment
光控投資管理(上海)有限公司	The PRC	Not applicable	RMB200,000,000	100%[1]	Provision of investment management services
光大融資租賃(上海)有限公司	The PRC	Not applicable	US$50,000,000	100%[1]	Provision of leasing services
CEL Media Investment Limited	Hong Kong	Ordinary	1 Share HK$1	100%[1]	Investment
Neo Modern Limited	British Virgin Islands	Ordinary	1 Share HK$1	100%[1]	Investment holding
Diamond Wealth Global Limited	British Virgin Islands	Ordinary	100 Shares US$100	97%[1]	Investment holding
Pioneer Act Investments Limited	British Virgin Islands	Ordinary	1 Share US$1	100%[1]	Investment holding
CEL Global Investment LP Limited	Cayman Islands	Ordinary	1 Share US$1	100%[1]	Investment holding
China Everbright Senior Healthcare Company Limited	Hong Kong	Ordinary	100 Shares HK$100	97%[1]	Investment
珠海光浦益投投資合夥企業(有限合夥)	The PRC	Not applicable	Not applicable	100%[1]	Investment
海門光控健康養老產業投資合夥企業(有限合夥)	The PRC	Not applicable	Not applicable	69.40%[1]	Investment
CEL Elite Limited	Hong Kong	Ordinary	1 Share HK$1	100%[1]	Treasury management
上海光控浦益股權投資管理有限公司	The PRC	Not applicable	RMB310,000,000	100%[1]	Fund management

(1) Subsidiaries held indirectly.

The list of subsidiaries above included certain consolidated structured entities of which the Group has capital commitment of HK$85,951,000 (2016: HK$39,605,000) to provide capital to support the operating and investing activities. The Group has no intention and did not provide any other financial support to these consolidated structured entities during the year.

17. Investments in Associates

(a) Investments in associates

	2017 HK$'000	2016 HK$'000
Share of net assets	**17,859,284**	16,120,444
Goodwill on acquisition	**893,970**	(33,192)
	18,753,254	16,087,252
Market value of shares listed in mainland China	**22,531,687**	22,622,241
Market value of shares listed in Hong Kong	**1,857,179**	1,766,380

(b) As at 31 December 2017, particulars of the principal associates of the Group are as follows:

Name of associate	Place of incorporation/ operation	Principal activities	Percentage of equity interest held by the Company
Everbright Securities Company Limited# ("Everbright Securities")	The PRC	Securities operations (note 1)	23.30% (note 2)
China Aircraft Leasing Group Holdings Limited## ("CALGH")	Cayman Islands	Investment holding (note 3)	33.56%*
光大嘉寶股份有限公司### ("Jiabao Group") (formerly known as 上海嘉寶實業(集團)股份有限公司)	The PRC	Real estate development/real estate asset management (note 4)	29.17%*

17. Investments in Associates (continued)

(b) As at 31 December 2017, particulars of the principal associates of the Group are as follows: (continued)

#	Market value of the listed shares in mainland China as at 31 December 2017 was equivalent to HK$17,032,571,000 (2016: HK$20,490,040,000).
##	Market value of the listed shares in Hong Kong as at 31 December 2017 was HK$1,857,179,000 (2016: HK$1,766,380,000).
###	Market value of the listed shares in mainland China as at 31 December 2017 was equivalent to HK$5,499,116,000 (2016: HK$2,132,201,000).
*	Held indirectly
Note 1:	Everbright Securities is the Group's strategic investment to capitalise on the growth of securities markets in mainland China and Hong Kong.
Note 2:	The Group's equity interest decreased from 24.71% to 23.30% during the year due to partial disposal of the shares of Everbright Securities. Accordingly, a realised gain on disposal of associates amounting to HK$293,503,000 was recognised in the consolidated statement of the profit or loss.
Note 3:	CALGH is an associate of the Group to capture multiple opportunities along the aircraft value chain arising from the rapid growth of the aviation industry. CALGH's lease offerings are complemented by fleet planning consultation, structured leasing, aircraft trading and re-marketing and aircraft disassembly.
Note 4:	Jiabao Group is the Group's strategic industry investment to capitalise on the growth of real estate development and asset management in mainland China.

For the year ended 31 December 2017, Everbright Securities has recorded an after tax profit of RMB3,127 million (2016: RMB3,077 million) and the Group's share of profit under the equity accounting method, amounted to HK$835 million (2016: HK$894 million).

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

17. Investments in Associates (continued)

(c) Supplementary financial information of the principal associates

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

	Everbright Securities	
	2017	2016
	HK$'000	HK$'000
Gross amounts of the associate		
Current assets	**210,422,428**	165,314,089
Non-current assets	**35,853,112**	33,271,932
Current liabilities	**(145,854,617)**	(119,359,093)
Non-current liabilities	**(40,578,805)**	(24,854,542)
Non-controlling interests	**(1,730,754)**	(1,610,883)
Equity attributable to equity shareholders of the associate	**58,111,364**	52,761,503
Operating income	**11,383,868**	10,594,323
Profit from operations	**3,633,831**	3,556,653
Other comprehensive income	**(951,935)**	(1,117,409)
Total comprehensive income	**2,681,896**	2,439,244
Dividend received from the associate	**258,701**	781,981
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	**58,111,364**	52,761,503
Group's effective interest	**23.30%**	24.71%
Group's share of net assets of the associate	**13,542,889**	13,038,663
Carrying amount in the Group's consolidated financial statements	**13,542,889**	13,038,663

17. Investments in Associates (continued)

(c) Supplementary financial information of the principal associates (continued)

Aggregate information of the associates that are not individually material:

	2017 HK$'000	2016 HK$'000
Aggregate carrying amount of associates that are not individually material in the consolidated statement of financial position	**5,210,365**	3,048,589
Aggregate amounts of the Group's share of those associates':		
Profit for the year	**465,165**	333,804
Other comprehensive income	**97,677**	13,980
Total comprehensive income	**562,842**	347,784

(d) Amount due from an associate

Amount due from an associate under non-current assets is unsecured, interest-free and has no fixed terms of repayment.

Amount due from an associate under current assets was unsecured, interest-free and repayable within one year.

(e) Amount due to an associate

Amount due to an associate was unsecured, interest-free and had no fixed terms of repayment.

18. Investments in Joint Ventures

(a) Investments in joint ventures

	2017 HK$'000	2016 HK$'000
Carrying value, net	**916,208**	351,445

(b) As at 31 December 2017, details of the Group's principal investments in joint ventures are as follows:

Name of joint venture	Place of incorporation/ operation	Principal activities	Particulars of issued capital	Percentage of equity interest held by the Company
Everbright Guolian Capital Company Limited	The PRC	Venture capital and investment advisory services (note 1)	RMB220,000,000	50.0%*
山東高速光控產業投資基金管理有限公司	The PRC	Fund management services (note 2)	RMB200,000,000	48.0%*
首譽光控資產管理有限公司	The PRC	Investment holding (note 3)	RMB385,000,000	49.0%*

* Held indirectly

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

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

Note 3: 首譽光控資產管理有限公司 is one of the Group's assets management companies. The Group's equity interest increased from 35% to 49% during the year due to additional purchase. In addition, given that the relevant activities required more than two-third of the board members' approval. During 2017, the Group obtained additional power from the composition of board members. Accordingly, unanimous consent from both parties shall be obtained to direct the relevant activities. The investment was reclassified from investments in associates to investments in joint ventures.

All of the above joint ventures are unlisted corporate entities whose quoted market prices were not available as at 31 December 2017. They are accounted for using the equity method in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

18. Investments in Joint Ventures (continued)

(b) As at 31 December 2017, details of the Group's principal investments in joint ventures are as follows: (continued)

Aggregate information of joint ventures that are not individually material:

	2017 HK$'000	2016 HK$'000
Aggregate carrying amount of joint ventures that are not individually material in the consolidated statement of financial position	**916,208**	351,445
Aggregate amounts of the Group's share of those joint ventures':		
Profit for the year	**72,018**	73,828
Other comprehensive income	**39,854**	(80,179)
Total comprehensive income	**111,872**	(6,351)

19. Available-For-Sale Securities

	2017 HK$'000	2016 HK$'000
At fair value:		
Listed equity securities		
– in Hong Kong	**346,808**	598,854
– outside Hong Kong	**9,371,810**	10,231,612
Unlisted equity securities/collective investment schemes (i)		
– outside Hong Kong	**2,478,237**	3,777,259
Listed debt securities		
– outside Hong Kong	**–**	67,213
At cost (ii):		
Unlisted equity securities	**–**	438,969
	12,196,855	15,113,907

(i) All unlisted equity securities/collective investment schemes are classified as Level 3 in the fair value hierarchy (note 39), except for an investment with fair value of HK$200,448,000 (2016: HK$141,696,000), which is classified as Level 2 in the fair value hierarchy.

(ii) At 31 December 2016, the investments were measured at cost less impairment because the fair value cannot be reliably measured.

As at 31 December 2017, the Group's investments in listed equity securities with fair values of HK$121,318,000, HK$348,814,000, HK$758,505,000 and HK$75,988,000 are subject to a lock-up provision which restricted the Group from selling the equity securities on or before 5 May 2018, 19 May 2018, 24 June 2018 and 15 November 2018 respectively, and such investments are classified as Level 3 of the fair value hierarchy (note 39).

As at 31 December 2016, the Group's investments in listed equity securities with fair values of HK$893,195,000 and HK$431,544,000 were subject to a lock-up provision which restricted the Group from selling the equity securities on or before 7 November 2017 and 19 May 2018 respectively, and such investments were classified as Level 3 of the fair value hierarchy (note 39).

As at 31 December 2017, certain of the Group's available-for-sale equity securities were individually determined to be impaired on the basis of a significant or prolonged decline in their fair value below cost. Impairment losses of HK$203,247,000 (2016: HK$548,779,000) were charged to the consolidated statement of profit or loss.

19. Available-For-Sale Securities (continued)

	2017 HK$'000	2016 HK$'000
Fair value of available-for-sale securities that were individually determined to be impaired as at 31 December:		
Listed equity securities		
– in Hong Kong	**346,808**	390,893
– outside Hong Kong	**470,132**	431,544
Unlisted equity securities	**461,187**	457,836
	1,278,127	1,280,273

The Group held the following principal available-for-sale securities as at 31 December 2017:

Company name	Place of incorporation	Principal activities	Effective equity interest held by the Group
China Everbright Bank Company Limited[i] ("Everbright Bank")	The PRC	Banking operations	3.00%

(i) At 31 December 2017, the carrying value of interests in Everbright Bank exceeded 10% of the total assets of the Group.

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

	2017 HK$'000	2016 HK$'000
Non-current assets		
At fair value:		
Listed equity securities		
– in Hong Kong	**–**	66,018
– outside Hong Kong	**509,407**	475,975
Unlisted equity securities/collective investment schemes (i)		
– outside Hong Kong	**20,320,306**	13,251,988
Unlisted convertible preference shares (i)		
– outside Hong Kong	**2,008,098**	1,013,743
Unlisted debt securities (i)		
– outside Hong Kong	**1,867,744**	1,661,345
	24,705,555	16,469,069
Current assets		
At fair value:		
Unlisted equity securities/collective investment schemes (i)		
– outside Hong Kong	**–**	737,250

(i) Classified as Level 3 in the fair value hierarchy (note 39).

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

As at 31 December 2017, the Group's listed and unlisted equity securities amounting to a fair value of HK$15,796,778,000 (2016: HK$10,892,302,000) were investments in associates and joint ventures. The Group was exempted from applying the equity method to these investments and they were recognised as financial assets designated at fair value through profit or loss.

As at 31 December 2017, balances of HK$187,276,000 (2016: HK$276,698,000) were amounts due from investee companies which were associates recognised as financial assets designated at fair value through profit or loss. The amounts due from these investee companies are unsecured, interest free and have no fixed terms of repayment.

As at 31 December 2016, balances of HK$211,632,000 were amounts due to investee companies which were associates recognised as financial assets designated at fair value through profit or loss. The amounts due to these investee companies were unsecured, interest free and had no fixed terms of repayment.

In 2017, 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 the consolidated statement of profit or loss at the beginning and the end of the year is as follows:

	2017 **HK$'000**	2016 HK$'000
As at 1 January	**716,824**	784,743
Additions for the year	**232,618**	220,806
Released during the year	**(79,135)**	(286,361)
Exchange adjustment	**42,083**	(2,364)
As at 31 December	**912,390**	716,824

21. Advances to Customers

	2017 **HK$'000**	2016 HK$'000
Non-current assets		
Term loans to customers		
– secured	**–**	572,130
Current assets		
Term loans to customers		
– secured	**2,501,551**	1,155,772
Less: impairment loss	**(80,921)**	(43,316)
	2,420,630	1,112,456
– unsecured	**1,929,982**	62,052
	4,350,612	1,174,508

Certain term loans to customers are secured by listed and unlisted securities with third parties guarantees.

Except for the above impairment loss of HK$80,921,000 (2016: HK$43,316,000), there were no other significant receivables, that were aged, requiring impairment provision as of 31 December 2017 and 2016.

22. Debtors, Deposits and Prepayments

	2017 **HK$'000**	2016 HK$'000
Accounts receivable, net	**364,663**	2,876,215
Deposits, prepayments, interest and other receivables	**1,073,879**	466,173
	1,438,542	3,342,388
Less: allowance for doubtful debts	**(44,774)**	(11,052)
	1,393,768	3,331,336

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

As at 31 December 2017, the Group's receivable of HK$44,774,000 (2016: HK$11,052,000) was individually determined to be impaired.

23. Trading Securities

	2017 HK$'000	2016 HK$'000
Current assets		
At fair value:		
Listed equity securities		
– in Hong Kong	**696,903**	259,807
– outside Hong Kong	**382,087**	234,903
Listed debt securities		
– in Hong Kong	**346,042**	113,268
– outside Hong Kong	**574,949**	458,591
Unlisted debt securities	**85,668**	33,018
Derivatives		
– listed	**–**	–
– unlisted	**30,851**	3,724
	2,116,500	1,103,311
Current liabilities		
At fair value:		
Listed equity securities		
– in Hong Kong	**(43,424)**	(34,677)
– outside Hong Kong	**(68,600)**	(39,527)
Listed debt securities		
– in Hong Kong	**(3,909)**	–
– outside Hong Kong	**(1,639)**	(71,052)
Derivatives		
– listed	**–**	(62)
– unlisted	**(13,009)**	(6,508)
	(130,581)	(151,826)

24. Cash and Cash Equivalents

	2017 HK$'000	2016 HK$'000
Cash on hand, savings and current accounts	**3,734,496**	3,201,857
Fixed deposits with banks	**1,443,860**	2,757,677
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	**5,178,356**	5,959,534

25. Bank Loans

As at 31 December 2017 and 2016, the bank loans were unsecured.

Repayment details are as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**2,611,257**	4,147,432
After 1 year but within 5 years	**9,374,977**	6,387,706
	11,986,234	10,535,138

26. Creditors, Deposits Received and Accrued Charges

	2017 HK$'000	2016 HK$'000
Creditors, deposits received and accrued charges	**2,208,123**	1,226,925

As at 31 December 2017 and 2016, creditors, deposits received and accrued charges included bonuses payable to staff.

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

27. Other Financial Liabilities

	Notes	2017 HK$'000	2016 HK$'000
Current:			
Financial liabilities due to an associate	34(b)	–	1,891,976
Financial liabilities to third party investors	(a)	266,930	325,143
		266,930	2,217,119
Non-current:			
Financial liabilities to third party investors	(a)	1,262,866	1,443,893

(a) Included in the above are mainly balances arising from part of the Group's normal course of business. The Group set up investment funds that issue redeemable units to third party investors. The third party investors can redeem the invested units for cash after the end of the commitment period. The redeemable units held by third party investors were classified as financial liabilities in the consolidated statement of financial position.

28. Bond Payable

	2017 HK$'000	2016 HK$'000
As at 1 January	8,998,400	–
Issued during the year	2,955,875	9,251,600
Exchange adjustments	460,400	(253,200)
As at 31 December	12,414,675	8,998,400

29. Deferred Taxation

The movements in the deferred tax liabilities recognised in the consolidated statement of financial position are as follows:

	Fair value adjustment for available-for-sale securities and financial assets designated at fair value through profit or loss		Withholding tax on subsidiaries' and associates' profit		Total	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
At 1 January	**(701,635)**	(768,958)	**(417,948)**	(252,327)	**(1,119,583)**	(1,021,285)
Charged to profit or loss	**(232,873)**	–	**(44,902)**	(165,621)	**(277,775)**	(165,621)
Reversed from reserve	**244,109**	67,323	**–**	–	**244,109**	67,323
At 31 December	**(690,399)**	(701,635)	**(462,850)**	(417,948)	**(1,153,249)**	(1,119,583)

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$4,258 million (2016: approximately HK$3,697 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 except those incurred by entities registered in the PRC where tax losses can be carried forward for 5 years from the year such losses are incurred.

30. Share Capital

(a) Share capital

	2017 No. of shares ('000)	**2017 HK$'000**	2016 No. of shares ('000)	2016 HK$'000
Ordinary shares issued and fully paid:				
At 1 January	**1,685,254**	**9,618,097**	1,685,254	9,618,097
At 31 December	**1,685,254**	**9,618,097**	1,685,254	9,618,097

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

(b) Capital management

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

Adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, notes payable and a bond payable, plus unaccrued proposed dividends less cash and cash equivalents.

Adjusted capital comprises all components of equity, less unaccrued proposed dividends. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, raise new debt financing or sell assets to reduce debt.

30. Share Capital (continued)

(b) Capital management (continued)

The adjusted net debt-to-capital ratio at 31 December 2017 and 2016 was as follows:

	2017 HK$'000	2016 HK$'000
Current liabilities		
Bank loans	**2,611,257**	4,147,432
Notes payable	**57,000**	27,000
	2,668,257	4,174,432
Non-current liabilities		
Bank loans	**9,374,977**	6,387,706
Notes payable	**–**	30,000
Bond payable	**12,414,675**	8,998,400
Total debt	**24,457,909**	19,590,538
Add: Proposed dividend	**1,011,152**	842,627
Less: Cash and cash equivalents	**(5,178,356)**	(5,959,534)
Adjusted net debt	**20,290,705**	14,473,631
Total equity	**42,344,995**	39,486,395
Less: Proposed dividend	**(1,011,152)**	(842,627)
Adjusted capital	**41,333,843**	38,643,768
Adjusted net debt-to-capital ratio	**49%**	37%

As at 31 December 2017, the Group's liquidity 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 ongoing investment over advances to customers, trading securities, available-for-sale securities and financial assets designated at fair value through profit or loss. To enhance shareholder returns, the Group continues to seek new investment opportunities while maintaining a healthy capital structure.

The Company is not subject to externally imposed capital requirements. Certain subsidiaries of the Company are subject to regulatory imposed capital and liquid capital requirements (see also note 38(b)). These subsidiaries have complied with those requirements at all time during both the current and prior financial years.

31. Statement of Financial Position of the Company

	Notes	**31 December 2017 HK$'000**	31 December 2016 HK$'000
Non-current assets			
Property, plant and equipment		**–**	2
Investments in subsidiaries	16	**3,585,424**	3,585,424
Amounts due from subsidiaries		**18,796,263**	15,311,510
Investment in an associate		**1,682,395**	1,784,192
Available-for-sale securities		**7,512,478**	6,899,152
		31,576,560	27,580,280
Current assets			
Amounts due from subsidiaries		**12,464,646**	7,435,598
Debtors, deposits and prepayments		**57,801**	57,070
Cash and cash equivalents		**38,692**	925,162
		12,561,139	8,417,830
Current liabilities			
Amounts due to subsidiaries		**(10,659,565)**	(5,379,309)
Bank loans		**(25,000)**	(2,937,332)
Creditors, deposits received and accrued charges		**(156,466)**	(85,270)
		(10,841,031)	(8,401,911)
Net current assets		**1,720,108**	15,919
Total assets less current liabilities		**33,296,668**	27,596,199
Non-current liabilities			
Bank loans		**(2,775,888)**	(1,745,212)
Bond payable		**(12,414,675)**	(8,998,400)
Deferred tax liabilities		**(324,439)**	(317,948)
		(15,515,002)	(11,061,560)
NET ASSETS		**17,781,666**	16,534,639
CAPITAL AND RESERVES			
Share capital	30	**9,618,097**	9,618,097
Reserves	32	**8,163,569**	6,916,542
TOTAL EQUITY		**17,781,666**	16,534,639

Approved and authorised for issue by the Board of Directors on 28 March 2018 and signed on behalf of the Board by:

Cai Yunge
Director

Chen Shuang
Director

32. Reserves

(a) The movements in the Company's reserves during the year are as follows:

	Note	Share capital HK$'000	Investment revaluation reserve HK$'000	Retained earnings HK$'000	Total HK$'000
As at 1 January 2016		9,618,097	6,554,881	981,450	17,154,428
Dividends paid	12	–	–	(1,263,940)	(1,263,940)
Profit for the year		–	–	1,707,069	1,707,069
Other comprehensive income for the year		–	(1,062,918)	–	(1,062,918)
As at 31 December 2016 and 1 January 2017		9,618,097	5,491,963	1,424,579	16,534,639
Dividends paid	12	–	–	(1,263,940)	(1,263,940)
Profit for the year		–	–	1,897,641	1,897,641
Other comprehensive income for the year		–	613,326	–	613,326
As at 31 December 2017		9,618,097	6,105,289	2,058,280	17,781,666

32. Reserves (continued)

(b) Nature and purpose of reserves

(i) Investment revaluation reserve

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

(ii) 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 investments in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).

(iii) 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).

(iv) Capital reserve

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

(v) Distributability of reserves

As at 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK$2,058,280,000 (2016: HK$1,424,579,000). After the end of the reporting period, the directors proposed a final dividend of HK$0.6 per share (2016: HK$0.5 per share), amounting to HK$1,011,152,000 (2016: HK$842,627,000) (note 12). This dividend has not been recognised as a liability at the end of the reporting period.

33. Maturity Profile

The maturity profile of the Group's certain financial instruments as at the end of the financial year, based on the contractual discounted payments, is as follows:

As at 31 December 2017

	Indefinite HK$'000	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Total HK$'000
Assets							
– Advances to customers	–	23,647	2,121,354	2,205,611	–	–	4,350,612
– Finance lease receivables	–	–	26	21,348	–	–	21,374
– Trading securities	1,109,842	–	1,006,658	–	–	–	2,116,500
– Available-for-sale securities	12,196,855	–	–	–	–	–	12,196,855
– Financial assets designated at fair value through profit or loss	22,837,811	–	–	–	1,867,744	–	24,705,555
– Cash and cash equivalents	–	3,734,496	1,443,860	–	–	–	5,178,356
	36,144,508	3,758,143	4,571,898	2,226,959	1,867,744	–	48,569,252
Liabilities							
– Bank loans	–	–	(1,171,320)	(1,439,937)	(9,374,977)	–	(11,986,234)
– Other financial liabilities	–	–	(1,904)	(265,026)	(544,608)	(718,258)	(1,529,796)
– Trading securities	(125,032)	–	(5,549)	–	–	–	(130,581)
– Bond payable	–	–	–	–	(8,276,450)	(4,138,225)	(12,414,675)
– Notes payable	–	(27,000)	–	(30,000)	–	–	(57,000)
	(125,032)	(27,000)	(1,178,773)	(1,734,963)	(18,196,035)	(4,856,483)	(26,118,286)

As at 31 December 2016

	Indefinite HK$'000	Repayable on demand HK$'000	3 months or less HK$'000	1 year or less but over 3 months HK$'000	5 years or less but over 1 year HK$'000	After 5 years HK$'000	Total HK$'000
Assets							
– Advances to customers	37,353	194,472	62,054	880,629	572,130	–	1,746,638
– Finance lease receivables	–	–	9,443	29,122	20,138	–	58,703
– Trading securities	498,424	–	604,887	–	–	–	1,103,311
– Available-for-sale securities	15,046,694	–	–	–	67,213	–	15,113,907
– Financial assets designated at fair value through profit or loss	14,807,724	–	–	737,250	1,661,345	–	17,206,319
– Cash and cash equivalents	–	3,201,857	2,757,677	–	–	–	5,959,534
	30,390,195	3,396,329	3,434,061	1,647,001	2,320,826	–	41,188,412
Liabilities							
– Bank loans	–	–	(1,075,772)	(3,071,660)	(6,387,706)	–	(10,535,138)
– Other financial liabilities	–	(1,891,976)	–	(325,143)	(230,422)	(1,213,471)	(3,661,012)
– Trading securities	(80,774)	–	(71,052)	–	–	–	(151,826)
– Bond payable	–	–	–	–	(4,499,200)	(4,499,200)	(8,998,400)
– Notes payable	–	(27,000)	–	–	(30,000)	–	(57,000)
	(80,774)	(1,918,976)	(1,146,824)	(3,396,803)	(11,147,328)	(5,712,671)	(23,403,376)

34. Material Related Party Transactions

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

	2017 HK$'000	2016 HK$'000
Management fee received from:		
– a joint venture	**1,872**	4,090
– associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss	**328,682**	243,206
Loan interest income from:		
– associates exempted from applying the equity method and were recognised as a financial asset designated at fair value through profit or loss	**–**	20,145
Consultancy and other service income from an associate	**21,553**	14,206
Bank interest income from a fellow subsidiary/ a related party bank	**22,427**	10,645
Interest expense to a fellow subsidiary and shareholder	**–**	4,597
Bank loans interest expense to a fellow subsidiary/ a related party bank	**21,611**	17,923
Consultancy fee to		
– an associate	**22,030**	6,699
– a fellow subsidiary and shareholder	**34,384**	–
Dividend income from:		
– associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss	**227,846**	357,096
– a fellow subsidiary/a related party bank	**174,997**	349,290
Remuneration of key management personnel (including the Company's directors) which is included in "staff costs":		
– short-term employee benefits	**69,322**	53,079
– retirement scheme contributions	**455**	347

(b) Except as disclosed elsewhere in the financial statements, included in the consolidated statement of financial position are the following balances with related parties:

	2017 HK$'000	2016 HK$'000
Amounts due from associates (included in debtors, deposits and prepayments)	**91,655**	295,098
Amounts due from associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss (included in debtors, deposits and prepayments)	**44,460**	74,883
Loans to associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss (included in advances to customers)	**210,673**	209,262
Bank deposit with a fellow subsidiary/a related party bank	**2,022,582**	1,451,293
Bank loan from a fellow subsidiary/a related party bank	**(701,955)**	(775,650)
Other financial liabilities due to an associate	**–**	(1,891,976)
Interests in collective investment schemes issued by an associate (included in available-for-sale securities)	**–**	633,680
Interests in collective investment schemes issued by an associate (included in financial assets designated at fair value through profit or loss)	**2,975,203**	2,552,544

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

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

34. Material Related Party Transactions (continued)

(c) Transactions with other PRC state-owned entities

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

(d) Certain related party transactions above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the Directors' Report.

35. Contingent Liabilities

Corporate guarantee

	Note	**2017** **HK$'000**	2016 HK$'000
Guarantee given by the Company to financial institutions in respect of banking facilities granted to subsidiaries	i	**8,996,448**	4,490,425

Note:

i. The Group's subsidiaries have utilised these banking facilities of HK$8,186,260,000 as at 31 December 2017 (2016: HK$4,103,530,000).

36. Commitments

(a) Capital commitment

As at 31 December 2017, the Group had capital commitments as follows:

	2017 **HK$'000**	2016 HK$'000
Contracted but not provided for:		
– a consolidated structured entity	**85,951**	39,605
– a structured entity classified as held for sale	**1,679,294**	–
– a joint venture	**–**	46,539
– unconsolidated structured entities	**4,477,318**	6,765,383
	6,242,563	6,851,527

The above amounts included capital commitment to consolidated and unconsolidated structured entities as disclosed in note 16 and note 37 to the financial statements respectively.

36. Commitments (continued)

(b) Operating lease commitments

As at 31 December 2017, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**13,610**	7,226
After 1 year but within 5 years	**18,939**	296
	32,549	7,522

(c) Future operating lease arrangements

As at 31 December 2017, the Group had future aggregate minimum lease receipts under non-cancellable operating leases for investment properties as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**154**	654
After 1 year but within 5 years	**–**	131
	154	785

(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 2017 are detailed as follows:

	Fair value assets/(liabilities)		Contractual/ notional amounts	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Assets derivative contracts	**30,851**	3,724	**652,592**	179,003
Liabilities derivative contracts	**(13,009)**	(6,570)	**784,691**	338,047

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 consolidated statement of financial position 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.

37. Involvement with Unconsolidated Structured Entities

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

Type of structured entity	Nature and purpose	Interest held by the Group
Investment funds	To generate fees from managing assets on behalf of third party investors and to make investment returns from co-investing in the funds	• Management fees • Investments held in the form of limited partnership interest of the funds
Collective investment schemes	These vehicles are financed through the issue of units to investors	• Investments in units issued by the structured entity

As at 31 December 2017, the carrying values of interests held by the Group in unconsolidated structured entities amounted to HK$15,382,950,000 (2016: HK$8,956,481,000) and HK$836,223,000 (2016: HK$1,683,969,000), which were recognised in financial assets designated at fair value through profit or loss and available-for-sale securities in the consolidated statement of financial position, respectively.

As at 31 December 2017, HK$6,101,690,000 (2016: HK$5,808,593,000) and nil (2016: HK$641,284,000) recognised as financial assets designated at fair value through profit or loss and available-for-sale securities are managed by the Group and its affiliates. The maximum exposure to loss is the carrying value of the assets held. Other than the invested amounts above, the Group also has capital commitment of HK$4,359,926,000 (2016: HK$6,216,601,000) to these unconsolidated structured entities managed by the Group and its affiliates. Other than the committed capital, the Group has no intention to provide financial or other support to these structured entities.

38. Financial Instruments

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

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

(a) Credit risk

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

For advances to customers, the Group requires collateral from customers before advances are granted. The amount of advances 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.

38. Financial Instruments (continued)

(a) Credit risk (continued)

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 end of the reporting period, the Group did not have a significant concentration of credit risk.

The maximum exposure to credit risk without taking into account any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, at the end of the reporting period, deducting any impairment allowance.

(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, 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 reporting date of the Group'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 end of the reporting period) and the earliest date the Group can be required to pay:

	2017				2016			
	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year HK$'000	Carrying amount HK$'000	Total contractual undiscounted cash flows HK$'000	Within 1 year or on demand HK$'000	More than 1 year HK$'000
Creditors, deposits received and accrued charges	2,208,123	2,208,123	2,208,123	–	1,226,925	1,226,925	1,226,925	–
Bank loans	11,986,234	12,939,314	2,955,412	9,983,902	10,535,138	11,137,481	4,395,491	6,741,990
Notes payable	57,000	58,558	58,558	–	57,000	60,552	28,994	31,558
Bond payable	12,414,675	14,588,711	444,209	14,144,502	8,998,400	10,668,883	290,423	10,378,460
Trading securities	130,581	130,581	130,581	–	151,826	151,826	151,826	–
Other financial liabilities	1,529,796	1,529,796	266,930	1,262,866	3,661,012	3,661,012	2,217,119	1,443,893
Amount due to an associate	–	–	–	–	44,896	44,896	44,896	–
Amounts due to investee companies	–	–	–	–	211,632	211,632	211,632	–
	28,326,409	31,455,083	6,063,813	25,391,270	24,886,829	27,163,207	8,567,306	18,595,901

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

38. Financial Instruments (continued)

(c) Interest rate risk

The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range.

The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises from treasury management, customer financing and investment portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. Interest rate risk is managed by the Finance and Accounting Department under the delegated authority of the Board of Directors and is monitored the Risk Management Department. 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 mainly transact in financial instruments that mature or reprice in the short to medium term. Accordingly, the Group would be subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

In respect of interest-bearing financial assets and financial liabilities at variable interest rates, the following table indicates their effective interest rates at the end of the reporting period. It is estimated that as at 31 December 2017, a general increase/decrease of 0.5% in interest rates, with all other variables held constant, would have decreased/increased the Group's profit before tax and retained earnings, by HK$35,627,110/HK$42,804,716 (2016: decrease/increase of HK$23,848,541/HK$30,068,025 for increase/decrease of 0.5% in the interest rate).

The above increase or decrease in the interest rate represents management's assessment of a reasonable change in interest rates over the period until the next annual balance sheet date. It is also assumed that all other variable remain constant. The analysis was performed on the same basis for 2016.

	2017		2016	
	Effective interest rate	**HK$'000**	Effective interest rate	HK$'000
Assets				
Advances to customers	**4.16%**	**390,440**	–	–
Cash and cash equivalents	**1.06%**	**5,178,356**	2.49%	5,959,534
Total interest-bearing assets		**5,568,796**		5,959,534
Liabilities				
Bank loans	**3.13%**	**11,986,234**	2.73%	10,197,698
Total interest-bearing liabilities		**11,986,234**		10,197,698

38. Financial Instruments (continued)

(d) Currency risk

The Group's exposure to currency risk primarily stems from holdings of monetary assets and liabilities denominated in foreign currencies, other than Hong Kong dollars and net investment in foreign operations. As most of the Group's monetary assets and liabilities and net investment in foreign operations are denominated in Hong Kong dollars, Renminbi, United States dollars and Singapore dollars, management is aware of the likely increase in volatility in these currencies and takes a balanced view when considering the management of currency risk.

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

As at the end of the reporting period, 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 shown in the table below:

	2017			2016		
	In USD	**In RMB**	**In SGD**	In USD	In RMB	In SGD
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Available-for-sale securities	**603,881**	**8,056,675**	**–**	968,869	9,232,820	–
Financial assets designated at fair value through profit or loss	**8,271,515**	**620,947**	**184,279**	6,152,099	616,076	97,720
Advances to customers	**4,247,747**	**–**	**–**	1,195,485	–	–
Amounts due from investee companies	**169,467**	**–**	**–**	207,266	–	–
Amounts due from associates	**–**	**–**	**–**	–	1,648,988	–
Debtors, deposits and prepayments	**311,694**	**85,801**	**–**	671,007	133,193	–
Trading securities	**–**	**565,843**	**–**	–	158,252	–
Cash and cash equivalents	**485,893**	**613,483**	**3,328**	348,278	1,551,229	5,179
Disposal group held for sale	**–**	**–**	**–**	880,064	–	–
Bank loans	**(8,107,108)**	**(833,557)**	**–**	(7,860,395)	(1,239,363)	–
Bond payable	**–**	**(12,414,675)**	**–**	–	(8,998,400)	–
Other financial liabilities	**(28,456)**	**(370,446)**	**–**	21,312	–	–
Creditors, deposits received and accrued charges	**(324,457)**	**(275,963)**	**–**	(343,941)	(36,739)	–
Net exposure arising from recognised assets and liabilities	**5,630,176**	**(3,951,892)**	**187,607**	2,240,044	3,066,056	102,899

NOTES TO THE FINANCIAL STATEMENTS *(CONTINUED)*

38. Financial Instruments (continued)

(d) Currency risk (continued)

An analysis of the estimated material change in the Group's profit before tax and other components of consolidated equity in response to reasonably possible changes in the Renminbi's exchange rate to which the Group has significant exposure at the end of the reporting period is presented in the following table.

	2017			2016		
	Increase/ (decrease) in exchange rates	Effect on profit before tax HK$'000	Effect on other components of equity HK$'000	Increase/ (decrease) in exchange rates	Effect on profit before tax HK$'000	Effect on other components of equity HK$'000
Renminbi, RMB	1%	(120,086)	80,567	1%	(61,668)	92,328
	(1%)	120,086	(80,567)	(1%)	61,668	(92,328)

The above analysis assumes the change in the Renminbi's exchange rate had occurred at the end of the reporting period 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 analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The Hong Kong dollar is pegged to the United States dollar and it is assumed that this situation will stay materially unaffected by any fluctuation of the United States dollar against other currencies. The analysis was performed on the same basis for 2016.

(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) and financial assets designated as fair value through profit or loss (see note 20). Other than unlisted securities held for medium to long-term strategic purposes, all of these investments are listed.

The Group's investments in listed equity instruments are mainly listed on the Stock Exchange of Hong Kong, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Decisions to buy or sell trading securities rest with assigned investment team professionals and each investment portfolio is governed by specific investment and risk management guidelines. Independent daily monitoring of each portfolio against the corresponding guidelines is carried out by the Risk Management Department. Listed equity instruments held in the available-for-sale securities and financial assets designated at 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 investments in unquoted equity instruments is assessed periodically, based on the information available to the Group.

38. Financial Instruments (continued)

(e) Equity price risk (continued)

The following table shows the approximate changes in the Group's profit before tax (and retained earnings) in response to reasonable change in the value of the relevant listed and unlisted equity investments. The analysis was performed on the same basis for 2016:

	2017			2016		
	Increase/ (decrease) in equity price	**Effect on profit before tax and retained profits HK$'000**	**Effect on other components of equity HK$'000**	Increase/ (decrease) in equity price	Effect on profit before tax and retained profits HK$'000	Effect on other components of equity HK$'000
Listed equity investments	**10%**	**190,112**	**929,387**	10%	141,074	1,038,222
	(10%)	**(190,112)**	**(929,387)**	(10%)	(145,929)	(1,033,367)
Unlisted equity investments	**5%**	**1,033,492**	**118,258**	5%	697,123	206,903
	(5%)	**(1,035,022)**	**(116,728)**	(5%)	(698,786)	(205,240)

(f) Offsetting financial assets and financial liabilities

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

Financial assets	**Gross amounts of recognised financial assets HK$'000**	**Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000**	**Net amounts of financial assets presented in the consolidated statement of financial position HK$'000**	**Related amounts not set off in the consolidated statement of financial position HK$'000**	**Net amount HK$'000**
As at 31 December 2017					
Trading securities	**1,646,634**	**–**	**1,646,634**	**(126,324)**	**1,520,310**
Debtors, deposits and prepayments	**208,331**	**–**	**208,331**	**–**	**208,331**
As at 31 December 2016					
Trading securities	714,353	–	714,353	(148,884)	565,469
Debtors, deposits and prepayments	219,084	–	219,084	–	219,084

38. Financial Instruments (continued)

(f) Offsetting financial assets and financial liabilities (continued)

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

Financial liabilities	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000	Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000	Related amounts not set off in the consolidated statement of financial position HK$'000	Net amount HK$'000
As at 31 December 2017					
Trading securities	**130,581**	**–**	**130,581**	**(126,324)**	**4,257**
Creditors, deposits received and accrued charges	**567,264**	**–**	**567,264**	**–**	**567,264**
As at 31 December 2016					
Trading securities	151,826	–	151,826	(148,884)	2,942
Creditors, deposits received and accrued charges	276,491	–	276,491	–	276,491

Reconciliation to the net amount of financial assets and financial liabilities presented in the consolidated statement of financial position

Financial assets	Net amount HK$'000	Carrying amounts in the consolidated statement of financial position HK$'000	Financial assets not in scope of offsetting disclosure HK$'000	Notes
As at 31 December 2017				
Trading securities	**1,646,634**	**2,116,500**	**469,866**	**23**
Debtors, deposits and prepayments	**208,331**	**1,393,768**	**1,185,437**	**22**
As at 31 December 2016				
Trading securities	714,353	1,103,311	388,958	23
Debtors, deposits and prepayments	219,084	3,331,336	3,112,252	22

Financial liabilities	Net amount HK$'000	Carrying amounts in the consolidated statement of financial position HK$'000	Financial liabilities not in scope of offsetting disclosure HK$'000	Notes
As at 31 December 2017				
Trading securities	**130,581**	**130,581**	**–**	**23**
Creditors, deposits received and accrued charges	**567,264**	**2,208,123**	**1,640,859**	**26**
As at 31 December 2016				
Trading securities	151,826	151,826	–	23
Creditors, deposits received and accrued charges	276,491	1,226,925	950,434	26

39. Fair Values of Financial Instruments

Fair value hierarchy

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

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

- Level 3 valuations: Fair value measured using significant unobservable inputs

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

In addition to the above valuer, the Group also takes reference to the valuation reports performed by other professional valuers to ascertain the fair values of certain investments with underlying interests in real estate investments and some other private equity investments.

As at 31 December 2017

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Recurring fair value measurement				
Assets				
Available-for-sale securities	8,413,993	200,448	3,582,414	12,196,855
Financial assets designated at fair value through profit or loss	509,407	–	24,196,148	24,705,555
Trading securities	1,999,981	116,519	–	2,116,500
	10,923,381	316,967	27,778,562	39,018,910
Liabilities				
Trading securities	(117,572)	(13,009)	–	(130,581)

39. Fair Values of Financial Instruments (continued)

As at 31 December 2016

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Recurring fair value measurement				
Assets				
Available-for-sale securities	9,572,940	141,696	5,399,271	15,113,907
Financial assets designated at fair value through profit or loss	541,993	–	16,664,326	17,206,319
Trading securities	1,066,568	36,743	–	1,103,311
	11,181,501	178,439	22,063,597	33,423,537
Liabilities				
Trading securities	(145,257)	(6,569)	–	(151,826)

All financial instruments including financial instruments measured at amortised cost, were stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2017 and 2016.

As at 31 December 2017, one of the available-for-sale securities with a fair value of HK$893,195,000 was previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As an unadjusted quoted price is available in the active market, the fair value measurement of these equity securities were accordingly transferred from Level 3 to Level 1 of the fair value hierarchy.

39. Fair Values of Financial Instruments (continued)

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of listed and unlisted debt securities and derivatives in Level 2 is determined using broker quotes. The fair value of an unlisted investment fund in Level 2 is determined by the net asset value of the investment fund.

Information about Level 3 fair value measurements

As at 31 December 2017

Valuation techniques	Significant unobservable inputs	Range	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss HK$'000	Favourable/ (unfavourable) impact on other comprehensive income HK$'000
Market comparable companies	Discount for lack of marketability	20% to 30%	5%	(40,547)	(9,132)
			(5%)	40,547	9,132
	Market multiples	1.1 to 60.4	5%	110,146	22,742
			(5%)	(110,146)	(22,742)
Binomial model and equity allocation model	Discount rate	3.58% to 15.87%	5%	(16,195)	–
			(5%)	17,621	–
	Volatility	16.81% to 55.92%	5%	1,784	–
			(5%)	(2,580)	–
Put option model	Discount for lack of marketability for restricted shares	4.1% to 50%	5%	–	(45,940)
			(5%)	–	45,940

As at 31 December 2016

Valuation techniques	Significant unobservable inputs	Range	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss HK$'000	Favourable/ (unfavourable) impact on other comprehensive income HK$'000
Market comparable companies	Discount for lack of marketability	20% to 30%	5%	(24,105)	(17,383)
			(5%)	24,105	17,383
	Market multiples	2.2 to 43.9	5%	59,295	48,188
			(5%)	(59,295)	(48,188)
Binomial model and equity allocation model	Discount rate	4.27% to 18.56%	5%	(32,174)	–
			(5%)	32,152	–
	Volatility	35.23% to 96.50%	5%	11,373	–
			(5%)	(12,768)	–
Discounted transaction price	Control premium	20%	5%	(16,600)	–
			(5%)	16,600	–
Put option model	Discount for lack of marketability for restricted shares	5.7% to 11%	5%	–	(5,366)
			(5%)	–	5,366

39. Fair Values of Financial Instruments (continued)

Information about Level 3 fair value measurements (continued)

Other than using the recent transaction approach as the valuation technique in determining the fair value of level 3 financial instruments, the valuation techniques in estimating the fair value of other financial instruments are described as follows:

The fair value of unquoted equity investments is estimated using an appropriate combination of:

(1) making reference to capital statements, management information and valuation reports provided by third parties,

(2) deducing from prices recently paid for similar assets, quoted market prices in active markets and the financial indicators of the transacted assets such as net book value and net operating profit; and

(3) applying, if possible, price to earnings ("P/E") ratios, price to book ("P/B") ratios, enterprise value to earnings before interest, taxes, depreciation and amortisation ("EV/EBITDA") ratios and enterprise value to sales ("EV/Sales") ratios for similar listed companies adjusted to reflect the specific circumstances of the investments.

The Group has certain shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange, which are subject to restriction on sales for defined periods. The fair value measurement reflected the effect of such restriction with an adjustment to the quoted price of otherwise similar but unrestricted securities and the adjustment was referenced to put option models.

The fair value of preference shares and debt securities are estimated using the equity allocation model and discounted future cash flows respectively. 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 end of the reporting period taking into account current market conditions. The discount rate used is a market rate for a similar instrument at the end of the reporting period. 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 end of the reporting period.

The movements during the year in the balance of these Level 3 financial instruments are as follows:

	Available-for-sale securities HK$'000	Financial assets designated at fair value through profit or loss HK$'000
At 1 January 2016	6,324,293	9,944,002
Purchased	774,472	11,355,761
Net unrealised gain or loss recognised in other comprehensive income	1,641,278	–
Net unrealised gain or loss recognised in profit or loss	–	552,526
Sold	(3,474,866)	(5,485,415)
Reclassification	134,094	297,452
At 31 December 2016 and 1 January 2017	5,399,271	16,664,326
Purchased	**22,820**	**11,823,550**
Net unrealised gain or loss recognised in other comprehensive income	**377,036**	**–**
Net unrealised gain or loss recognised in profit or loss	**–**	**2,672,415**
Sold	**(1,323,518)**	**(6,964,143)**
Reclassification	**(893,195)**	**–**
At 31 December 2017	**3,582,414**	**24,196,148**

40. Notes to the Consolidated Statement of Cash Flows

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

	2017 HK$'000	2016 HK$'000
Profit before taxation	**5,145,559**	6,981,115
Interest income on bank deposits	**(69,371)**	(57,110)
Interest expenses	**749,311**	572,182
Dividend income	**(576,011)**	(1,071,210)
Share of profits less losses of joint ventures	**(72,018)**	(73,828)
Share of profits less losses of associates	**(1,300,456)**	(1,227,495)
Gain on deemed disposal of interests in associates	**–**	(160,631)
Depreciation and amortisation expenses	**30,960**	23,803
Realised gain on disposal of associates	**(293,503)**	(344,378)
Net realised gain on disposal of financial assets designated at fair value through profit or loss	**(309,216)**	(1,058,729)
Net realised loss on discharge of financial liabilities designated at fair value through profit or loss	**202,996**	–
Net unrealised (gain)/loss on financial assets designated at fair value through profit or loss	**(1,172,703)**	1,272,180
Gain on losing control of subsidiaries	**(60,384)**	(2,307,678)
Net realised gain on disposal of available-for-sale securities	**(2,058,420)**	(2,594,412)
Net surplus on revaluation of investment properties	**(4,800)**	(14,700)
Gain on disposal of investment properties	**(360)**	–
Impairment loss on available-for-sale securities	**203,247**	548,779
Impairment loss on amount due from an investee company	**3,423**	10,907
Impairment loss on advances to customers	**37,605**	43,316
Impairment loss on debtors, deposits and prepayments	**33,722**	11,052
Reversal of impairment loss on amount due from an investee company	**–**	(3,076)
Reversal of impairment loss on debtors, deposits and prepayments	**(5,657)**	(572)
Profit from disposal group held for sale	**(207,604)**	(78,747)
Cash inflow before working capital changes	**276,320**	470,768
(Increase)/decrease in advances to customers	**(2,603,974)**	2,343,346
Decrease in finance lease receivables	**37,329**	42,231
Decrease/(increase) in debtors, deposits and prepayments	**1,583,675**	(2,213,765)
Decrease in amounts due from joint ventures	**–**	6,839
Decrease/(increase) in amounts due from associates	**1,648,988**	(1,147,117)
Increase in trading securities	**(1,034,434)**	(120,337)
Decrease in amounts due from investee companies	**87,414**	10,159
Increase in creditors, deposits received and accrued charges	**975,796**	205,171
(Decrease)/increase in an amount due to an associate	**(44,896)**	44,896
Decrease in an amount due to a joint venture	**–**	(427)
Decrease in amount due to an investee company	**(211,632)**	(13,328)
Hong Kong profits tax (paid)/refunded	**(32,113)**	10,424
Overseas profits tax paid	**(820,272)**	(383,774)
Interest paid	**(667,791)**	(499,453)
Net cash outflow from operating activities	**(805,590)**	(1,244,367)

40. Notes to the Consolidated Statement of Cash Flows (continued)

(b) Losing control of subsidiaries

During the year, the Group lost control of subsidiaries. The fair values of the assets and liabilities disposed of were as follows:

	2017 HK$'000	2016 HK$'000
Proceeds from losing control of subsidiaries	257,774	–
Less: Cash of subsidiaries	(402,393)	(560,926)
Net cash outflow from losing control of subsidiaries	(144,619)	(560,926)
Less: Available-for-sale securities	(192,252)	–
Less: Financial assets designated at fair value through profit or loss	(143,187)	–
Less: Other debtors and prepayment	(7,499)	(396,859)
Add: Creditors, deposits received and accrued charges	337	378,451
Add: Non-controlling interests	547,604	–
	60,384	(579,334)
Add: Amount due from an associate (note i)	–	1,559,015
Add: Associates exempted from applying the equity method and were recognised as a financial assets designated at fair value through profit or loss (note ii)	–	1,327,997
Gain on losing control of subsidiaries	60,384	2,307,678

Note i On 2 November 2016, the Group entered into a sale and purchase agreement with an associate to sell 51% equity interests in two subsidiaries of the Group. The transaction was completed on 30 December 2016. As at 31 December 2016, the net consideration of HK$1,559,015,000 was included as part of the amount due from an associate.

Note ii Following the disposal of the 51% controlling equity interests in the above-mentioned two subsidiaries, the Group classified its remaining 49% interest as financial assets designated at fair value through profit or loss with a fair value of HK$1,327,997,000.

(c) Changes in liabilities arising from financing activities

	1 January 2017 HK$'000	Net cash flows HK$'000	Foreign exchange movement HK$'000	Dividend declared HK$'000	31 December 2017 HK$'000
Long-term bank loans	6,387,706	2,987,271	–	–	9,374,977
Short-term bank loans	4,147,432	(1,698,628)	162,453	–	2,611,257
Notes payable	57,000	–	–	–	57,000
Dividend payable	–	(1,263,940)	–	1,263,940	–
Bond payable	8,998,400	2,955,875	460,400	–	12,414,675
Total liabilities from financing activities	19,590,538	2,980,578	622,853	1,263,940	24,457,909

41. 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:

Fund Management Business

Fund management business refers that the Group raises funds from external investors and deploys the Group's seed capital into specific clients, applies its professional knowledge and experience to make investment decisions on the capital according to laws, regulations and the fund's prospectus, while seeking to maximise gains for investors. The fund management business is comprised of primary market investment, secondary market investment, Fund of Funds ("FoF") and Wealth Management.

- Primary market investment includes:

  – Private equity funds – investment in unlisted equity securities and/or equity derivatives with meaningful equity position for participating in the ongoing management of these companies, and with an ultimate objective of capital gain on investee's equity listing or through other exit channels;

  – Venture capital funds – invest primarily in companies at the start-up and development stage, or companies which are still in the business planning stage. The investment goal is to achieve a higher return assuming manageable and higher risk by providing investee companies with assistance in investment, financing, management and listing in order to enhance the development of such companies;

  – Sector focus funds – focus specifically on long-term equity investment in specific industries or merger and acquisition opportunities. The investment areas include real estate, infrastructure, medical and healthcare, resources assets (including low carbon and new energy industries), manufacturing, technology, media and telecom ("TMT") as well as merger and acquisition opportunities;

  – Mezzanine funds – focus on private equity investment, pre-IPO financing and structured financing for listed companies and major shareholders of listed companies. It uses foreign currencies and/or renminbi flexibly to fulfill the onshore and offshore financial needs of its target companies. The investment team follows clear, uncomplicated investment philosophies by adopting a conservative, diversified and flexible investment approach that aims for above-market returns on investment with below-average levels of business risk; and

  – Overseas investment funds – The Group's overseas investment funds leverage on the Group's business resources and networks, and expect to provide value-added support for investee companies outside China. In particular, the overseas investment funds plan to introduce its portfolio companies' products and technologies to the enormous Chinese market so as to create and enhance the value of the portfolio companies, and ultimately create investment returns to investors.

- Secondary market investment – provides a diversified range of financial services, including asset management, investment management and investment advisory activities. Products include absolute return funds, bond funds and equity funds.

- Fund of Funds investment or "FoF" – FoF invested in both funds initiated and managed by the Group as well as external funds with proven track records of performance and governance. FoF can provide one-stop solution that offers liquidity and potential returns for mega-size institutions.

- Wealth Management – Everbright Prestige has become an important carrier and business platform for the Group's asset management business in mainland China. It engages in asset management for specific clients and other business activities authorised by the China Securities Regulatory Commission. The business can provide advisory services directly to specific customers including Qualified Foreign Institutional Investors ("QFII"), onshore insurance companies and other institutions which are set up and operate according to the law. Everbright Prestige demonstrate its value in four areas including assets under management contribution, product creation and design, distribution channels and client consolidation, and the creation of more "Everbright" synergy.

41. Segment Information (continued)

Principal Investment

The Group fully utilises its proprietary capital to achieve four goals: (1) invest in medium to long term business and industries with strategic value; (2) nurture investment teams and developing high quality financial products to promote and support fund management business; (3) invest in the Group's or external projects, funds or products to maximise returns within controlled risk levels and contribute to steady long-term revenue; (4) improve cash flow by treasury management. In addition, it also covers business to be reportable (including but not limited to the Group's investment in properties and other corporate activities).

Strategic Investment

This represents strategic investment in Everbright Securities and Everbright Bank.

(a) Business segments

For the year ended 31 December 2017:

	Continuing operations							Discontinued operations		
	Fund Management Business									
	Primary Market HK$'000	Secondary Market HK$'000	Fund of Funds HK$'000	Wealth Management HK$'000	Principal Investment HK$'000	Strategic Investment HK$'000	Reportable segments total HK$'000	Fund Management Business HK$'000	Principal Investment HK$'000	Total HK$'000
INCOME										
Operating income from external customers	711,121	563,417	12,337	–	305,083	174,997	1,766,955	–	–	1,766,955
Other net income from external customers	1,526,138	20,181	–	–	1,921,888	293,503	3,761,710	–	–	3,761,710
Total operating income and other net income	2,237,259	583,598	12,337	–	2,226,971	468,500	5,528,665	–	–	5,528,665
RESULTS AND RECONCILIATION OF SEGMENT RESULTS										
Segment results before non-controlling interests	1,864,696	509,498	7,519	–	1,936,696	396,880	4,715,289	204,956	2,648	4,922,893
Unallocated head office and corporate expenses										(1,149,808)
Share of profits less losses of associates	87,538	–	–	7,541	370,086	835,291	1,300,456	–	–	1,300,456
Share of profits less losses of joint ventures	706	–	–	71,312	–	–	72,018	–	–	72,018
Profit before taxation										5,145,559
Less: non-controlling interests	(150,766)	(9,843)	–	–	16,889	–	(143,720)	–	–	
Segment results	1,802,174	499,655	7,519	78,853	2,323,671	1,232,171	5,944,043	204,956	2,648	
Interest income	139,555	26,304	–	–	232,375	–	398,234	–	–	398,234
Finance costs	–	5,453	–	–	743,858	–	749,311	–	–	749,311
Depreciation and amortisation expenses	1,278	1,230	12	–	28,440	–	30,960	–	–	30,960
Impairment loss on available-for-sale securities	80,500	7,299	–	–	115,448	–	203,247	–	–	203,247

41. Segment Information (continued)

(a) Business segments (continued)

For the year ended 31 December 2016 (Restated):

	Continuing operations							Discontinued operations	
	Fund Management Business								
	Primary Market HK$'000	Secondary Market HK$'000	Fund of Funds HK$'000	Wealth Management HK$'000	Principal Investment HK$'000	Strategic Investment HK$'000	Reportable segments total HK$'000	Principal Investment HK$'000	Total HK$'000
INCOME									
Operating income from external customers	985,435	341,775	5,482	–	487,833	349,290	2,169,815	–	2,169,815
Other net income from external customers	4,494,990	20,271	56,098	–	300,724	343,032	5,215,115	–	5,215,115
Total operating income and other net income	5,480,425	362,046	61,580	–	788,557	692,322	7,384,930	–	7,384,930
RESULTS AND RECONCILIATION OF SEGMENT RESULTS									
Segment results before non-controlling interests	4,994,970	279,990	61,580	–	178,966	691,790	6,207,296	78,747	6,286,043
Unallocated head office and corporate expenses									(766,882)
Share of profits less losses of associates	33,025	–	–	32,582	265,876	896,012	1,227,495	–	1,227,495
Share of profits less losses of joint ventures	73,828	–	–	–	–	–	73,828	–	73,828
Net gain on deemed disposal of interest in associates	–	–	–	–	40,474	120,157	160,631	–	160,631
Profit before taxation									6,981,115
Less: non-controlling interests	(1,573,967)	4,927	–	–	(12,860)	–	(1,581,900)	(16,714)	
Segment results	3,527,856	284,917	61,580	32,582	472,456	1,707,959	6,087,350	62,033	
Interest income	65,459	23,280	–	–	147,388	–	236,127	–	236,127
Finance costs	1,303	8,244	–	–	562,635	–	572,182	–	572,182
Depreciation and amortisation expenses	1,730	1,502	–	–	20,571	–	23,803	–	23,803
Impairment loss on available-for-sale securities	209,708	–	–	–	339,071	–	548,779	–	548,779

41. Segment Information (continued)

(a) Business segments (continued)

Other Information

As at 31 December 2017

	Continuing operations							Discontinued operations	
	Fund Management Business								
	Primary Market HK$'000	Secondary Market HK$'000	Fund of Funds HK$'000	Wealth Management HK$'000	Principal Investment HK$'000	Strategic Investment HK$'000	Reportable segments total HK$'000	Fund Management Business HK$'000	Total HK$'000
Segment assets	20,016,634	4,151,247	670,232	–	18,263,195	7,512,478	50,613,786	908,948	51,522,734
Investments in associates	3,786,466	–	–	–	1,423,899	13,542,889	18,753,254	–	18,753,254
Investments in joint ventures	325,551	–	–	590,657	–	–	916,208	–	916,208
Amounts due from investee companies	155,044	–	–	–	32,232	–	187,276	–	187,276
Amount due from an associate	–	–	–	–	1,000,000	–	1,000,000	–	1,000,000
Finance lease receivables	–	–	–	–	21,374	–	21,374	–	21,374
Unallocated head office and corporate assets									517,425
Total assets									72,918,271
Segment liabilities	2,295,114	538,808	–	–	621,423	–	3,455,345	426,502	3,881,847
Unallocated head office and corporate liabilities									24,871,064
Provision for taxation									667,116
Deferred tax liabilities									1,153,249
Total liabilities									30,573,276

41. Segment Information (continued)

(a) Business segments (continued)

Other Information (continued)
As at 31 December 2016 (Restated):

	Continuing operations							Discontinued operations	
	Fund Management Business								
	Primary Market HK$'000	Secondary Market HK$'000	Fund of Funds HK$'000	Wealth Management HK$'000	Principal Investment HK$'000	Strategic Investment HK$'000	Reportable segments total HK$'000	Principal Investment HK$'000	Total HK$'000
Segment assets	17,326,498	2,308,516	618,507	–	17,448,046	6,899,152	44,600,719	3,057,129	47,657,848
Investments in associates	1,929,975	–	–	115,945	1,002,669	13,038,663	16,087,252	–	16,087,252
Investments in joint ventures	351,445	–	–	–	–	–	351,445	–	351,445
Amounts due from investee companies	186,040	–	–	–	90,658	–	276,698	–	276,698
Amounts due from associates	1,648,988	–	–	–	1,000,000	–	2,648,988	–	2,648,988
Finance lease receivables	–	–	–	–	58,703	–	58,703	–	58,703
Unallocated head office and corporate assets									414,402
Total assets									67,495,336
Segment liabilities	2,398,175	178,254	–	–	2,858,166	–	5,434,595	955,708	6,390,303
Amount due to an associate	–	–	–	44,896	–	–	44,896	–	44,896
Amounts due to investee companies	–	–	–	–	211,632	–	211,632	–	211,632
Unallocated head office and corporate liabilities									19,195,706
Provision for taxation									1,046,821
Deferred tax liabilities									1,119,583
Total liabilities									28,008,941

41. Segment Information (continued)

(b) Geographical segments

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

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Segment revenue						
Operating income	**893,096**	**873,859**	**1,766,955**	632,107	1,537,708	2,169,815
Other net income	**660,997**	**3,100,713**	**3,761,710**	729,746	4,485,369	5,215,115
	1,554,093	**3,974,572**	**5,528,665**	1,361,853	6,023,077	7,384,930

	For the year ended 31 December 2017			For the year ended 31 December 2016		
	Hong Kong HK$'000	**Mainland China HK$'000**	**Total HK$'000**	Hong Kong HK$'000	Mainland China HK$'000	Total HK$'000
Specified non-current assets	**1,729,486**	**18,450,955**	**20,180,441**	1,365,573	15,627,200	16,992,773

42. Accounting Estimates and Judgements

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

42. Accounting Estimates and Judgements (continued)

(a) Sources of estimation uncertainty

(i) Unlisted investments

The fair values 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 39.

(ii) Advances to customers

Advances to customers are reviewed periodically to assess whether impairment losses exist. The Group makes judgements 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 will be 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) Tax provision

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

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

(i) Structured entities managed by the Group and its affiliates

The Group and its affiliates, acting as the general partners or investment managers to a number of structured entities (investment funds and collective investment schemes), has provided seed capital for the set up of these structured entities. When determining whether the Group controls these structured entities, usually the level of aggregate economic interests of the Group in these funds and the level of investors' rights to remove the general partners or investment managers are considered. The Group determines that it has no control over some structured entities since the level of aggregate economic interests of the Group in those structured entities is not so significant that it gives the Group control over the structured entities, or the Group cannot control the general partners or investment managers, after taking into consideration the level of investors' rights to remove the general managers or investment managers and the power of other investors over the general partners or investment managers. The Group determines that it has control over some structured entities and has consolidated them. Further details of unconsolidated structured entities are set out in note 37.

(ii) Involvement with unconsolidated structured entities

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

43. Banking Facilities and Pledge of Assets

Aggregate banking facilities of the Group as at 31 December 2017 amounted to HK$18,880 million (2016: HK$15,453 million). The Group has utilised HK$11,986 million (2016: HK$10,535 million) of these facilities.

As at 31 December 2017, no fixed deposits (2016: Nil) were pledged to secure banking facilities.

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 2017, assets deposited with the prime brokers include HK$1,306 million (2016: HK$640 million) and HK$160 million (2016: HK$75 million) which form part of the Group's trading securities and debtors respectively.

44. Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments* [1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation* [2]
HKFRS 15	*Revenue from Contracts with Customers* [1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers* [1]
HKFRS 16	*Leases* [2]
Amendments to HKAS 40	*Transfers of Investment Property* [1]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration* [1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments* [2]
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28 [1]

1 Effective for annual periods beginning on or after 1 January 2018

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

Other than as explained below regarding the impact of new HKFRSs not yet applied, the Group expect to adopt the amendments and interpretations on the required effective date. The amendments and interpretations are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting.

44. Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed an assessment on the impact of the adoption of HKFRS 9. The expected impacts are summarised as follows:

(a) Classification and measurement

It expects to continue measuring at fair value all financial assets currently held at fair value. Certain investments currently held as available-for-sale with gains and losses recorded in other comprehensive income ("OCI") will be categorised into financial assets measured at fair value through OCI and the investment revaluation reserve of HK$6,105 million related to the investments will be retained.

Other investments currently held as available-for-sale with gains and losses recorded in OCI will, instead, be measured at fair value through profit or loss, which will increase volatility in profit or loss. The investment revaluation reserve of HK$1,219 million related to those investments, which is currently presented as accumulated OCI, will be reclassified to retained earnings.

Loans and receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group has analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under HKFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

HKFRS 9 requires the Group to record expected credit losses on all of its assets measured at amortised cost, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on trade receivables. The Group has assessed that the increase in loss allowance will not be significant to the Group.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and expects that there is no significant impact on the financial statements upon the adoption of HKFRS 15.

44. Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

45. Approval of Financial Statements

The financial statements on pages 114 to 194 were approved and authorised for issue by the Board of Directors on 28 March 2018.

FINANCIAL SUMMARY

Results

	For the years ended 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Turnover	8,157,205	6,622,673	10,411,567	8,069,450	**8,454,405**
Operating profit after finance costs	1,556,452	1,577,972	1,157,844	5,440,414	**3,565,481**
Gain on deemed disposal of interest in a joint venture	–	139,654	–	–	**–**
Net gain on deemed disposal of interests in associates	–	–	1,304,042	160,631	**–**
Share of adjusted profits less losses of associates and joint ventures	243,188	1,254,541	3,255,437	1,301,323	**1,372,474**
Profit before taxation	1,799,640	2,972,167	5,717,323	6,902,368	**4,937,955**
Income tax	(51,742)	(88,896)	(452,449)	(1,308,119)	**(853,497)**
Profit from continuing operations	1,747,898	2,883,271	5,264,874	5,594,249	**4,084,458**
Discontinued operations	–	–	56,423	78,747	**207,604**
Profit for the year	1,747,898	2,883,271	5,321,297	5,672,996	**4,292,062**
Attributable to:					
Equity shareholders of the Company	1,346,548	2,559,688	5,143,994	4,074,382	**4,148,342**
Non-controlling interests	401,350	323,583	177,303	1,598,614	**143,720**
	1,747,898	2,883,271	5,321,297	5,672,996	**4,292,062**
Earnings per share (HK$)	0.783	1.514	3.052	2.418	**2.461**

Assets and Liabilities

	As at 31 December				
	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	**2017** **HK$'000**
Total assets	37,054,770	52,634,371	65,281,043	67,495,336	**72,918,271**
Total liabilities	(5,325,857)	(14,443,785)	(22,333,534)	(28,008,941)	**(30,573,276)**
Non-controlling interests	(3,024,926)	(3,216,456)	(3,581,344)	(2,276,904)	**(1,674,584)**
Shareholders' fund	28,703,987	34,974,130	39,366,165	37,209,491	**40,670,411**

PARTICULARS OF MAJOR PROPERTIES

Location	Site area/Gross floor area	Tenure	Use
Hong Kong			
46th Floor, Far East Finance Centre, 16 Harcourt Road	Gross floor area of 10,800 sq. ft.	Government lease for 75 years from 23rd July 1980, renewable for another 75 years	Commercial
40th Floor, Far East Finance Centre, 16 Harcourt Road	Gross floor area of 10,800 sq. ft.	Government lease for 75 years from 23rd July 1980, renewable for another 75 years	Commercial
Flat A, 27/F, 1 Star Street, Wanchai	Gross floor area of 655 sq. ft.	Government lease for 75 years from 22nd August 1928 (extended for another 75 years)	Residential
Flat H, 6th Floor, Tower 10, South Horizons, Ap Lei Chau	Gross floor area of 1,096 sq. ft.	Government lease from 28th January 1988 to 31st March 2040	Residential
Flat 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 No. 9 on Podium Level 2, Phase III, South Horizons, Ap Lei Chau	Not applicable	Government lease from 28th January 1988 to 31st March 2040	Carpark
Mainland China			
Units 1-17, 8th Floor, Industrial Bank Building, 4013 Shennan Road, Futian District, Shenzhen	Gross floor area of 1,241.25 sq.m.	Land use rights 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 rights 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 rights for 50 years from 25th February 1997	Commercial

CORPORATE INFORMATION

Board of Directors

Cai Yunge	Chairman
Chen Shuang	Chief Executive Officer
Tang Chi Chun, Richard	Chief Financial Officer
Zhang Mingao	Chief Investment Officer
Yin Lianchen	Chief Investment Officer
Seto Gin Chung, John*	
Lin Zhijun*	
Chung Shui Ming, Timpson*	

* Independent Non-executive Directors

Company Secretary
Chan Ming Kin, Desmond

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46th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Bankers
China Everbright Bank Company Limited
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank Corporation
Agricultural Bank of China Limited
Bank of Communications Company, Limited
Shanghai Pudong Development Bank Company, Limited
DBS Bank Ltd., Hong Kong Branch

Legal Advisors
Grandall Legal Group (Shanghai) Office

Share Registrars
Tricor Secretaries Limited
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