光大控股
EVERBRIGHT

The Power to *Transform*
專注致遠　順勢有為

# EMBRACE THE UNKNOWN
# CHANGE FOR CHANCES

# 洞悉變局　創造機遇

ANNUAL REPORT 2019 | stock code : 165

# COVER STORY


## EMBRACE THE UNKNOWN CHANGE FOR CHANCES

"Go board featuring myriads of changes" – with infinite number of possible gambits of up to 171st power of ten, Go is a board game which is "inexhaustible as Heaven and Earth, unending as the flow of rivers and streams". Though simple to play, it is regarded as the world's most sophisticated and kaleidoscopic strategy game.

With its ever-changing and challenging characteristics resembling the market trend, every move on the board has the potential to turn the game around. Top-notch players have high capability to concentrate, organise, perceive and drive on, equipped with individual intelligence and experience to face the dynamics of the game. When an advantageous layout is being built up on the board, the underlying power of every piece on the board can be released by "one single best move". Grasping such edge will help bring victory.

Like a board game player, CEL team will capitalise our spirits in the midst of market pressure and challenges. We will strive to achieve steady growth of our core businesses, while exploring the emerging industries with high potential and continuously expanding the market share in order to yield the greatest return from all assets under our management.

# TABLE OF CONTENTS



## FINANCIAL SECTION


CONCENTR

# ROBUSTNESS and MASTERY

Under the new strategy, CEL focused on the leading enterprises incubated and nurtured, and deepened the support upstream and downstream of the industrial chain, and further promoted the constructive interaction of industrial investment and asset management. Four key industry platforms, Everbright Jiabao/EBA investments, CALC, Terminus and Everbright Senior Healthcare under CEL will maintain their leading positions in the industry, and look for development breakthrough.

## STRATEGY and PRUDENCE

In the face of macroeconomic and industry challenges, CEL improvised to address prevailing situations, and launched a strategic reform towards the new strategic reform of becoming the "world-leading cross-border asset management company".

ORG


ANIZATION


OBSERVAT

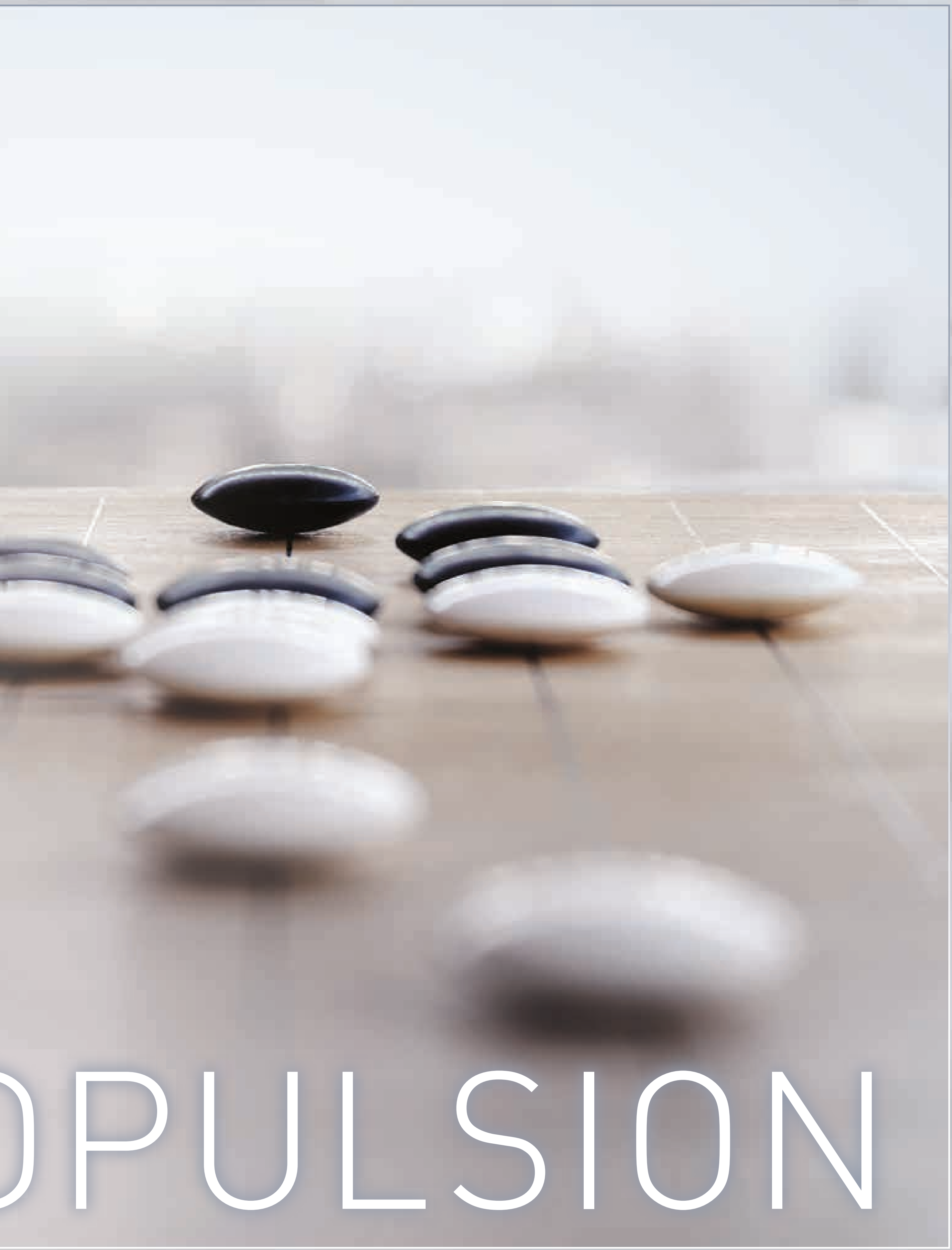

## FORESIGHT and ENTHUSIASM

Industry funds and merger and acquisition funds focusing on new economy, artificial intelligence and advanced manufacturing, aircraft industry chain, infrastructure and medical care are established, complemented by setting up structural investment and financing and diversified products of secondary alternatives, to meet investors' needs in terms of investment duration, returns, stability and risk appetite, achieving customisation of asset management solutions.

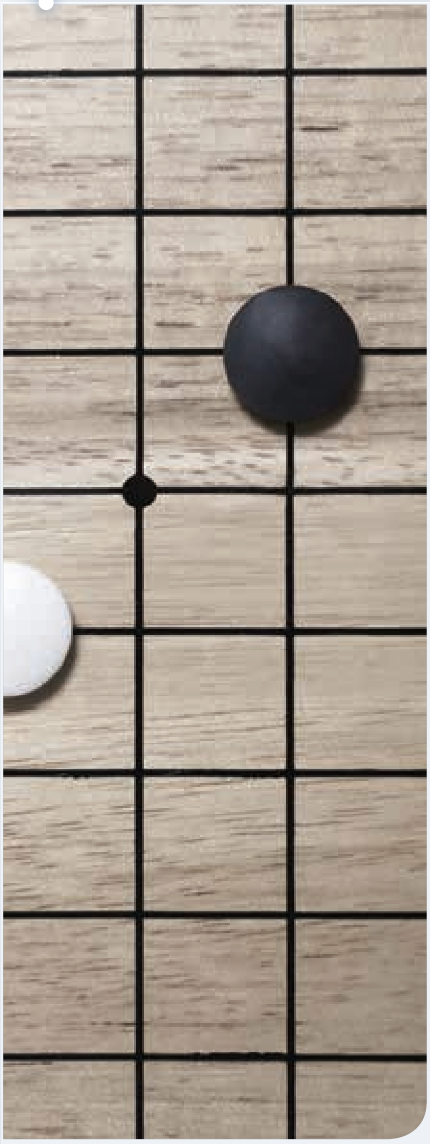
# PRECISION and EXECUTION

In 2019, the AUM of CEL reached HK$157.0 billion, with management fee income continued to rise. CEL entered the Top 100 world's largest private equity firms for the first time, under international authority PEI 300.

PRO


OPULSION

# COMPANY OVERVIEW



China Everbright Limited ("CEL" or the "Company", together with its subsidiaries, collectively the "Group") is a China's leading cross-border asset management and investment company, and a company listed in Hong Kong with alternative asset management as the core business. China Everbright Group Ltd. ("Everbright Group") is the largest shareholder of the Company, holding 49.74% of the shares of CEL.

CEL is committed to becoming the "world-leading cross-border asset management company", with fund management and principal investment as its key operating businesses. Apart from efforts in developing its Fund Management Business, the Group also provides capitals necessary for project fostering and fund development through Principal Investments Business, to coordinate progression and promote continuous development.

For Fund Management Business, as of the end of 2019, the total assets under management (AUM)[1] of CEL was approximately HK$157.0 billion, with 69 funds under management. CEL nurtured multiple enterprises with high growth potential through numerous Primary Market Funds, Secondary Market Investment Portfolios, and Funds-of-Funds, with its investors. While complementing economic development of China, it also introduces the advantages from overseas technologies into the Chinese market, providing multifaceted financial services to Chinese and overseas investors.

HKD **157** billion AUM

**69** Investment Funds

In respect of Principal Investments Business, CEL established EBA Investments' Real Estate Fund ("EBA Investments")/ Everbright Jiabao Co., Ltd. ("Everbright Jiabao"), a leading real estate private equity fund in China, nurtured China Aircraft Leasing Group Holdings Limited ("CALC"), the largest independent aircraft leasing operator in China, incubated Chongqing Terminus Technology Co., Ltd. ("Terminus"), a unicorn company in the artificial intelligence and Internet of Things (AIoT) industry, and consolidated multiple mid- to high-end senior healthcare companies to form a quality senior healthcare brand, China Everbright Senior Healthcare Company Limited ("Everbright Senior Healthcare"). Meanwhile, CEL also invests in structured financing products to achieve a balanced return and liquidity in its principal investments in a timely manner. In addition, CEL holds part of the equity interests of two cornerstone investments, China Everbright Bank Company Limited ("China Everbright Bank") and Everbright Securities Company Limited ("Everbright Securities").

Note:

1 Total assets under management refers to the committed capital of fund investors (including CEL as an investor)

光大控股 EVERBRIGHT

## FUND MANAGEMENT BUSINESS

| PRIMARY MARKET FUNDS | SECONDARY MARKET FUNDS | FUNDS-OF-FUNDS |
|---|---|---|

- Fund products including primary market funds (including real estate private funds), secondary market funds and funds-of-funds, among others
- Both local and overseas investments, with both USD and RMB-denominated products
- AUM amounting to HK$157.0 billion, of which seed capital contributed by CEL accounts for 22%, with an amount of **approximately HK$34.8 billion**

## PRINCIPAL INVESTMENTS BUSINESS

| STRATEGIC INDUSTRY PLATFORMS | FINANCIAL INVESTMENTS | CORNERSTONE INVESTMENTS |
|---|---|---|

- Strategic Industry Platforms: focusing on aircraft full life-cycle services, artificial intelligence and Internet of Things (AIoT) and senior healthcare
- Financial Investments: financial investments in equity, debts and structured products
- Cornerstone Investments: stake in part of equity interests in China Everbright Bank and Everbright Securities
- The total asset value of **the Principal Investments Business amounting to HK$39.2 billion**

# OUR ADVANTAGES

### Huge resources and business network

The parent company Everbright Group is a large-scale enterprise group directly under the State Council and possesses huge business network and social resources in China

### Market-oriented and international

As a listed company based in Hong Kong for years, CEL has a market-oriented and international investment team and governance experience

### Diversified multi-industry investment

Through the funds under its management and its own funds, CEL has invested in more than 300 companies worldwide, involving more than ten industries

### Cross-border dual currency platform

Possessing rich cross-border business licenses and experience advantages, with both USD and RMB products, fully capturing good investment opportunities domestically and abroad

### Diversified multi-industry investment

Possessing strong capital strength and market fund-raising ability to promote the rapid development of asset management business

### Co-investment mechanism

CEL has funds and teams with expertise in operation and management in each relevant industry, and has established a mature co-investment mechanism to ensure that the interests of the teams and the funds and the Company are highly aligned

# 2019 BUSINESS DEVELOPMENT HIGHLIGHTS

## STRATEGIC TRANSFORMATION

In 2019, CEL launched a strategic reform towards the goal of being the "world-leading cross-border asset management company". In the face of the challenging macroeconomics and landscape of private equity industry in 2019, CEL responded to the changing situations, and developed and announced the brand new "1-4-3" strategic plan during the year upon research and evaluation. The plan takes alternative asset management business as a core principal business, focusing on four key industries: real estate asset management, aircraft full life-cycle services, AIoT and senior healthcare, with an aim to expand as the leading company and synergise the development of the principal business, while improving the attributes of being market-oriented, professional and international to support the development of the principal business.

**"1-4-3" STRATEGIC PLAN**

**Establishing competitive edge of the alternative asset management business on key industries, and becoming the world-leading cross-border asset management company**

| One core business | Four key industries cultivation | Three major attributes |
|---|---|---|
| Alternative asset management business | Real estate asset management, aircraft full life-cycle services, AIoT, senior healthcare | Market-oriented, professional, international |

## STRATEGIC IMPLEMENTATION

The issuance of the new strategy gives CEL a clear direction of development. Various measures in place and stabilising financial data also lay a sound foundation for future growth, enabling CEL to achieve visible results in the operation management in multiple areas.

- The AUM of CEL's funds reached a record high of approximately HK$157.0 billion at the end of 2019, representing a growth of 9% as compared to the end of 2018.
- The total amount of funds raised was approximately HK$20.3 billion during the 2019, with net increase in AUM of approximately HK$13.5 billion, being in the leading position among similar domestic companies.
- Professional competence in asset management gained market recognition, of which the funds of funds team successfully established new funds in Guangzhou, Suzhou and Taizhou during the year, with new funds of RMB3.5 billion and total funds under management at the end of the year exceeding RMB20.6 billion.
- Playing to the strengths of our cross-border advantages, non-RMB assets of funds under management grew to the amount equivalent to HK$40.2 billion, accounting nearly 26%.
- Management fee income for the year reached HK$371 million, representing a growth of 5% as compared to the same period last year. "Earned Management Fee Income"[2] for the year reached HK$895 million, representing an increase of 7% as compared to the same period last year.
- Relying on existing strategic industry platforms, fundraising and investments were expanded, and new funds such as Aircraft Recycling Global Fund and CEL New Economy Industry Investment Fund were established.
- Internal synergic collaboration of CEL was strengthened, achieving cooperation with fellow subsidiaries such as China Everbright Bank and Everbright Securities in the areas such as secondary market, funds-of-funds and senior healthcare.
- Capital gain (realised gain or loss) reached HK$1.370 billion, representing a year-on-year increase of 6%.
- Stable dividend payout ratio was maintained. The aggregate amount of dividends for the year was HK$0.48 per share, with a dividend payout ratio of 36.2%.

Note:

2 Please refer to page 33 of this Annual Report for the elaboration on the definition of "Earned Management Fee Income" and the discussion on it with "Management Fee Income" recognised in accordance with the Hong Kong Financial Reporting Standards.

## STRATEGIC POSITIONING

In 2019, under the new strategy, CEL has made progress on strategic position, and was nominated to the Top 100 world's largest private equity firms for the first time, selected by international authority PEI 300. Meanwhile, CEL focused on the leading enterprises hatched and developed, and further promoted the constructive interaction of industrial investment and asset management. The four strategic industry platforms Everbright Jiabao/EBA Investments, Everbright Senior Healthcare, CALC and Terminus will maintain their leading positions in the industry, and look for development breakthrough. Among these, EBA Investments under Everbright Jiabao was ranked the first place of "Top 10 Funds in terms of Comprehensive Strength among China Real Estate Funds" for five consecutive years; CALC was the Top 10 global aircraft lessors, based on the value of its fleet and order book; Terminus engaged multiple established organisations, including Jingdong (JD), to invest in its Series C financing; and the number of beds under the management of Everbright Senior Healthcare exceeded 21,000, being the top 5 in China.

光大控股 EVERBRIGHT

PEI 300

**IN 2019, CEL WAS NOMINATED TO THE TOP 100 WORLD'S LARGEST PRIVATE EQUITY FIRMS FOR THE FIRST TIME, SELECTED BY INTERNATIONAL AUTHORITY PEI 300**

**REAL ESTATE ASSET MANAGEMENT**

光大安石 EBA INVESTMENTS

Everbright Jiabao (EBA Investments) is a leader in the real estate fund management and asset management industry in China, and was continuously ranked the first place of "Top 10 Funds in terms of Comprehensive Strength among China Real Estate Funds" for five consecutive years.

**AIRCRAFT FULL LIFE-CYCLE SERVICES**

CALC

CALC was ranked by ICF, a leading consulting firm, as one of the Top 10 global aircraft lessors, based on the value of its existing fleet and order book.

**AIoT**

TERMINUS 特斯联

Terminus engaged multiple well-known institutions, including Jingdong (JD), to invest in its Series C financing.

**SENIOR HEALTHCARE**

光大养老 EVERBRIGHT

The number of beds under the management and operation of Everbright Senior Healthcare exceeded 21,000, being the top 5 in China.

## Key Income Items

| (in HK$ hundred millions) | 2019 | 2018 | Change |
|---|---|---|---|
| Income from contracts with customers, mainly including: | 6.12 | 5.63 | 9% |
| – Management fee income | 3.71 | 3.54 | 5% |
| – Performance fee and consultancy fee | 0.73 | 2.07 | (65%) |
| Income from investments, mainly including: | 37.24 | 38.42 | (3%) |
| – Interest income | 4.13 | 3.87 | 7% |
| – Dividend income | 8.22 | 8.50 | (3%) |
| – Capital gain (realised gain or loss) | 13.70 | 12.91 | 6% |
| – Capital gain (unrealised gain or loss) | 2.83 | 12.26 | (77%) |
| – Gain on bargain purchase of a subsidiary | 6.19 | – | N/A |
| Income from other sources | 2.70 | 2.91 | (7%) |
| Share of profits less losses of associates | 8.24 | 5.84 | 41% |
| Share of profits less losses of joint ventures | 0.89 | 1.17 | (24%) |
| Profit from disposal group held for sale | – | 0.07 | N/A |
| Total amount of income | 55.19 | 54.04 | 2% |

## Profit in Key Business Segments

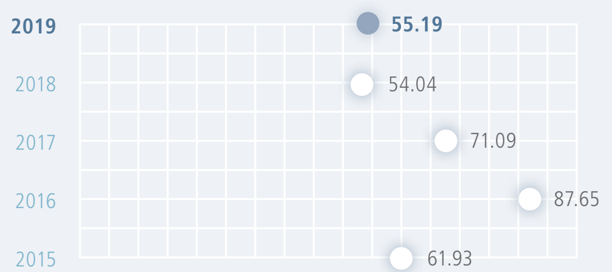
| (in HK$ hundred millions) | 2019 | 2018 | Change |
|---|---|---|---|
| Profit from Fund Management Business | 12.44 | 18.86 | (34%) |
| Profit from Principal Investments Business: | 30.55 | 30.41 | 0% |
| – Strategic industry platform (CALC, Everbright Senior Healthcare, Terminus) | 7.37 | 6.20 | 19% |
| – Financial investments | 18.82 | 19.24 | (2%) |
| – Cornerstone investments (equity interests in China Everbright Bank and Everbright Securities) | 4.36 | 4.97 | (12%) |
| Less: Unallocated corporate expenses and taxes | (20.62) | (18.23) | 13% |
| Profit attributable to shareholders of the Company | 22.37 | 31.04 | (28%) |

## Distribution of Equity Attributable to the Company's Shareholders

| (in HK$ hundred millions) | 2019 | 2018 | Change |
|---|---|---|---|
| Shareholders' equity (other than cornerstone investments held) | 226 | 218 | 4% |
| Cornerstone investments | | | |
| – Equity interests in Everbright Securities | 113 | 115 | (2%) |
| – Equity interests in China Everbright Bank | 77 | 66 | 17% |
| Total equity attributable to shareholders of the Company | 416 | 399 | 4% |

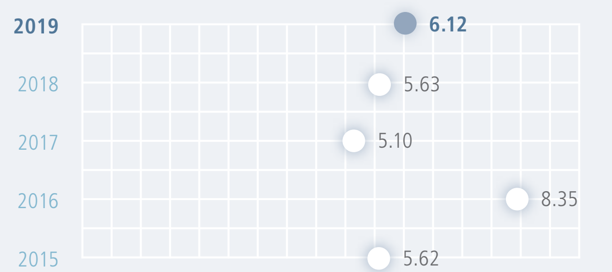
## TOTAL AMOUNT OF INCOME[1]

(HK$ hundred millions)



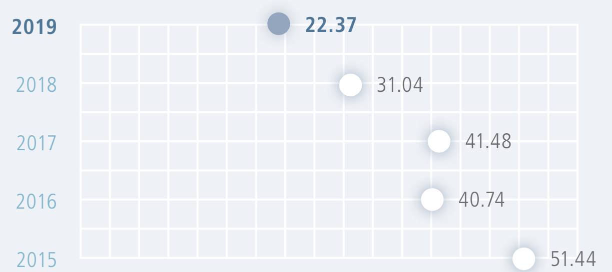

## INCOME FROM CONTRACTS WITH CUSTOMERS

(HK$ hundred millions)



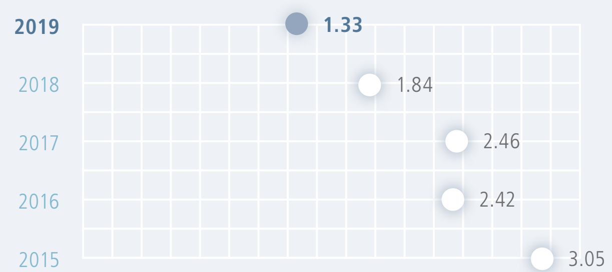

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(HK$ hundred millions)



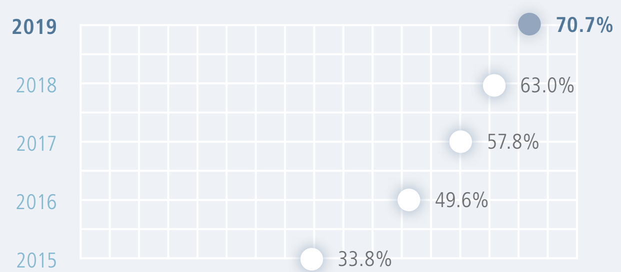

## BASIC EARNINGS PER SHARE

(HK$)



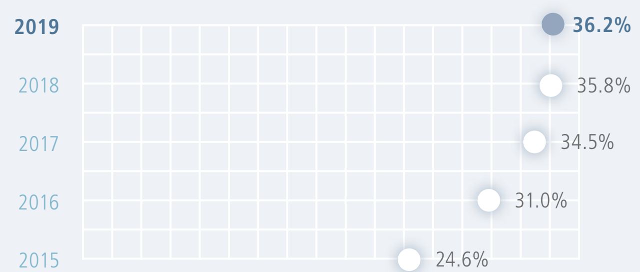

## GEARING RATIO[2]

(%)




## DIVIDEND PAYOUT RATIO

(%)



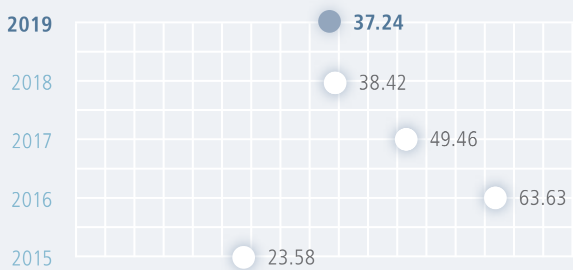

Note:

1 The components are set out in the table headed "Key Income Items" on the previous page.

2 It is calculated as interest-bearing debt (including bank loans + notes payable + bonds payable)/total equity.

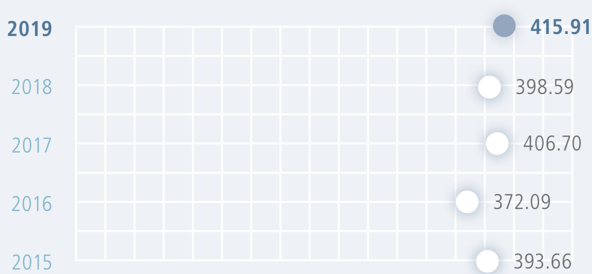
## INCOME FROM INVESTMENTS

(HK$ hundred millions)




## TOTAL EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

(HK$ hundred millions)




# 2019 REVIEW

## BUSINESS RELATED

**CEL has made great efforts to develop the core business of alternative asset management, and has made outstanding achievements in fund establishment and fund raising, project investment at home and abroad, and project exits, etc. The four major industrial platform companies (Everbright Jiabao/EBA Investments, CALC, Terminus and Everbright Senior Healthcare) have organically combined industrial investment with asset management business, and achieved substantial business development during the year.**

- CEL held a strategic seminar to deeply discuss and promote its strategic goal of building a "global leading cross-border asset management company", laying a good foundation for future growth.

### Fund Establishment and Fundraising


- CEL Global Investment Fund, L.P. officially completed its final closing with capital commitments of approximately US$539 million from institutional investors, family offices and fund-of-funds ("FoFs"), etc.
- CALC signed US$840 million prepayment of syndicated loan for aircraft orders, becoming the largest of its kind in Asia.

- CEL and COSCO Shipping Financial Holdings Co., Limited established CEL Ocean & Harbour Opportunity Fund with a total scale of US$50 million.

- Terminus completed Series C Financing, aiming to be a world leading smart scenario service provider. CEL was leading this round of investment with investors including JD.com, iFlytek and Wanda Invest. Before the financing, Terminus had already obtained investment support from top investment institutions and industry partners, including CEL, IDG Capital, Citic Capital and SenseTime.

- EBA Investments has successfully launched two phases of shelf registration REITs totalling RMB7.2 billion. The first tranche of the CRE Shelf-registration product, being"EBAM-EBA Investments Commercial Real Estate 1-X-Jing'An IMIX Park REIT-like product", was launched in May with a total size of RMB4.3 billion. The second tranche, being "EBAM-EBA Investments Commercial Real Estates 2-X-Guanyinqiao IMIX Park REIT-like product", was launched in September with a total size of RMB2.9 billion.



- CEL collaborated with Taizhou, Jiangsu Province to establish Taizhou CEL Big Health Industry Fund with a total size of RMB2 billion to promote the industry upgrade and development of Taizhou.


## Investment Projects

### CEL Zhongying Capital Invested in YunJi Technology

- A robotic industry explorer, focusing on research and development of commercial service robots

### CEL Zhengzhou Fund invested in Henan Pingyuan Intelligent Equipment

- An integrated supplier of intelligent automated production line system, mainly engaged in research and development, design, production, sales, installation and testing of intelligent automation production line system

### CEL New Economy USD und invested in Nreal

- A developer of AR glasses, mainly engaged in research and development of AR and MR equipment

### Nantong CEL Semiconductor Industry Investment Fund invested in XH Smart

- A leading enterprise in the field of smart cards and smart chips

### CEL's RMB Mezzanine Fund invested in Googut Wine&Spirits

- A leading old wine operator and new retail dealer in China

### CEL New Economy USD Fund invested in Loving Care International Pet Medical Center

- A high-end chain institution of pet medical services

### CEL Zhengzhou Fund invested in Winner

- A leading enterprise in the garbage screening equipment industry in China

### CEL Zhongying Capital invested in Codemao

- A leading programme-writing platform for children

### CEL Catalyst China Israel Fund invested in Arbe Robotics

- A solution provider of next-generation 4D imaging radar chipset

### CEL Catalyst China Israel Fund invested in Raziel

- A clinical-stage pharmaceutical company engaged in development of a proprietary drug for the treatment of local fat reduction and drugs that target obesity and related indications

## Project Exit in 2019

**Aquantia:**

- Listed on the New York Stock Exchange (AQ.NYSE)
- Full exit

**Taike Environmental Protection:**

- Full exit

**EBA Investments Shanghai Hutai Road Real Estate Project:**

- Full exit through asset securitisation

**Genki Forest:**

- Full exit

**Wish:**

- Full exit

**iQIYI:**

- Partial exit

**Beijing Genomics Institute:**

- Listed on the Shenzhen Stock Exchange (300676.SZ)
- Full exit

**ESR:**

- Full exit

**Renren:**

- Listed on the New York Stock Exchange (RENN.NYSE)
- Full exit

## Projects Listed in 2019

**Qingdao Port:**

- Listed on the Shanghai Stock Exchange in January 2019, achieving “A+H” dual listing (601298.SH, 6198.HK)

**ESR:**

- Listed on the Main Board of the Stock Exchange of Hong Kong (1821.HK) in November 2019

**Hillstone:**

- Listed on the Sci-Tech Innovation Board (688030.SH) in September 2019

## Other Important Matters

- CEL and People's Government of Zhengzhou entered into a strategic cooperation agreement for gathering Everbright's powerful resources to promote the development of the central China region.



- The 8th CEL Investment Conference was successfully held in Zhengzhou. Dr. Zhao Wei, CEO of CEL, delivered a speech entitled "Embracing the Unknown, Change for Chances" and grandly announced the new "1-4-3" strategy.


- CEL and China Life Investment entered into a strategic cooperation agreement.
- CEL entered into a strategic collaboration agreement with Suzhou International Development and Wujiang Orient State-Owned Capital. The three parties are planning to set up the Integrated Demonstration Area of the Yangtze River CEL Wujiang Innovation Fund.


- Everbright Senior Healthcare introduced investors, including Everbright Financial Holding, Sun Life Everbright, Everbright Industry and a fund under Everbright Industry, etc. to create a new benchmark enterprise of elderly care in China.


- CEL and Investcorp signed an agreement for deepening strategic partnership in the new economy, aiming to accelerate and expand the development in the field of China's new economy.


- CEL and CCB Shanghai Branch enterd into a strategic collaboration agreement.

# AWARDS AND HONORS IN 2019

**In 2019, China Everbright Limited and its professional funds garnered a number of industry authoritative awards and honors, confirming its position as a leading cross-border asset management and investment firm in the industry.**

## Company's Awards

- CEL was awarded **"Top 30 PE Firms in China"** by Zero2IPO Group's, ChinaVenture and China Bridge.
- CEL attained **"Alternatives House of The Year"** organised by Asia Asset Management.



- CEL was awarded **"China's Most Popular PE Firm Top 30"** at 36kr 2019 China Fund Partners Summit.
- CEL attained **"The Most Influential Brand"** from IFeng Finance.
- CEL attained **"The Most Valuable Financial Company"** from Zhitong Caijing Annual Awards Ceremony 2018.

## Investment Team's Awards

- CALC was named **"Aircraft Lessor of the Year"** for four consecutive years.

Aircraft Lessor of the Year 2015-2018


- EBA Investments ranked No. 1 in **"Top 10 Funds in terms of Comprehensive Strength among the 2019 China Real Estate Funds"** for five consecutive years, and awarded No. 1 in **"2019 Most Influential China Real Estate Fund Top 30"** at Boao Real Estate Forum.
- CEL's FoFs team was awarded as **"Equity Investment Institutional LP Top 30"** by Zero2IPO Group, attained **"China's Best LP Top 20, "The Best FoFs in China Top 10"** by China Bridge, and awarded the **"2019 China Venture Capital FoFs"** by China Venture Capital Association.
- Everbright Huiyi Weiye was awarded the **"2019 China Venture Capital"** by China Venture Capital Association, and its 3 portfolios Xiao-i Robot of Shanghai Zhizhen Intelligence Network Technology Co., Ltd., Beijing Huajie IMI Technology Co., Ltd. and Shenzhen New Degree Technology Co., Ltd garnered the **"2018-2019 National High Quality Investment Project Award"**.

## Corporate Social Responsibility and Human Resources

- CEL and China Everbright Charitable Foundation were awarded **"Caring Company"** and **"Caring Organisation"** for eight consecutive years.

- CEL received the **"Happy Company"** logo for five consecutive years.


- CEL received 2019 **"Outstanding ESG Performance Enterprise"** Award from Tencent.

# CHAIRMAN'S STATEMENT

2019 witnessed the full launch of "1-4-3" strategic plan, as well as the stable progression of core business of fund management, expansion of four strategic industry platforms, acceleration of innovative development and further enhancement of brand image of CEL.

## BE DETERMINED AND STRIVE FOR SUCCESS.

In 2019, the increasingly complex and ever-changing international affairs resulted in trade protectionism and geopolitical risks. While central banks of multiple major economies started a fresh round of interest rate cuts, global economy went down in hysteria, with a record low in growth since the international economic crisis in 2008. Meanwhile, the economic growth of China slowed down. The pressure on stabilising growth, adjusting structure and preventing risk exposure as well as regulatory policies including the New Asset Management Rules have also brought impact to the asset management industry and private equity investment market.

Under such circumstances, the valuations of certain projects held by CEL were adjusted downward, and provisions were made for certain real estate projects with prudence. During the reporting period, the Company realised profit attributable to shareholders of HK$2,237 million, representing a decrease of 28% as compared to last year. In the face of changing market conditions and challenges arising from operations, the Company upheld the philosophy of "The Power To Transform", and paid equal attention to short-term profit and long-term development. CEL develops with strategic enhancement and growth by reform and innovation. Our unwavering dedication in transformation and development has built a solid foundation for stable and long-term development.

**Full launch of the "1-4-3" strategic plan**. The Company adjusts its strategies over time according to the prevailing circumstances, and focuses on the upgrade of core competitiveness and greater development. Towards the goal of being the "world-leading cross-border asset management company", the "1-4-3" strategic plan was officially announced during the reporting period. The plan takes alternative asset management business as a core principal business, focusing on four key industries: real estate asset management, aircraft full life-cycle services, AIoT and senior healthcare, with an aim to expand as the leading company and synergise the development of the principal business, while strengthening the attributes of being market-oriented, professional and international to support the development of the principal business.

**Stable progression of core business of fund management.** New funds of more than HK$20.0 billion were raised throughout the year, and the AUM reached HK$157.0 billion, being in the leading position among the peer Chinese enterprises. Among these, the proportion of non-RMB denominated assets accounted for approximately 26%, representing an increase of approximately 2ppt as compared to the end of 2018, which attracted internationally renowned institutions, such as Investcorp and ABL, to our client base. Deployment was upgraded in the key fields of technology and new economy, senior healthcare, consumption upgrade and healthcare. The primary market funds and Fund-of-Funds invested or further invested in 60 projects, with an aggregate size of over HK$5.8 billion. Management fee income reached HK$371 million, increased by 5% year-on-year, and "Earned Management Fee Income"[1] was close to HK$900 million, representing an increase of 7% year-on-year, accounting for a continuously increasing proportion of our income. We assess the timing and opportunities and strengthen our efforts in project exits, and realised cash inflows of approximately HK$4 billion.

**Expansion of four strategic industry platforms.** Being the world's top 10 aircraft leasing company, the fleet size of CALC reached 134, and 218 aircrafts were pending for delivery. EBA Investments, being a leader in the real estate fund management industry in China, had AUM reaching RMB47.8 billion, with 45 projects under management. Among these, 18 projects were under the brands of "IMIX Park" and "IMIX+", with a total construction area of approximately 2 million sq.m. Terminus was committed to becoming the world's leading smart scenario service provider. Its series C financing attracted the investments of multiple renowned institutions including Jingdong (JD). Everbright Senior Healthcare successfully completed the integration of resources in the elderly care segments of China Everbright Group, establishing business presence in 24 core cities across China, managing over 21,000 beds.

**Acceleration of innovative development.** Development of Fund-of-Funds was rapid, with AUM of over RMB20.6 billion at the year end. The performance of structural investment and financing business was outstanding, with an internal rate of return (IRR) of over 18%. CALC successfully obtained the first aircraft dismantling license in China, further enhancing its aircraft full life-cycle capabilities. EBA Investments successfully issued shelf-registered commercial REITs series special projects, with an issue size reaching RMB7.2 billion. Terminus obtained a total of 720 patents, and became one of the first batch of IoT companies to pass the "Multi-level Protection of Information Security Scheme (MLPS) 2.0" standard assessment. Leveraging the strengths of the parent company in artificial intelligence and high-tech industries, Everbright Senior Healthcare made convincing progress in the area of intelligent and high-tech senior care.

**Further enhancement of brand image.** CEL was nominated to the "Top 100 world's largest private equity firms" for the first time, selected by international authority PEI 300. CALC was ranked by ICF as one of the Top 10 global aircraft lessors. EBA Investments was ranked the first place of "Top 10 Funds in terms of Comprehensive Strength among China Real Estate Funds" for five consecutive years; Terminus was awarded by Deloitte as "China Technology Fast & Rising Star". The number of beds of Everbright Senior Healthcare entered the top 5 in China. In respect of social responsibility, CEL actively participated in China's poverty alleviation strategy, sponsored a series of charitable projects, such as Lifeline Express, Spartan Race, Hong Kong Ballet and Our Hong Kong Foundation. In the face of the unexpected novel coronavirus pneumonia (COVID-19) outbreak, the Company responsively donated money and goods, and utilised our relevant business advantages to participate in the battle of prevention and control, to give back to the community by concrete actions.

The development of CEL was backed by the support and trust of shareholders, members of the staff and the community. On behalf of the Board of Directors, I wish to take this opportunity to express our sincere gratitude to the shareholders, colleagues and the community. Meanwhile, on the basis of sharing the fruits of business development and sustainability, I am pleased to announce that the Board recommends the payment of a final dividend of HK$0.23 per share for the year of 2019 to the shareholders of the Company. The total dividends for the year amounted to HK$0.48 per share, and the dividend payout ratio for the year is 36.2%.

Adversity leads to prosperity. We recognise that the path ahead for the Company will not be a smooth one, and opportunities often come with challenges. While the COVID-19 epidemic ravages the world and brings pressure to the short-term operations, more investment opportunities will be created in the fields of new economy and medical and healthcare. In 2020, the Company will insist in driving reform and development. While maintaining stability, we strive for advancements and opportunities, bringing forward our business operations, risk management and deepening reform with higher strength and efficiency. We are committed to provide sustainable and steady returns for our shareholders and investors, and create solid long-term values for the community.

CAI YUNGE

Chairman

19 March 2020

Note:

1 Please refer to page 33 of this Annual Report for the elaboration on the definition of "Earned Management Fee Income" and the discussion on it with "Management Fee Income" recognised in accordance with the Hong Kong Financial Reporting Standards.

# MANAGEMENT DISCUSSION & ANALYSIS

FACED WITH THE COMPLEX CHANGES OF THE GLOBAL GEOPOLITICAL AND GEO-ECONOMICS SITUATION, THE PACE OF CEL WAS STEADY WITH OUR INITIATIVE OF TRANSFORMATION. THE AUM OF CEL'S FUNDS REACHED APPROXIMATELY HK$157.0 BILLION AT THE END OF 2019, BUCKING THE OVERALL INDUSTRY DOWNTURN TO ACHIEVE BUSINESS GROWTH.

# REVIEW AND ANALYSIS

## Macro-economic and Industry Review

In 2019, the international situation was complex and rapidly changing. Clouded by the uncertainties of trade protectionism and geopolitics, the momentum of global economic growth experienced a general decline. The International Monetary Fund had successively lowered its global economic growth forecast. In its October report, the global economic growth forecast was lowered to 3%, being the lowest since the 2008 global financial crisis. Trade disputes, geopolitical risks and structural factors of developed economies were the main reasons for the economic downturn. To counter the risks brought by the economic downturn, the central banks of major economies had successively initiated a fresh round of interest rate cuts. Over the same period, the economy of China was also in the midst of cyclical and structural adjustments internally. According to the latest figures of the National Bureau of Statistics of China, the annual GDP growth rate of China was 6.1% in 2019, indicating a slowing growth momentum. With the diminishing marginal demographic dividend and late-development advantage, the slow pace of growth of China's economy may become the norm.

Under the combined effect of the macro environment and policy changes, the private equity (PE) investments in China continued its downtrend over the past two years. On the one hand, PE fundraising still faced huge challenges. Impacted by the introduction of national fiscal restraint policy, tightened industry regulatory policies, including New Asset Management Rules and Wealth Management Administrative Measures, and PE investment returns falling short of expectations, traditional sources of PE funding, including banks' wealth management, insurance firms, local government-guided funds and private enterprises, had been shrinking. On the other hand, in the midst of macroeconomic and industry downturn, investment risks had emerged. With the share price of more unicorn enterprises dropping below their initial offering price, post-listing returns were generally unsatisfactory. The vacancy rate of commercial properties remained high, putting downward pressure on the overall rental income. Default risks in the debt market heightened, and improvement in credit conditions was yet to find a solid footing. In the meantime, with the deepening reform of the China capital market and further opening-up of its financial markets, certain positive factors started to come into place. For example, the STAR Market has provided PE funds with a more convenient and diversed option to exit; the accelerated opening-up of the financial sector is expected to introduce more foreign capital; and the underlying assets for investment by PE funds are becoming more diversified.

Faced with the changes of the global geopolitical and geoeconomic situation, assisting investors in flexibly allocating and deploying their assets under such uncertainties has become a topic of crucial importance for PE firms. China Everbright Limited ("CEL") believes that its development over the past 20 years is closely connected with economic globalisation and opening-up of China's financial markets. As a leading PE firm in China with both cross-border advantages and local resources, CEL had faced up to the difficulties and challenges of the industry in 2019. Through sufficient research and evaluation, we formulated new development strategies and swiftly implemented strategic transformation. From various aspects such as fundraising and management, we proactively shifted our business focus towards alternative asset management business, laying down a solid foundation for future development.

## 2019 Business Review Highlights

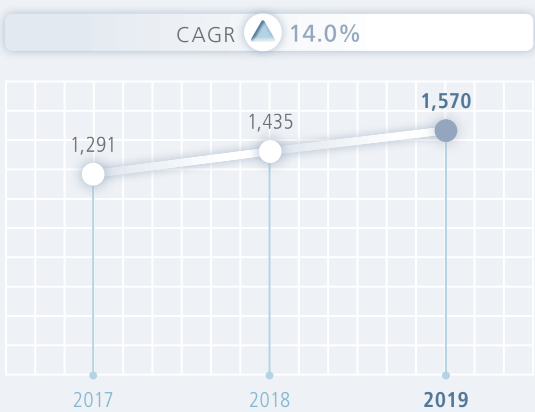
In the relatively complex external environment since the beginning of 2019, the operating results of CEL were impacted to a certain extent. In the first half of 2019, the profit attributable to shareholders of the Company was HK$1,279 million, representing a decrease of 34% compared to the same period last year. In the second half of 2019, CEL focused on problem solving, and implemented strategic transformation towards an asset management company, which successfully resisted the impacts from the external environment and industry downturn. The profit attributable to shareholders of the Company for the year was HK$2,237 million, representing a decrease of 28% as compared to the same period last year, turning around the downward trend in the first half of the year. The decrease in the profit attributable to shareholders of the Company for the year was mainly due to the decrease in the valuation of certain projects held by CEL and the provision for impairment of certain real estate projects made in a prudent way.

During the reporting period, the Fund Management Business of CEL was steady with our initiative of transformation. In respect of fundraising, the total amount of newly raised funds was approximately HK$20.3 billion, and the net increase in assets under management ("AUM") was approximately HK$13.5 billion. Despite the overall industry downturn with only a handful of firms in China achieving a fundraising scale of over RMB10 billion, we bucked the trend to achieve business growth. For investments, CEL strived for a balance between investments and exits, and adopted a prudent approach in the volatile market by slowing down the overall pace of investment. Our primary market funds (including fund-of-funds ("FoFs")) invested and/or further invested in 60 projects, with an aggregate size of approximately HK$5,882 million, focusing around the main theme of China's economic transformation, including deployment of investments in the fields of technology and new economy, elderly care, food and beverages, consumption upgrade and healthcare, etc. In terms of management, CEL enhanced various internal control procedures during the period of strategic transformation to closely monitor risk exposures, and grew with its investee companies through continuous dissemination of its post-investment management capability. During the year, management fee income of CEL presented in accordance with the relevant financial reporting standards was HK$371 million for the year, representing a growth of 5% as compared with the same period last year. Earned Management Fee Income[1] increased by 7% compared to last year, reaching HK$895 million. In respect of exits, CEL disposed of mature projects at the right time to capture returns and realised favorable cash earnings. During the reporting period, the Fund Management Business of CEL exited, fully or partially, from 33 projects and realised cash inflows of approximately HK$4 billion.

During the year, the Principal Investments Business of CEL maintained a steady growth and grasped investment opportunities under the volatile market. Deployment of investments in the 4 strategic industry platforms was further refined, where EBA Investments/Everbright Jiabao[2], China Aircraft Leasing ("CALC"), Terminus and Everbright Senior Healthcare had either maintained the leading position in the industry or realised strategic advance. CEL also grasped the structural investment opportunities in the economic downturn by increasing the proportion of its structural investment and financing business, which realised desirable investment returns with an internal rate of return ("IRR") of over 18%. During the reporting period, the Principal Investments Business invested and/or further invested in 25 projects with a total size of HK$4,828 million, and exited, fully or partially, from a total of 18 projects, realising cash inflows of approximately HK$3,679 million.

## AUM of CEL in the Recent 3 Years

(in HK$ hundred millions)




CAGR: compound annual growth rate

Note:

1 Please refer to page 33 of this Annual Report for the elaboration on the definition of "Earned Management Fee Income" and the discussion on it with "Management Fee Income" recognised in accordance with the Hong Kong Financial Reporting Standards.

2 Among these, EBA Investments is the real estate industry platform under the fund management business.

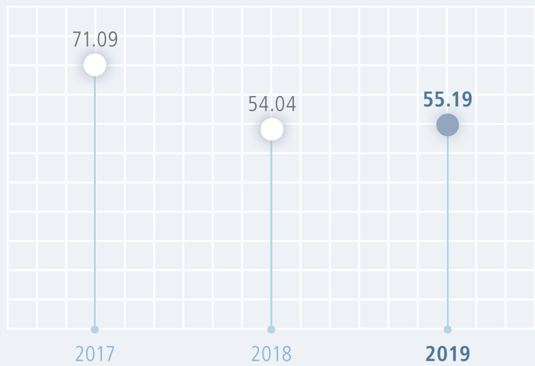
## Financial Performance in 2019

### Revenue

During the reporting period, the total amount of income[3] of CEL was HK$5,519 million, representing an increase of 2% as compared with the same period last year. In terms of nature of income, the income of CEL is mainly derived from fees, such as fund management fee, performance fee and consultancy fee, and interest and dividend incomes from investment projects, capital gains and share of profits of associates/joint ventures. The main sources of income are (1) management fee income, which is related to the Group's AUM; (2) interest income and dividend income, which are mainly derived from the structural investment and financing business under Principal Investments Business of the Group, and certain equity investments under China Everbright Bank Company Limited ("China Everbright Bank") and EBA Investments; and (3) capital gains, which are mainly derived by the Group from the capital gains generated from primary market funds or direct investments in the equity interests of non-listed companies and other financial assets, including net realised revenue from divested projects and valuation movement of non-divested projects, and the realised capital gains in secondary market stocks and bonds transactions through secondary market funds, and unrealised capital gains from mark-to-market investments.

In 2019, the Group recorded management fee income of HK$371 million, representing an increase of 5% as compared to the same period last year, and interest income and dividend income of HK$1,235 million, which was similar to that of the same period last year. During the reporting period, the Group accelerated the pace of project exits and recorded a net realised gain of HK$1.37 billion, representing an increase of 6% as compared with the same period last year. The Group also recorded a gain on bargain purchase of a subsidiary of HK$619 million from the acquisition of Ying Li International Real Estate Limited ("Ying Li")[4]. However, due to the intense volatility of the capital market and the overall decrease in the valuations of the PE market, the growth of the valuations of existing projects had in general slowed down. The net unrealised gain recorded in 2019 was HK$283 million, as compared with HK$1,226 million for the same period last year.

**Total Amount of Income of CEL in the Recent 3 Years** (in HK$ hundred millions)

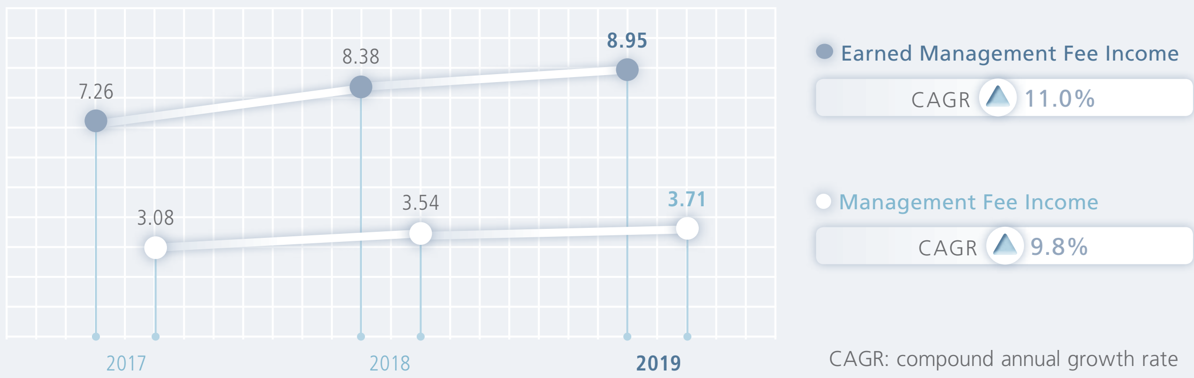



Note:

3 Total amount of income is calculated as: income from contracts with customers + income from investments + income from other sources + share of profits less losses of associates + share of profits less losses of joint ventures + profit from disposal group held for sale. "Total amount of income" is a measure used by the management of the Group for monitoring business performance and financial position. It may not be comparable to similar measures presented by other companies.

4 For details of the acquisition of Ying Li, please refer to Note 10 and 17 of the Notes to the Financial Statements in this Annual Report.

## Management Fee Income/Earned Management Fee Income of CEL in the Recent 3 Years (in HK$ hundred millions)




## Key Income

| (in HK$ hundred millions) | 2019 | 2018 | Change |
|---|---|---|---|
| Income from contracts with customers, mainly including: | 6.12 | 5.63 | 9% |
| – Management fee income | 3.71 | 3.54 | 5% |
| – Performance fee and consultancy fee | 0.73 | 2.07 | (65%) |
| Income from investments, mainly including: | 37.24 | 38.42 | (3%) |
| – Interest income | 4.13 | 3.87 | 7% |
| – Dividend income | 8.22 | 8.50 | (3%) |
| – Capital gain (realised gain or loss) | 13.70 | 12.91 | 6% |
| – Capital gain (unrealised gain or loss) | 2.83 | 12.26 | (77%) |
| – Gain on bargain purchase of a subsidiary | 6.19 | – | N/A |
| Income from other sources | 2.70 | 2.91 | (7%) |
| Share of profits less losses of associates | 8.24 | 5.84 | 41% |
| Share of profits less losses of joint ventures | 0.89 | 1.17 | (24%) |
| Profit from disposal group held for sale | – | 0.07 | N/A |
| Total amount of income | 55.19 | 54.04 | 2% |

For the purposes of resource allocation and business performance evaluation, the management of the Group adopts "Earned Management Fee Income"[5] as an additional financial measurement index. Earned Management Fee Income refers to the management fee income received by the Group as a fund manager in accordance with relevant fund management agreements. The following table sets out the adjustments between the Earned Management Fee Income recognised by the Group for the year and the Management Fee Income presented in accordance with the Hong Kong Financial Reporting Standards, which include (a) elimination of management fee income from consolidated funds: the Group acts as both the fund manager and the major limited partner in certain funds, where the management fee paid by the fund and the management fee income received by the fund manager shall be eliminated when consolidating into the Group's combined financial statements; (b) management fee income received by an associate/joint venture: (i) Everbright Jiabao, an associate of the Group, holds 51% interest of EBA Investments, which is included in Everbright Jiabao's scope of consolidation. The Group holds the remaining 49% interest of EBA Investments through another subsidiary and such interest is accounted for as financial assets. The management fee income of EBA Investments is reflected in share of profits of associates of the Group; (ii) the Group acts as the joint fund manager through the establishment of a joint venture with a third party, and the management fees received by such a joint venture shall be presented according to the Group's share of profits from the joint venture; (c) rebate of management fee income: part of the reported management fee income was rebated from the management fee income.

| (in HK$ hundred millions) | As presented in the financial report | Elimination of management fee income from consolidated funds (a) | Management fee income received by associates/ joint ventures (b) | Rebate of management fee income (c) | Earned Management Fee Income |
|---|---|---|---|---|---|
| Primary market | 2.72 | 1.03 | 2.08 | 0.25 | 6.08 |
| Secondary market | 0.82 | 0.25 | – | – | 1.07 |
| Funds of Funds | 0.17 | 1.60 | – | 0.03 | 1.80 |
| Management fee income | 3.71 | 2.88 | 2.08 | 0.28 | 8.95 |

In 2019, the Earned Management Fee Income in the Fund Management Business segment from the management perspective was HK$895 million, representing an increase of 7% compared with the same period last year. It was mainly attributable to the AUM of the fund, in particular, the continuous expansion of FoFs business.

Based on the analysis by business segments, the income from Fund Management Business of the Group reached HK$1,932 million, representing a decrease of 11%; the income from the Principal Investments Business reached HK$3,587 million, representing a year-on-year increase of 11%.

| (in HK$ hundred millions) | 2019 | 2018 | Change |
|---|---|---|---|
| Income from key business segments | | | |
| – Income from Fund Management Business | 19.32 | 21.83 | (11%) |
| – Income from Principal Investments Business | 35.87 | 32.21 | 11% |
| Total amount of income | 55.19 | 54.04 | 2% |

Note:

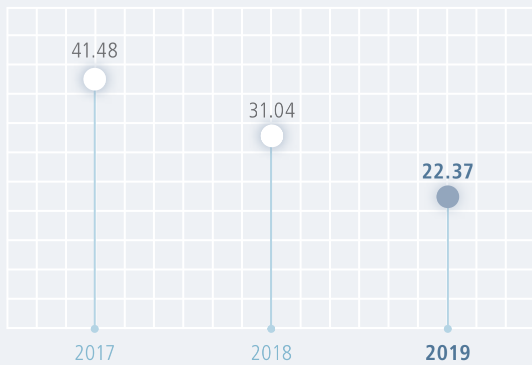
5 The Earned Management Fee Income is a measure used by the management of the Group for monitoring business performance and financial position. It may not be comparable to similar measures presented by other companies.

## Profit

The profit attributable to shareholders of the Company in 2019 was HK$2,237 million, representing a 28% decrease as compared with the same period last year. The decrease in the profit attributable to shareholders of the Company for the year was mainly due to the decrease in the valuation of certain projects held by CEL, and the provision for impairment for certain real estate projects made in a prudent way. In terms of business segments, the profit from Fund Management Business decreased by 34% as compared with the same period last year, mainly due to the decrease in capital gain – unrealised gain, while the profit from Principal Investments Business was similar to that of last year.

### CEL's Profit Attributable to Shareholders of the Company in the Recent 3 Years

(in HK$ hundred millions)

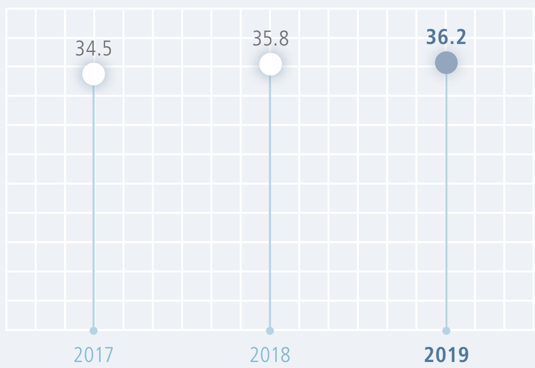



## Profit in Key Business Segments

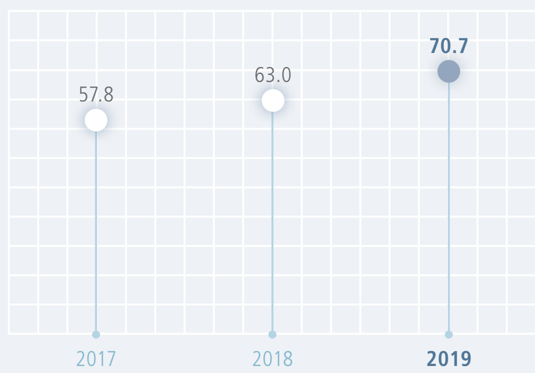
| (in HK$ hundred millions) | 2019 | 2018 | Change |
|---|---|---|---|
| Profit from Fund Management Business | 12.44 | 18.86 | (34%) |
| Profit from Principal Investments Business: | 30.55 | 30.41 | 0% |
| – Strategic industry platform (CALC, Everbright Senior Healthcare, Terminus) | 7.37 | 6.20 | 19% |
| – Financial investments | 18.82 | 19.24 | (2%) |
| – Cornerstone investments (equity interests in China Everbright Bank and Everbright Securities) | 4.36 | 4.97 | (12%) |
| Less: Unallocated corporate expenses and taxes | (20.62) | (18.23) | 13% |
| Profit attributable to shareholders of the Company | 22.37 | 31.04 | (28%) |

The board of directors of the Company (the "Board" or "Director(s)") had declared an interim dividend and proposed a final dividend for the year 2019 in aggregate of HK$0.48 per share (HK$0.66 per share for the same period last year). The dividend payout ratio for the year was 36.2%, representing an increase of 0.4 ppt as compared to that of 35.8% last year.

Dividend Payout Ratio of CEL in the Recent 3 Years (%)




Gearing Ratio of CEL in the Recent 3 Years (%)




| Per Share (HK$) | 2019 | 2018 | Change |
|---|---|---|---|
| Earnings per share | 1.33 | 1.84 | (28%) |
| Interim dividend per share | 0.25 | 0.26 | (4%) |
| Final dividend per share | 0.23 | 0.40 | (43%) |
| Dividend payout ratio (annual) | 36.2% | 35.8% | +0.4ppt |

## Key Financial Ratios

During the reporting period, the operating costs of CEL were HK$1,352 million, with an operating cost-to-income ratio of 24.5%, representing an increase of 5.2 ppt from last year. As of the end of 2019, the interest-bearing debt of CEL amounted to HK$31 billion, with the gearing ratio increasing from 63.0% at the end of last year to 70.7%. The increase was mainly due to the acquisition of Ying Li by the Group during the year, and the consolidation thereof as a subsidiary of the Group, which resulted in the interest-bearing debt of HK$3.2 billion being consolidated to the accounts of the Group. The current ratio of the Group decreased by 6ppt from 117% at the end of last year to 111%, maintaining overall stability.

| Key Financial Data[6] | 2019 | 2018 | Change |
|---|---|---|---|
| Operating cost-to-income ratio[7] | 24.5% | 19.3% | +5.2ppt |
| Gearing ratio[8] | 70.7% | 63.0% | +7.7ppt |
| Current ratio[9] | 111% | 117% | -6ppt |

Note:

6 Operating cost-to-income ratio, gearing ratio and current ratio are the measures used by the management of the Group for monitoring business performance and financial position. These may not be comparable to similar measures presented by other companies.

7 Operating cost-to-income ratio is calculated as operating expenses/total amount of income.

8 The gearing ratio is calculated as interest-bearing debt (including bank loans + notes payable + bonds payable)/total equity.

9 The current ratio is calculated as current assets/current liabilities.

# Business Performance Analysis in 2019

## Fund Management Business

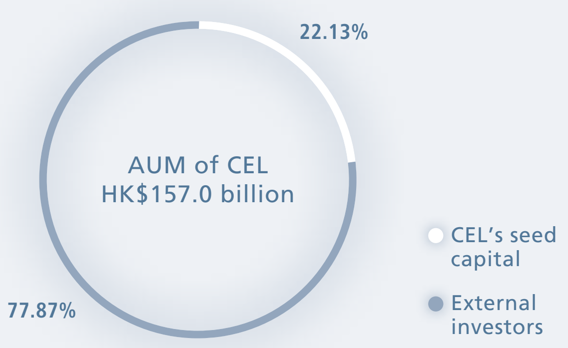
Over years of development, CEL has established a solid client base in the fund management industry. The primary market segment has outstanding investment track records, excellent market reputation and diversified product lines; the secondary market segment offers a variety of products including equities and bonds; and FoFs provides a one-stop management platform for mega-size institutional investors. As a result, despite the relatively difficult external environment in 2019, CEL successfully raised new funds of approximately HK$20.3 billion in aggregate with a net increase in AUM of approximately HK$13.5 billion. The newly-raised funds were mainly derived from:

| NEWLY-RAISED FUND/ NEWLY-ESTABLISHED FUND (IN HUNDRED MILLIONS) | CURRENCY | AMOUNT IN ORIGINAL CURRENCY | AMOUNT EQUIVALENT TO HK$ | NOTE |
|---|---|---|---|---|
| In the form of FoFs | | | | |
| – CEL Suzhou Fund-of-Funds | RMB | 15.00 | 16.75 | Newly-established |
| – Taizhou CEL Big Health Industry Fund | RMB | 10.00 | 11.16 | Newly-established |
| – Guangzhou CEL Guangzhou-Hong Kong-Macao Youth Venture Fund-of-Funds | RMB | 10.00 | 11.16 | Newly-established |
| Focusing on artificial intelligence and advanced manufacturing | | | | |
| – CEL New Economy Industry Investment Fund | RMB | 15.12 | 16.88 | Newly-established |
| – EBT Investment Fund | RMB | 10.00 | 11.16 | Newly-established |
| – Nantong CEL Intelligent Manufacturing Fund | RMB | 5.00 | 5.58 | Newly-established |
| – Walden CEL Global Fund I | US$ | 0.23 | 1.85 | Newly-raised |
| Focusing on the aircraft industry chain | | | | |
| – Aircraft Recycling Global Fund | US$ | 3.50 | 27.40 | Newly-established |
| Focusing on the new economy | | | | |
| – New Economy USD Fund | US$ | 0.68 | 5.32 | Newly-raised |
| Focusing on medical and healthcare | | | | |
| – Medical and Healthcare Fund III | RMB | 4.55 | 5.08 | Newly-raised |
| Focusing on infrastructure | | | | |
| – Everbright Overseas Infrastructure Investments Fund | US$ | 0.58 | 4.54 | Newly-raised |
| Secondary market | | | | |
| – Equity accounts | | | 23.54 | Newly-established |
| – Fixed income accounts | | | 21.59 | Newly-established |
| Others | | | 40.86 | |
| **Total** | | | **202.87** | |

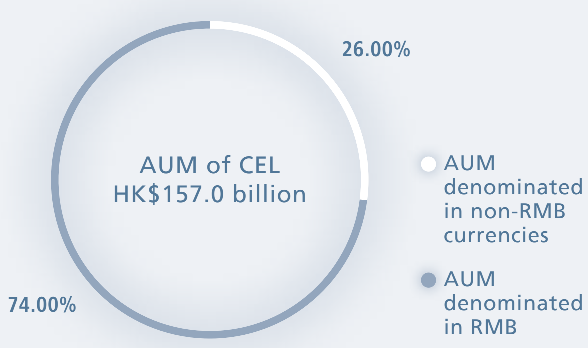
As of the end of 2019, for Fund Management Business, CEL's seed capital and funds from external investors accounted for 22.13% and 77.87% of the AUM respectively, where the external investors were primarily institutional investors, including commercial banks, insurance companies, family offices, government agencies, etc. As of the end of 2019, the Group's Fund Management Business managed 35 primary market funds, 27 secondary market investment portfolios and 7 FoFs. In terms of currency, funds denominated in RMB and non-RMB currencies were equivalent to approximately HK$116.8 billion and HK$40.2 billion, accounting for 74% and 26% of the funds, respectively. In terms of project types, 152 projects and 36 projects were managed under primary market funds and FoFs, with fair value of approximately HK$39.56 billion and HK$6.68 billion for the projects and investment portfolios held, respectively. In the product lines of primary market and FoFs, there were 13 equities listed on various stock exchanges around the globe with a market value of approximately HK$7.85 billion; while that of the unlisted equities and others were approximately HK$38.39 billion.

## DISTRIBUTION OF AUM OF CEL

### By Investors




### By Currency




During the reporting period, CEL's Fund Management Business exited, fully or partially, from 33 projects, realising cash inflows of approximately HK$4,003 million. CEL has flexible ways of exits in place. Among the disposed projects, 10 projects which had been listed were fully/partially disposed through secondary market with an amount of approximately HK$1,351 million, representing 33.74% of the total amount of exits, whereas exits by equity transfer and other methods amounted to HK$982 million and HK$1,671 million, accounting for 24.53% and 41.74%, respectively.

## Primary Market Funds

As of the end of 2019, 35 funds were under the management of CEL's Primary Market Fund segment, with aggregate AUM of approximately HK$109.4 billion, out of which amounts equivalent to approximately HK$88.6 billion and HK$20.8 billion were denominated in RMB and other currencies, accounting for 81% and 19% of the total amount, respectively. During the reporting period, 10 new funds were launched under primary market, with aggregate AUM equivalent to approximately HK$8.506 billion. CEL actively explored its internal synergy and launched a number of new funds relying on its existing strategic industry platforms, including Aircraft Recycling Global Fund, which was jointly established with CALC with a size of US$350 million, for the furtherance of its aircraft full life-cycle business, and CEL New Economy Industry Investment Fund, which was jointly established with Terminus with a size of RMB1.512 billion, for further promoting the wide utilisation of artificial intelligence and Internet of Things. With the diversified fund structures, capabilities on the full value chain and cross-border deployment, CEL has become a leading firm in alternative asset management in primary market in China.

| NAME OF FUNDS | TIME OF ESTABLISHMENT (Year-Month) | CURRENCY | AMOUNT IN ORIGINAL CURRENCY (in hundred millions) | AMOUNT EQUIVALENT TO HK$ (in hundred millions) |
|---|---|---|---|---|
| **FOCUSING ON THE NEW ECONOMY AND DEDICATED FUNDS** | | | | |
| Everbright-IDG Industrial Fund (IDG-Everbright M&A Investment Fund) | 2016-05 | RMB | 101.14 | 112.90 |
| Harmonious Core Fund | 2016-06 | RMB | 13.92 | 15.54 |
| Harmonious Bright Core Fund | 2016-07 | RMB | 27.51 | 30.71 |
| Zhongying Capital | 2016-08 | RMB | 16.30 | 18.20 |
| Smart Entertainment Industry Investment Fund | 2016-12 | RMB | 3.60 | 4.02 |
| Everbright-IDG Qianxing Investment Fund | 2017-06 | RMB | 0.97 | 1.08 |
| Everbright-IDG Hongsheng Investment Fund | 2017-06 | RMB | 5.01 | 5.59 |
| New Economy USD Fund | 2018-05 | US$ | 4.83 | 37.79 |
| **FOCUSING ON ARTIFICIAL INTELLIGENCE AND ADVANCED MANUFACTURING** | | | | |
| CEL Harmonious Fund | 2015-12 | RMB | 0.50 | 0.56 |
| CEL Intelligent ManufacturingEquity Investment Fund | 2017-03 | RMB | 5.20 | 5.81 |
| Nantong CEL Semiconductor IndustryInvestment Fund | 2018-12 | RMB | 5.00 | 5.58 |
| Nantong CEL Intelligent Manufacturing Fund | 2019-09 | RMB | 5.00 | 5.58 |
| EBT Investment Fund | 2019-12 | RMB | 10.00 | 11.16 |
| CEL New Economy Industry Investment Fund | 2019-12 | RMB | 15.12 | 16.88 |
| Walden CEL Global Fund I | 2018-04 | US$ | 1.87 | 14.61 |

| NAME OF FUNDS | TIME OF ESTABLISHMENT (Year-Month) | CURRENCY | AMOUNT IN ORIGINAL CURRENCY (in hundred millions) | AMOUNT EQUIVALENT TO HK$ (in hundred millions) |
|---|---|---|---|---|
| **FOCUSING ON NEW ENERGY** | | | | |
| Beijing Zhongguancun Industry Investment Fund | 2007-12 | RMB | 1.60 | 1.79 |
| Everbright Jiangyin Asset Investment Fund | 2009-07 | RMB | 2.59 | 2.89 |
| Everbright Wuxi Guolian Fund | 2009-11 | RMB | 0.65 | 0.73 |
| CEL Qingdao New Energy (Low Carbon) Fund | 2013-03 | RMB | 6.50 | 7.26 |
| **MEDICAL CARE AND SENIOR HEALTHCARE** | | | | |
| Medical and Healthcare Fund I | 2012-10 | RMB | 2.00 | 2.23 |
| Medical and Healthcare Fund II | 2015-03 | RMB | 12.05 | 13.45 |
| Medical and Healthcare Fund III | 2018-10 | RMB | 12.60 | 14.06 |
| CEL Haimen Senior Healthcare Industry Investment Fund | 2017-08 | RMB | 5.00 | 5.58 |
| **OVERSEAS ACQUISITIONS AND INFRASTRUCTURE** | | | | |
| CEL Catalyst China Israel Fund | 2014-03 | US$ | 1.51 | 11.86 |
| CEL Global Investment Fund | 2016-04 | US$ | 5.39 | 42.17 |
| Everbright Overseas Infrastructure Investments Fund | 2017-06 | US$ | 4.58 | 35.85 |
| **REAL ESTATE** | | | | |
| EBA Real Estate | 2009-01 | RMB | 477.79 | 533.38 |
| **AIRCRAFT INDUSTRY CHAIN** | | | | |
| Aircraft Recycling Global Fund | 2019-12 | US$ | 3.50 | 27.40 |
| **MEZZANINE FUNDS AND OTHERS** | | | | |
| Domestic Mezzanine Fund I | 2012-07 | RMB | 6.78 | 7.56 |
| Domestic Mezzanine Fund II | 2016-12 | RMB | 12.25 | 13.67 |
| Zhuhai Maiwen Fund | 2017-05 | RMB | 6.00 | 6.70 |
| China Special Opportunities Fund II (CSOF II) | 2007-01 | US$ | 1.00 | 7.83 |
| China Special Opportunities Fund III (CSOF III) | 2010-01 | US$ | 3.94 | 30.86 |
| Shandong Hi-Speed CEL Industry Fund | 2014-04 | RMB | 18.18 | 20.30 |
| CEL Zhengzhou Fund | 2016-08 | RMB | 20.00 | 22.33 |
| Total | | | | 1,093.91 |

## Real Estate Private Equity Fund Management Platform

Among all the Group's primary market funds, EBA Real Estate under Everbright Jiabao has the largest size. Its management team EBA Investments, being a leader in the real estate fund management and asset management industry in China, adheres to the active management model for building value creation capacity. At present, CEL holds 51% interest of EBA Investments through Everbright Jiabao, which is owned as to 29.17% by CEL as the largest shareholder, and holds the remaining 49% interest of EBA Investments through another subsidiary. As of the end of 2019, the AUM of EBA Real Estate reached RMB47.779 billion, with 45 projects under management.

During the year, EBA Investments continued with its business deployment of "IMIX Park" and accelerated the development of light asset management business. 18 commercial projects were under management and construction under the brands of "IMIX Park" and "IMIX+", with a total construction area of approximately 2 million sq.m. Meanwhile, EBA Investments actively explored the real estate financial innovation business and achieved sound exit efficiency by successfully issuing "EBAM-EBA Investments Commercial Real Estate ABS for Phase I of Jing'an IMIX Park" and "EBAM-EBA Investments Commercial Real Estate ABS for Phase II of Guanyin Bridge IMIX Park" in May and September 2019 respectively, with an issue size of RMB7.2 billion, under the RMB10 billion shelf-registered commercial REITs series. Such products attracted overwhelming subscriptions from various types of investors, including commercial banks, insurance firms and securities companies, upon issuance.

## Secondary Market Funds

As of the end of 2019, CEL's secondary market team managed 27 funds and accounts with a net asset value of approximately HK$22.8 billion. The secondary market team has built a diversified one-stop product platform with years of cross-border experience. The product lines cover Asian credit bond hedge funds, Asian convertible bond hedge funds, overseas Greater China equity hedge funds, domestic A+H share long-only strategies (including PE funds and institutional outsourcing), PIPE funds and investment advisory business. In terms of product categories, fixed income products, equity products and PIPE products accounted for 53%, 42% and 5% of the total amount respectively.

In 2019, the secondary market team proactively integrated competitive resources, optimized client structure and increased the proportion of professional and large institutional clients, while leveraging cross-border investment capabilities to grow and develop with its partners and continue to deliver favorable investment returns. In respect of fixed income products, CEL has diversified product lines covering overseas funds, QDII management accounts, overseas management accounts and asset securitisation products. Our flagship product "Everbright Dynamic Bond Fund" has recorded good performance over years, while its AUM reached US$600 million as of the end of 2019 and its net of fees return in USD for the year reached 13.0%. Since its launch in December 2012, the fund has delivered a net of fees return in USD of 71% and an annualised return of 7.9%, outperforming the market in the long term (the return for BofA Merrill Lynch Asia USD Bond Index was 36% with an annualised return of 4.5% over the same period). During the reporting period, the fund was nominated by AsiaHedge as the "Best Fixed Income, High Yield, and Non-Performing Debt Fund", and was awarded the "Best Offshore RMB Bond Fund (5 Years)" by Insights. In addition, the fund manager received the "Three-year Overseas Golden Bull Private Equity Investment Manager (Fixed Income Strategy)" award.

Meanwhile, Everbright China Focus Fund, a Greater China long-only absolute return fund and the flagship product within the equity category, had reached a fund size of US$100 million. During the period, it achieved a net of fees return of 17.1%. In comparison, the Hang Seng Index and Hang Seng China Enterprises Index surged by 9.1% and 10.3% respectively over the same period. Since its launch in January 2014, Everbright China Focus Fund has achieved an aggregate net of fees return of 126.3% with an annualised return of 14.6%, greatly outperforming the growth of CSI 300 Index (83.6%), Hang Seng Index (24.0%) and Hang Seng China Enterprises Index (10.5%) over the same period. The fund was awarded the "Best Chinese Hedge Fund (3-Years)" by Insights, and the fund manager received the award of "Three-year Golden Bull Private Equity Investment Manager (Stock Strategy)". In addition, CEL Asset Management (Shanghai) Limited, a subsidiary under the Group, also garnered the award of "Top Ten Private Equity Managers of the Year" in the 2nd National Private Equity Contest held by Securities Times.

During the reporting period, CEL's secondary market team also actively participated in collaboration with China Everbright Group ("Everbright Group") and made great efforts in developing synergistic coordination with fellow companies within Everbright Group. Upon serving as an investment adviser to manage a public bond fund "Everbright Income Focus Fund" for Everbright Sun Hung Kai in Hong Kong and successfully introducing funds from well-known mainland insurance groups in 2018, the fund further introduced external funds in 2019, increasing its scale by nearly 50% and achieving a net of fees return of 10.7%. In addition, leveraging the distribution cooperation with Everbright Sun Hung Kai's wealth management business, CEL successfully launched its flagship product, Everbright Dynamic Bond Fund, targeting local high-net-worth client base in Hong Kong.

## Fund-of-Funds (FoFs)

As of the end of 2019, CEL's FoFs team managed 7 FoFs with AUM of over RMB20.6 billion, and the investment amount in sub-funds and equity investment projects exceeded RMB7.7 billion. FoF invested in funds launched and managed by CEL and also in external sub-funds with proven track records and sound governance and their direct investment projects.

| NAME OF FUNDS | TIME OF ESTABLISHMENT (Year-Month) | CURRENCY | AMOUNT IN ORIGINAL CURRENCY (in hundred millions) |
|---|---|---|---|
| Multi-strategy Alternative Investment Fund | 2012-02 | RMB | 50.01 |
| CEL-CMB Multi-strategy Equity Investment Fund-of-Funds | 2017-03 | RMB | 50 |
| CEL Hunan Fund-of-Funds | 2018-08 | RMB | 51 |
| CEL Jiangsu Liyang Fund-of-Funds | 2018-11 | RMB | 20 |
| Taizhou CEL Big Health Industry Fund | 2019-11 | RMB | 10 |
| Guangzhou CEL Guangzhou-Hong Kong-Macao Youth Venture Fund-of-Funds | 2019-12 | RMB | 10 |
| CEL Suzhou Fund-of-Funds | 2019-12 | RMB | 15 |
| Total | | | 206.01 |

In 2019, in the face of a significant decline in the external fundraising environment, CEL's FoFs team actively reacted to the circumstances and worked with multiple local governments. It initiated 3 FoFs and raised RMB3.5 billion in total. Among these, Taizhou CEL Big Health Industry Fund focuses on the key development areas of Taizhou and Taizhou pharmaceutical high-tech zone, and deploys investments in industries such as biomedicine, high-performance medical equipment, high-end equipment manufacturing, energy conservation and environmental protection, new energy, new materials and new-generation information technology; Guangzhou CEL Guangzhou-Hong Kong-Macao Youth Venture Fund-of-Funds focuses on 4 major fields comprising new-generation information technology, medical and healthcare, consumption and cultural education and advanced manufacturing, for the purpose of investing in companies with high growth potential; CEL Suzhou Fund-of-Funds integrates with the advanced manufacturing industry in Suzhou, aiming at taking full advantage of CEL's cross-border asset management and industry cultivation advantages and striving to promote industry upgrade and development in Suzhou.

In respect of business development, FoFs has largely completed its initial deployment in east China, south China and central China regions and also actively developed its overseas business in 2019. Besides, FoFs has also commenced cooperation with China Everbright Bank and Everbright Securities Company Limited ("Everbright Securities") in terms of fundraising, investment, management and exit, effectively facilitating the positive interaction and collaborative development with Everbright Group's fellow companies.

## Principal Investments Business

The Group has a strong advantage in its principal capital and strives to achieve the following 3 objectives through its principal investment: (1) strategic industry platforms: fostering strategic industries and investment platforms; (2) financial investments: maintaining flexible liquidity management through investment in structured financing products and obtaining stable interest income; participating in equity and related financial investments to capitalise on the co-investment opportunities brought by the fund management business, or as reserve projects for the purpose of accommodating the fund management business in setting up new fund products to match the needs of investors' capital; (3) cornerstone investments: holding a portion of the equity interest in China Everbright Bank and Everbright Securities.

As of the end of 2019, the Principal Investments Business managed 64 post-investment projects with an aggregate amount of approximately HK$39.2 billion. Among these, the total carrying amount of equity interest in CALC, Everbright Senior Healthcare and Terminus held by CEL was approximately HK$4.5 billion; the fair value of financial investments was approximately HK$15.7 billion; the fair value of the cornerstone investments in China Everbright Bank was HK$7.7 billion, and the carrying amount of Everbright Securities was HK$11.3 billion.

| (in HK$ hundred millions) | 2019 | 2018 |
|---|---|---|
| Principal investment | | |
| – Strategic Industry Platforms | 45 | 26 |
| – Financial Investments | 157 | 159 |
| – Cornerstone Investments | 190 | 180 |
| Total | 392 | 365 |

# Strategic Industry Platforms

## Aircraft Leasing

CALC, one of CEL's key strategic industry platform investments, is a one-stop aircraft full life-cycle solutions provider for global airlines. CALC's scope of business includes regular operations such as aircraft operating leasing, purchase and leaseback and structured financing, value-added services such as fleet planning, fleet upgrade, aircraft disassembling and parts sales. It also elevates aircraft asset value through flexible aircraft asset management.

In 2019, CALC continued to increase its full life-cycle capabilities. During the year, it delivered 11 aircrafts and sold 15 aircrafts to Aircraft Recycling International Limited ("ARI"), CAG Bermuda 1 Ltd and its subsidiaries ("CAG") and various external third parties. As of the end of the year, the fleet size reached 134 aircrafts, including 23 aircrafts managed on behalf of CAG, and 218 aircrafts were pending for delivery. As of the end of 2019, the utilisation rate of aircraft of CALC reached 99% with the fleet average age of 4.6 years, and the remaining lease period was 8.2 years on average. Based on the existing fleet and the value of aircraft orders, CALC has been named by ICF, an authoritative consulting agency, as the world's top 10 aircraft leasing company.

During the reporting period, CALC signed a five-year unsecured revolving syndicated loan of US$840 million, which will be used for pre-delivery payments for certain newly ordered aircrafts, and successfully obtained the first aircraft dismantling license issued by the Civil Aviation Administration of China, which helps continue to enhance the "international first-class" aircraft full life-cycle capabilities. CALC also launched Aircraft Recycling Global Fund of US$350 million to keep its efforts in developing its business model in light-asset aircraft leasing.

During the year, CEL increased the stake in CALC from 34.05% to 35.67%, with a market value of approximately HK$2 billion based on the closing price of HK$8.29 per share as at 31 December 2019. During the year, the profit of CALC attributable to CEL rose to HK$319 million, increased by 15% year-on-year.

## Everbright Senior Healthcare

In May 2019, Everbright Senior Healthcare Industrial Development Limited was established in Beijing as the domestic headquarter of "Everbright Senior Healthcare" and fully took charge of running the Group's domestic asset management, investment and operations in the senior healthcare industry. In November, Everbright Senior Healthcare introduced 5 institutions, namely Everbright Financial Holding Asset Management Co., Ltd., Sun Life Everbright Life Insurance Co., Ltd., China Everbright Industry Group Limited ("Everbright Industry"), Everbright Zhengzhou Guotou New Industry Investment Fund Partnership L.P. (a fund under Everbright Industry) and a staff shareholding platform, to become the new shareholders of Everbright Senior Healthcare.

In the year of 2019, Everbright Senior Healthcare entered a brand new stage of development. With business presence in 24 core cities across the country and managing nearly 80 elderly centers and over 21,000 beds, it ranked the top 5 players in the senior healthcare industry in China. Relying on the strong resources of Everbright Group, Everbright Senior Healthcare adheres to the high-quality and sustainable business development and growth model and is gradually becoming a benchmark enterprise in the senior healthcare industry in China. In the meantime, as the largest shareholder of Everbright Senior Healthcare, CEL will fully leverage its advantages in fund management business, artificial intelligence and high-tech industries to support Everbright Senior Healthcare in building an intelligent and high-tech senior care system.

## Artificial Internet of Things ("AIoT")

In 2019, Terminus established the vision of "becoming the world's leading smart scenario service provider". With the core AIoT application technology, it provides intelligent public and high-tech services in integrated management and other aspects for local governments and corporate clients in China, and offers market-leading intelligent solutions in community zones, energy and electricity, retail and exhibition, among others. During the year, Terminus released cutting-edge products such as Terminus Gaia Cloud, next-generation Poseidon edge computing product series and Titan series service robots. In respect of business development, Terminus started strategic cooperation with a number of local governments and industry leaders with the objective to jointly develop full scenario smart services for all industries.

During the reporting period, Terminus completed the series C financing led by CEL and followed by well-known institutions such as Jingdong (JD). Upon completion of such financing, CEL continued to be a substantial shareholder of Terminus, with a total shareholding of 22.60%. As of the end of 2019, Terminus had obtained a total of 720 patents, including 417 invention patents. It also became one of the first batch of IoT companies to pass the "Multi-level Protection of Information Security Scheme (MLPS) 2.0" standard assessment.

## Financial Investments

CEL's financial investments with its own funds cover the following aspects: (1) investment: based on the investment/co-investment opportunities brought by the Group's funds and extensive business network, investing in the equity or debt of unlisted companies; (2) supporting the early stage development of the Group's fund business to complete fund reserve projects or provide short-term loan financing through its own funds; (3) investing in structured financing products with balanced returns and liquidity.

As of the end of 2019, CEL's financial investments amounted to HK$15.7 billion, with the aggregate valuation of top 10 projects amounting to HK$10.4 billion. In terms of the nature of projects, there were 5 structured financial investment projects with an investment scale of approximately HK$2.1 billion, 53 equity and related financial investment projects with a fair value of approximately HK$13.6 billion, out of which 10 projects had been listed on different stock exchanges around the globe with a market value of approximately HK$4.8 billion, and unlisted equity and other projects amounting to approximately HK$8.8 billion.

During the reporting period, there were 18 financial investment projects fully/partially disposed, bringing cash inflows of approximately HK$3,679 million, including dividends, interests and consultancy fee income of approximately HK$450 million. Among these, 7 projects which had been listed were fully/partially disposed in secondary market, with cash inflows of approximately HK$1,423 million, accounting for 38.7% of the total amount; 6 projects in the structured investment segment were disposed with outstanding performance, bringing cash inflows of approximately HK$1,700 million, accounting for 46.2% of the total amount and achieving an IRR of over 18%; and cash inflows from other disposed projects amounted to approximately HK$555 million and accounted for 15.1% of the total amount.

## Cornerstone Investments (Significant Investments)

As of 31 December 2019, the carrying amount of certain equity interests in Everbright Securities and China Everbright Bank held by the Group each accounted for more than 5% of the Group's total assets and the two investments were regarded as significant investments for the Group. These two investments held by the Group accounted for in aggregate 43% and 22% of the Group's net assets and total assets respectively.

### Everbright Securities (601788.SH)

Established in 1996 with its headquarter in Shanghai, Everbright Securities was one of the first 3 innovative pilot securities firms approved by the China Securities Regulatory Commission. As of the end of 2019, the Group held 982 million A shares in Everbright Securities, representing 21.30% of its total share capital, with an investment cost of HK$1,538 million. Everbright Securities is accounted for as an associate of the Group. As of the end of 2019, the carrying amount of the shares held by the Group was HK$11.3 billion, accounting for 26% and 13% of the Group's net assets and total assets respectively. Based on the closing price of RMB13.10 per share as at 31 December 2019, the fair value of the shares in Everbright Securities held by the Group was HK$14.4 billion.

In 2019, Everbright Securities seized market opportunities and adhered to value investment with active management and committed to serving the real economy, and the revenue in securities investment, asset management and investment banking business achieved a substantial growth. During the year, the Group's share of profit from Everbright Securities was HK$141 million, representing a year-on-year increase of 135%, and the Group received dividend payments of HK$115 million from Everbright Securities for the year.

### China Everbright Bank (601818.SH)

Established in August 1992 with its headquarter in Beijing, China Everbright Bank is a national joint-stock commercial bank approved by the State Council and the People's Bank of China. As of the end of 2019, the Group held 1.57 billion A shares in China Everbright Bank, representing 3.00% of the total share capital of China Everbright Bank, with an investment cost of HK$1,407 million. China Everbright Bank is accounted for as equity investments designated at fair value through other comprehensive income of the Group. Based on the closing price of RMB4.41 per share as at 31 December 2019, the carrying amount and fair value of the shares in China Everbright Bank held by the Group was HK$7.7 billion, accounting for 17% and 9% of the Group's net assets and total assets respectively.

In 2019, China Everbright Bank achieved a solid performance and realised an operating income of RMB132.812 billion, representing an increase of 20.47% over the previous year. China Everbright Bank also recorded a double-digit growth in net profit with an amount of RMB45.163 billion, representing a growth of 10.55% year-on-year. During the year, the Group received dividend payments of HK$295 million from China Everbright Bank, decreased by 15% as compared with 2018.

## OUTLOOK

In 2020, the global economy is expected to move forward in the midst of uncertainty. On the one hand, a new round of technological revolution and industrial upgrading accelerate reshaping of the world economy. On the other hand, the tensions among great powers are ongoing and geopolitical order remains in the rebalancing process. As the year begins, the outbreak of novel coronavirus increases the uncertainty in China's economic growth. However, with the combined effect of strengthened counter-cyclical policies and the new round of opening-up policies and coupled with the cyclical improvement of corporate profits, it is expected to bring support to the economy. As crises create opportunities, CEL will strive to capture the structural opportunities of investment and step forward with stability, further promote the transformation to an asset management company, as well as increase industry-focused investment. CEL will also seek to strengthen its operating performance and mitigate risks and maximise the returns to investors. Specifically, CEL will adopt the following strategies:

Firstly, exploiting our advantages and expanding fundraising scale: CEL will keep exploring and achieving product customisation by developing diversified product forms, such as mezzanine funds, structured investment and financing, merger and acquisition funds and secondary alternatives, in order to meet investors' range of needs in terms of investment duration, returns, stability and risk appetite. Meanwhile, the existing FoFs model has gained support and recognition from multiple local governments. CEL will continue to consolidate its deployment in key areas such as Beijing-Tianjin-Hebei Region, the Yangtze River Delta, the Greater Bay Area and the Central Region, and strengthen regional economic cooperation with different local governments and institutions in China, striving to realise a win-win situation for local economic development and investor returns.

Secondly, deepening its industry-focused strategy and making investments steadily: CEL will continue to focus on the leading enterprises which it has incubated and nurtured, fortify the construction of its ecosystem platforms by deepening the support on relevant fields and upstream and downstream of the industrial chain, and further promote the interaction of industrial investment and asset management. CEL will also focus on nurturing enterprises in industries on which CEL has extensive asset management experience, such as high-end manufacturing, core technology, food and beverage and medical and health, and promote the development of enterprises with high potential to become industry leaders.

Thirdly, enhancing cross-border deployment with internal expansion and external alliance: CEL will further expand its cross-border business and strengthen its overseas presence by expanding foreign operations, acquiring overseas companies or setting up asset management joint ventures locally. Besides, CEL will focus on the Belt and Road initiative and continue to implement the strategies of "venturing out" and "bringing in" in the fields of infrastructure and high-end new technology.

Fourthly, mitigating risks and operating steadily: in the face of potential exposure of industry concentration risk in industries such as private equity and real estates during the economic downturn, CEL will take positive steps to respond to and handle challenges cautiously, striving to mitigate risks properly.

In the year of 2020, CEL will live up to its spirit and fully leverage its pioneer advantage to actively grasp new opportunities, invest with industry focus, and build alternative asset management systems and competitive advantage, aiming to become the world's leading cross-border asset management company. "Sailing smooth and moving forward": while pivoting on China with its global vision and insight into the future, CEL will adhere to the slogan of "going beyond with prudence and stepping forward with grit" with our partners as well as strive to offer the best returns to investors, create the greatest value for our corporation and provide shareholders with the most stable growth.

## FINANCIAL POSITION

As at 31 December 2019, the Group's total assets amounted to HK$86.5 billion with net assets amounted to HK$43.8 billion. Equity attributable to equity shareholders of CEL per share was HK$24.7, increased by 4.3% compared with the end of 2018. As at 31 December 2019, the Group's interest-bearing debt ratio increased to 70.7% (31 December 2018: 63.0%).

## 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 2019, the Group had cash and bank balances of HK$7.3 billion, increased by HK$0.4 billion compared with the end of 2018. Currently, most of the Group's cash, representing 88.7%, 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 2019, the Group had banking facilities of HK$24.9 billion, of which HK$5.9 billion had not been utilised. The banking facilities were of one to thirteen years terms. The Group had outstanding bank loan of HK$19.0 billion, increased by 33.8% compared with the end of 2018. The borrowing as at 31 December 2019 included secured interest-bearing borrowings of HK$3.8 billion and unsecured interest-bearing borrowings of HK$15.2 billion. The Group had issued corporated bonds with outstanding principal amount of HK$11.9 billion. The interest-bearing borrowings were mainly denominated in Renminbi, representing about 48% of the total, and the remaining were mainly denominated in USD, SGD and Hong Kong dollars. As at 31 December 2019, approximately 55% of the Group's total principal amount of borrowing were at floating rates and the remaining 45% were at fixed rates. The maturity profile of the Group's borrowing is set out in Note 35 of the Notes to the Financial Statements in this Annual Report.

## PLEDGE OF ASSETS

As at 31 December 2019, fixed deposits of HK$46 million were pledged to the banks for sales of mortgaged properties to customers and interest reserve account on bank loans and HK$177 million were used to secure banking facilities granted to the Group entities. Investment properties, shares and inventories with carrying value of approximately HK$4,400 million, HK$429 million and HK$409 million are mortgaged to secure certain bank loans granted to the Group. 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 2019, assets deposited with the prime brokers included HK$1,715 million and HK$195 million which formed part of the Group trading securities and debtors respectively.

## 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. Brief descriptions of the Group's approach in managing these risks are set out in the Risk Management Report on pages 106 to 113 and Note 40 of the Notes to the Financial Statements in this Annual Report.

## CONTINGENT LIABILITIES

As at 31 December 2019, the Company had issued financial guarantees to subsidiaries. The Board does not consider it is probable that a claim will be made against the Company under the guarantees. The maximum liability of the Company as at 31 December 2019 for the provision of the guarantees related to the facilities drawn down by the subsidiaries was HK$6.0 billion.

## EMPLOYEES

As at 31 December 2019, the Group's headquarters and fully owned subsidiaries had 361 full-time employees. 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.

## IMPORTANT EVENT AFTER THE REPORTING PERIOD

After the reporting period, the outbreak of the novel coronavirus (COVID-19) has been declared a pandemic by the World Health Organization. If the outbreak remains protracted, it may create negative impacts on the Group's performance, including but not limited to the Group's income from investments. As at the date of this Annual Report, given the rapid development of the novel coronavirus outbreak, the Directors consider that it is impracticable to estimate the financial impact to the Group. The Board will continue to assess the impact of the outbreak on the Group's operation and financial performance, closely monitor the Group's exposure to the risks and uncertainties in connection with the outbreak, and maintain close communication with different stakeholders of the Group.

By order of the Board
**China Everbright Limited**
**Zhao Wei**
*Chief Executive Officer*

Hong Kong, 19 March 2020

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CEL 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 fourth Environmental, Social and Governance (ESG) Report ("Report") of China Everbright Limited ("CEL") (Stock code: 165.HK). The Report illustrates the ESG performance of our headquarters in Hong Kong as well as our regional offices in Mainland China.

This Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited and the Core option of the Global Reporting Initiative ("GRI") Sustainability Reporting Standards. This Report covers the operations of our Hong Kong headquarters and regional offices in Mainland China for the period from 1 January 2019 to 31 December 2019.

CEL has incorporated the United Nation Sustainable Development Goals ("SDGs") in our environmental and social management. The following five SDGs out of 17 are most relevant to our stakeholders:


- Ensure healthy lives and promote well-being for all at all ages


- Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all


- Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all


- Reduce inequality within and among countries


- Take urgent action to combat climate change and its impacts

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

CEL is a China's leading cross-border asset management and investment company with over 20 years' experience in cross-border asset management and PE investments. It is a listed company in Hong Kong with alternative asset management as its core business.

Through the private equity funds, venture capital funds, industry funds, mezzanine funds, fund of funds, fixed income and equity funds it manages, CEL cultivates a number of high-growth-potential enterprises together with its investors. While closely following the development requirements of Chinese companies, it also introduces the best overseas technologies into the Chinese market, providing multifaceted services to Chinese and overseas clients. Moreover, CEL also established "EBA Investments"/"Everbright Jiabao", a leader of real estate private equity funds in China; cultivated "CALC", the largest independent aircraft leasing operator in China; incubated "Terminus", an AIoT unicorn company; and established "Everbright Senior Healthcare", a premium elderly care brand, and integrated both mid- to high-end elderly care in China.

### FOUR KEY INDUSTRY PLATFORMS

#### REAL ESTATE ASSET MANAGEMENT

- Primarily focusing on fund management and developing differentiated competitions, through continuously expanding investment and operational scales to increase AUM and striving to stand out in the crowd
- CEL synergises and combines industry and finance through integration of industry as the backbone, finance as the tool and real estate as the vehicle.

#### AIRCRAFT FULL LIFE-CYCLE SERVICES

- CALC's future positioning and strategic development is to become a one-stop aircraft full life-cycle solutions provider through new aircraft leasing and aircraft aftermarket services (including old-aged aircraft and component asset management, aircraft maintenance and disassembly)

#### AIoT

- "Terminus" integrates the scale, trend of business development, and the advantages of each business scope via the 3+X solution. 3 includes governance and security sector, pan-industrial zone industries and energy sector, while X represents new emerging sector
- The market position and direction vary based on the different characteristics of the business sectors in the 3+X solution and the current market status of "Terminus"

#### SENIOR HEALTHCARE

- To establish a more comprehensive network in the region
- To increase elderly care capacity
- To facilitate management system
- To establish product positioning and enhance efficiency
- To progress towards smart elderly care with technology support

Despite the volatility of international and domestic financial markets in recent years, CEL has capitalised on a solid foundation and visionary strategies to maintain stable operations and achieve strong growth in AUM, expanding its reach overseas beyond Hong Kong and Mainland China. During this time, the Group has maximised 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 Stakeholders

In order to enhance communications and interactions with our fund investors and business partners, eight Everbright Investment Conference were held from 2012 to 2019. The conference attracted more than 4,000 attendees in total, including institutional investors and business partners from around the globe. During the reporting period, CEL participated in a number of investor forums and teleconferences, and carried out two surveys to help further define our shareholder profile. Findings of the surveys are summarised in shareholder reports for the Board's review on a regular basis. These reports allow the Board to better understand investors' opinions and suggestions regarding CEL's development strategies. In addition, the Group's management maintains close communications with shareholders at the annual general meeting.

## Our Employees

Employees are CEL's most important asset. In 2019, the Group has organised 8,793 hours of training for our full-time employees. The Group was also dedicated to providing a healthy and safe working environment and promoting work-life balance to our employees. Our volunteering team encouraged employees to get involved in volunteering services to give back to the society. In 2019, our CEL volunteering team has received the "Drive for Corporate Citizenship Volunteer Team" accolade from the Hong Kong Productivity Council for four consecutive years.

## Our Community

As a CSR-committed company, CEL is devoted to 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 offer free treatment to treat cataract patients in poverty-stricken areas; sponsoring Orbis and becoming its "Hong Kong Corporate Partner" to raise funds to restore eyesight to patients around the world; sponsoring Our Hong Kong Foundation in its "Big Little Things" to help the vulnerable groups in the community; title sponsoring Spartan Race Hong Kong to promote a healthy and self-challenging lifestyle to foster wellness in the body and soul in society; 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; also becoming a long term partner of various local art organisations, such as Hong Kong Ballet and Hong Kong Arts Festival, to promote the development of arts in Hong Kong. Since the establishment of the China Everbright Charitable Foundation, our charitable donations have amounted to over HK$60 million.

## Our Environment

CEL understands the importance of sustainable development and environmental protection. We have been closely monitoring our greenhouse gas emissions and waste generation. CEL is dedicated to maximising the Group's operational efficiency while minimising environmental impacts through greenhouse gas management, energy conservation, waste management and recycling, material purchase and resource utilisation. In 2019, our GHG emissions intensity has been reduced by 6.7% compared with the previous year, at 2.2 $tCO_2$ equivalent/employee.

# OUR STAKEHOLDERS

## Materiality Assessment and Stakeholder Engagement

To better align this report with the expectations of our stakeholders and the Group's economic, environmental and social impacts, we have invited an independent consultant this year to conduct a stakeholder engagement exercise. Materiality assessment, including identification, prioritisation, and review of the materiality topics was conducted to identify issues that are material to the sustainable development of the Group. The prioritisation of material topics has followed the principles defined in the GRI Sustainability Reporting Standards.

**IDENTIFICATION OF MATERIALITY TOPICS**

Questionnaires were formulated by our independent consultant to obtain the views from stakeholders on our environmental, economic and social performance.

**PRIORITISATION OF MATERIALITY TOPICS**

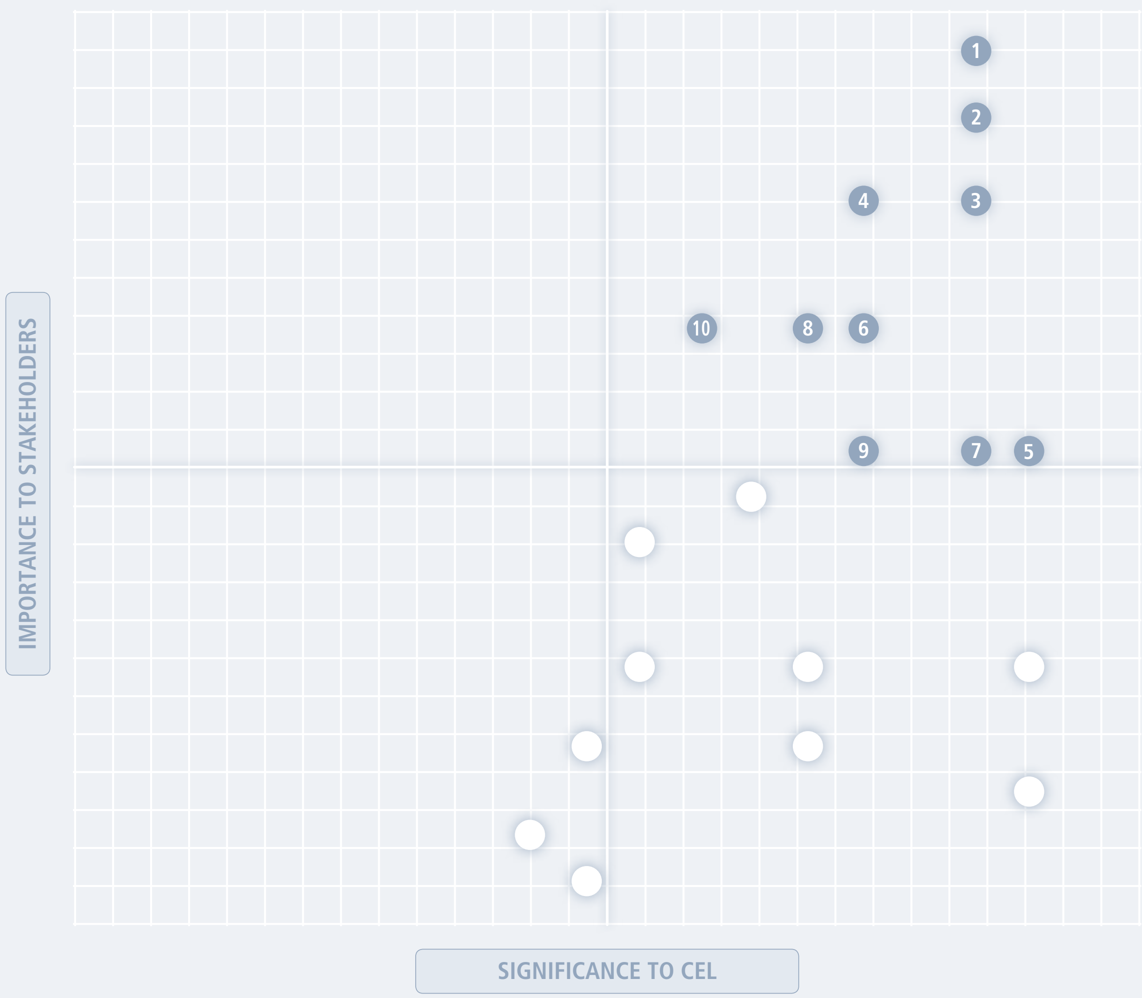
The independent consultant prioritised the identified material topics in accordance with the importance to stakeholders and the significance to the Group, and presented through a materiality matrix.

**VERIFICATION OF MATERIALITY TOPICS**

CEL verified the materiality topics to ensure the topics aligned with our development strategy.

The Materiality Matrix below serves as a tool to visualise the relative importance of each sustainability topic with regard to our stakeholders as well as our businesses. The top 10 sustainability topics are considered as Material Topics and will be addressed in detail throughout this report.

## SUSTAINABILITY MATRIX




1. Anti-corruption
2. Training and Education
3. Greenhouse Gas Emission and Pollutants
4. Economic Performance
5. Occupational Health and Safety
6. Social Compliance
7. Employee Welfare
8. Diversity and Equal Opportunity
9. Environmental Compliance
10. Energy Efficiency

### Materiality Topics

| SUSTAINABILITY CATEGORY | GRI SUSTAINABILITY REPORTING STANDARDS | BOUNDARIES WITHIN THE GROUP | BOUNDARIES OUTSIDE THE GROUP |
|---|---|---|---|
| Economic | GRI 201 Economic Performance | ✓ | ✓ |
| | GRI 205 Anti-corruption | ✓ | ✓ |
| Environment | GRI 302 Energy | ✓ | ✓ |
| | GRI 305 Emissions | ✓ | ✓ |
| | GRI 307 Environmental Compliance | ✓ | ✓ |
| Employee | GRI 401 Employment | ✓ | |
| | GRI 403 Occupational Health and Safety | ✓ | |
| | GRI 404 Training and Education | ✓ | |
| | GRI 405 Diversity and Equal Opportunity | ✓ | |
| Community | GRI 419 Socioeconomic Compliance | ✓ | ✓ |

## CLIENTS AND COLLABORATING PARTNERS

CEL's Macro Asset Management platform connects the thriving Mainland China and Hong Kong markets, which both possess 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 trusting, long-term relationships with their 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 committee (or similar entity) is also established for each fund to maintain sound operations and protect the interests of external investors. When funds are used for investing in or are being exited from a specific project, the interest stake held by the fund management team is 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 2019 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, and has taken place in Sanya, Shanghai, Xiamen, Chongqing, Qingdao, Hong Kong, Hangzhou and Zhengzhou, in that order, over the past eight years. The conference has attracted more than 4,000 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.

## OUR SHAREHOLDERS AND INVESTORS

To enhance corporate transparency and disclosure, CEL places significant emphasis on maintaining strong communication channels with shareholders and investors. In 2019, the Group has participated in 9 investor forums and roadshows organised by CICC, CITIC, HSBC, UBS, Jefferies, and others. The Group has shed light on its strategies and performance through exchange in a sustainable, genuine, accurate and complete manner with 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 31 December 2019, twelve analyst reports on the Group have been published by three 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 a regular basis. The report is generated from the analysis of a series of investor relations work carried out through two surveys on the Group's shareholder profile throughout the year, covering shareholdings and patterns. It included external communications, investor feedback and changes in stock price, and allows the Board to better understand investors' opinions and suggestions regarding CEL's development strategies.

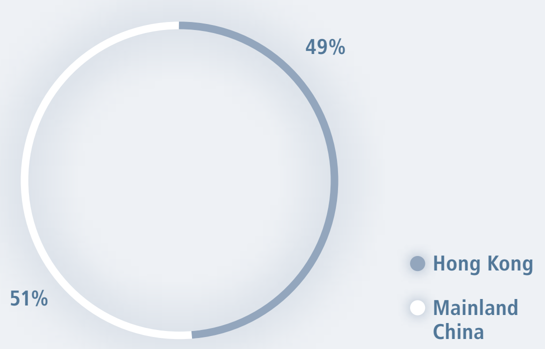
For the ease and convenience of investors and shareholders, CEL's website (www.everbright.com) underwent a face lift in 2017 with a compelling layout design and functionality to support its business growth and international branding. The website revamp reorganised the structure and design of the pages. 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 maintains close communications 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.

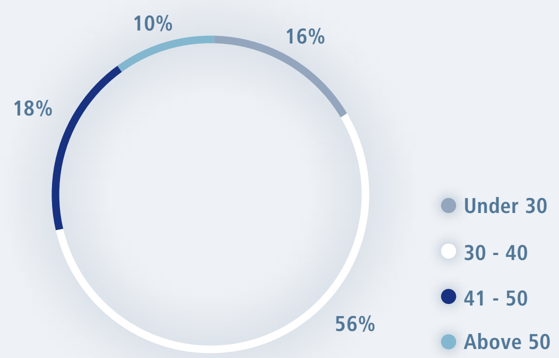
# OUR EMPLOYEES


The Group sees its employees as partners and its most important asset. The Group recruits top-notch talent from the financial sector and builds its distinguished management team. Employees are able to share the fruits of the Group's success, through creating economic value and enhancing work efficiency. The Group's Staff Handbook has laid out key information on employee management, remuneration, welfare, attendance policy, working hours, leave, equal opportunity, antidiscrimination, code of conduct, and so on.

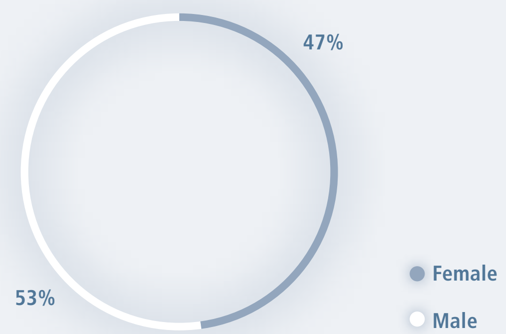
## BY REGION



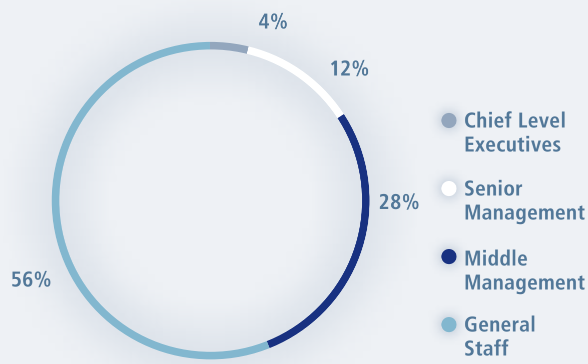

## BY AGE GROUP




## BY GENDER




## BY EMPLOYEE CATEGORY



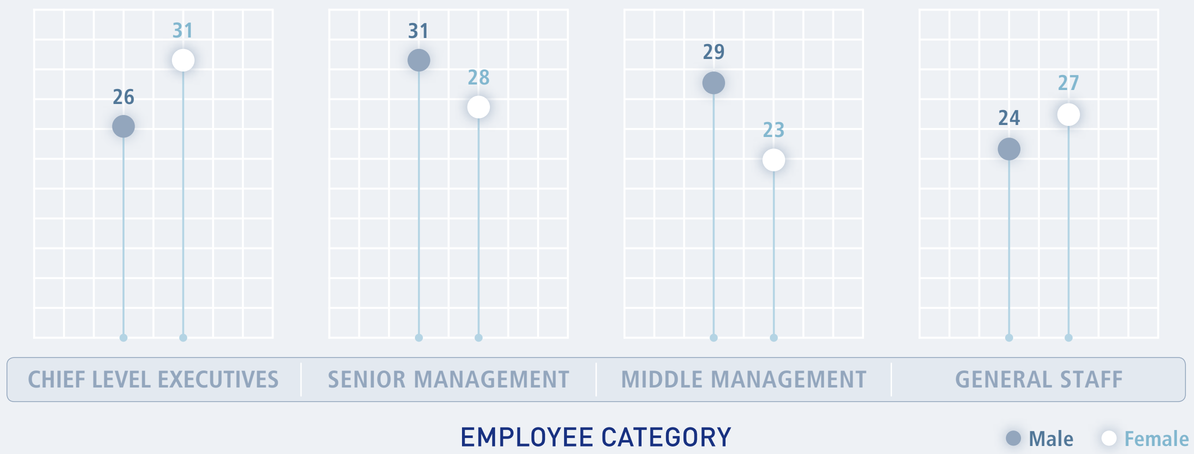
## Employee Diversity and Equal Opportunity

We have a Staff Handbook in place to protect our employees from any form of discrimination due to gender, disability, family status, marital status, race, and so on, and against any related harassment and slander. The Group is dedicated to promoting equality in the workplace and has employed staff from different age groups. As of 31 December 2019, the Group had 361 employees, all of which were employed on a full-time and permanent basis. The ratio of male to female staff was 1.15:1.

## 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, that sets an annual training target hour according to the years of service of the employee, and takes 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, and thus increasing the Group's competitiveness in the industry. During the reporting period, our employees have undergone 8,793 hours of training, including 24 internal training sessions, covering topics such as business ethics, anti-money laundering, taxation, risks, macroeconomic trends, soft skills, online courses, personal wellness and others.

2019 AVERAGE TRAINING HOURS (Hours)




Apart from internal training sessions, 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 and foster closer collaboration and communication between our teams.

New hires receive a clear overview of the Group through online orientation 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. General new hires are automatically enrolled into our mentor-mentee programme, which provides timely support and guidance in adapting to our corporate culture and working environment.

## Anti-corruption

Staff integrity is one of our critical factors to success. The Group strictly follows the "Anti-corruption Law of the People's Republic of China" and the "Prevention of Bribery Ordinance" of Hong Kong. We prohibit all forms of bribery and corruption in carrying business for the company. Employees are required to conduct themselves with integrity, in an ethical and proper manner, and in compliance with the applicable laws and regulations of the countries in which the Group operates, including anti-bribery laws. All employees must strictly follow the Group's Anti-Money Laundering Policy and Whistleblowing Policy, which prescribe prevention of corruption, blackmail, fraud, money laundering, relevant laws and their implementation, audit procedures, and regular training. On top of that, we also invited the Independent Commission Against Corruption (ICAC) to orgainise an anti-corruption seminar for our employees this year. In total, 34 employees attended the seminar.

During the reporting period, there was no confirmed case of non-compliance in relation to corrupt practices that would have a significant impact on the Group.

## Occupational Health and Safety

The Group recognises the importance of a safe and healthy work environment as the cornerstone of a successful organisation. In order to provide a safe working environment and prevent occupational accidents, our Occupational Safety and Health Policy has a list of safety measures for employees to follow. For instance, we encourage new employees to participate in fire drill conducted by the building's management office annually and maintain a fire drill attendance record to track the employee's awareness on safety. In addition, we conduct safety audit in the office to ensure the safety of the working environment and check that all escape routes are free from obstruction.

## Communication and Connection

The Group 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 its 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 and schools, as well as sheltered workshops. The team has also prepared meals for the elderly with Food Angel, joined garden maintenance activity at a historical monument, and hosted mural painting in schools. The team has also participated in the "Sowers Action Challenging – Charity Hiking" for four consecutive years. A parent-child visit to Shandong, Heilongjiang, Guiyang, Jilin and Xinjiang at the eye-train hospital by Lifeline Express were also among the many volunteering services we participated in, which are strongly supported by our colleagues.

In 2019, CEL's volunteer team proactively participated in the "Big Little Things" event organised by Business for Social Good under Our Hong Kong Foundation to help and improve the quality of life of the vulnerable groups in the community. Besides, we also held a parent-child visit to eye-train hospital by Lifeline Express in Changzhi, Shanxi Province. This year, CEL invited district councillors from Sham Shui Po and Central-Western Districts to take part in volunteering services with a view to get first-hand experience with the living standards of families and students with special education needs in Sham Shui Po District, and raise awareness and improve living standards with the assistance of the councillors.

CEL's volunteer team has been awarded the "Drive for Corporate Citizenship Volunteer Team" accolade from Hong Kong Productivity Council for the past four consecutive years starting 2016.

## 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 activities, staff welfare programmes and incentives. These efforts have also resulted in meaningful contributions to the Group's business success in terms of retaining and recruiting the best talent.

The Group puts great care in employees' work-life balance by providing various kinds of training and events, such as "Floor Curling" team-building activity and "Resilience Training" workshop, cultural activities such as discounted tickets to ballet performances, recreation activities such as Laughter Yoga, sports activities such as industry basketball league enrolment and so on. These are designed to meet the range of different interests of our employees.

# OUR COMMUNITY

4 QUALITY EDUCATION

10 REDUCED INEQUALITIES

Giving back to society is an important part of CEL's CSR efforts. While we develop our business, we strive to use our expertise and resources to maximise the benefits of stakeholders, and establish long-term, trusting partnerships with them in accordance with our CSR Policy. We divide our stakeholders into four groups and actively give back to the society through different aspects. 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 established the China Everbright Charitable Foundation ("CECF"), a charitable organisation recognised by the Hong Kong Government. CEL has been a strong supporter of a wide range of charitable events since the establishment of the foundation, covering our four main themes "Bright Companion", "Vitality Everbright", "Education Support", and "Art Promotions".

## Bright Companion

CEL's Chinese and English name of "Everbright" symbolises 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 sight-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 eight 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. Starting from 2014, the Group, together with Lifeline Express, has arranged for a parent-child group to visit the eye-train hospital and cataract patients in Shandong, Heilongjiang, Guizhou, Jilin, Xinjiang and Shanxi, providing help for paramedics and bringing love to patients. In 2016, with support from CEL, Lifeline Express has travelled outside of China for the first time to Sri Lanka, providing treatments to the blind.

### Our Hong Kong Foundation – Contribute to the future and prosperity of Hong Kong

In response to the invitation from Mr. Tung Chee-hwa, the former Chief Executive and the Chairman of "Our Hong Kong Foundation", CEL has sponsored the foundation for five consecutive years since 2018, to drive economic growth, technology and social innovation, and culture and art development in Hong Kong. Through sponsoring the "Our Hong Kong Foundation", CEL has taken part in strengthening ties and cooperation of Hong Kong and Mainland, in order to unify the society, and drive Hong Kong to a more prospered and stable future. This year, CEL's volunteering team joined the "Big Little Things" hosted by "Our Hong Kong Foundation" to put words in actions by helping the grass-root families to solve daily difficulties that seem subtle but crucial to them.

### "Orbis" – International sight-saving organisation

Ever since 2018, CEL has become Orbis's "Hong Kong Corporate Partner" to support its sight-saving campaigns across the globe, and to help restore the eyesight of cataract patients.

## Vitality Everbright

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

### Spartan Race Hong Kong

CEL has title sponsored "Spartan Race Hong Kong" for two consecutive years. As a highly popular and challenging obstacle race, the event received an overwhelming response and attracted more than 12,000 racers joining the two competition in 2019. Spartan was first organised in 2005 in the United States of America, and the event has since then expanded to 25 countries and 240 races around the world in 13 years. It was launched in Hong Kong in 2016 and became a signature event for elites in two years' time. The event attracted talents from different financial institutions to participate and show their team spirit.

## Education Support

Since the establishment of CECF, the Group has supported various community projects relating to education, childcare and young people, aiming to continue fostering our next generation by promoting a range of social work.

### 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 that has both Mandarin and English as its language of instruction. What sets DSHK apart from other schools is its unique child-centred programme based on the world-renowned Dalton plan, along with its partnership with the esteemed Tsinghua University Primary School to provide a strong emphasis on Chinese language, culture and values. Establishing an international school not only meets its extraordinary demand, but also combines Chinese traditional education with international teaching methods and enhances Hong Kong students' awareness of Chinese culture and history.

### "China Everbright Voice of the Stars Story-Telling Scheme" – A project to promote understanding and greater awareness of Chinese history among the 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, which aims to provide opportunities for local youth to understand Chinese history and culture through a more interesting study platform – online story telling. 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.

## Art Promotions

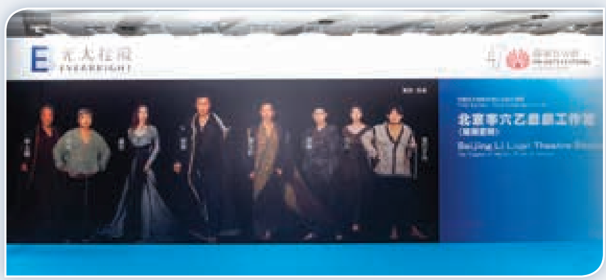
Throughout the years, CEL has promoted local art development by supporting various local art organisations in Hong Kong, promoting widespread interest among the general public for the refinement and elegance of arts.

### Hong Kong Ballet

Since 2015, CEL has been title sponsoring classical productions of Hong Kong Ballet including "Nutcracker", "Swan Lake", "Don Quixote" and "Serenade and More" in Mainland. In 2019, CEL title sponsored "The Great Gatsby" and the 2nd Annual International Gala of Stars. Through donations to Hong Kong Ballet's "Accessibility Fund", the Group offered free tickets to underprivileged families in the New Territories to enjoy ballet performances for the fourth year running.

### Hong Kong Arts Festival

In March 2019, CEL title sponsored the "Hamlet", a co-production by Royal Shakespeare Company and Li Liuyi Theatre Studio, which was a presentation of a remarkable international performance to audience in Hong Kong.



## Community Projects and Donations

CEL values the importance of poverty alleviation and contribution to society. Every year, CEL makes donation to certain areas which suffer from poverty, and a total of RMB1.2 million was donated in 2019. In 2020, CEL will unify the Group's poverty fund and continue to increase the poverty relief engagement. As a member of China Everbright Group in Hong Kong, CEL also care about local poverty issues by taking the initiative to establish different poverty alleviation programmes, with an aim to take part in enhancing the prosperity and stability of Hong Kong.

Site visits and investigation plans were arranged by CEL together with related units from Guzhang, Xinhua and Xintian Countries of Hunan Province to support local education in 2019. A volunteering team with 290 members was established and a total of RMB214,442.72 was raised by our employees for local educational support. Part of the fund was donated to "Everbright Hope Elementary School" in Shuiche Town, Xinhua County, Hunan Province for school facilities renovation and students' supports. Moreover, CEL sponsored 66 students across three different counties with a total amount of RMB51,200 through the one-to-one association education from Virtus Foundation, to provide opportunities for children to study under better conditions and thus assisting them to build a brighter future. On the other hand, CEL started purchasing large number of local products from poverty areas since the third quarter and rewarding employees during National Day and other special holidays as a form of employee benefits. The Group proactively promotes its subsidiaries to purchase local products from poverty areas so as to support poverty alleviation and raise the popularity of the products.

# OUR ENVIRONMENT

13 CLIMATE ACTION

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., Zhejiang Wangneng Environment Co., Ltd, Beijing JeeGreen Technology Co., Ltd, Anhui Yuanchen Environmental Protection Polytron Technologies Inc., Shenyang Shengyuan Water Affairs Co., Ltd, Dalian Wastewater Treatment Project, among others. 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 minimise its environment impact while sustaining its operational efficiency at the same time.

During the reporting period, there was no confirmed case of non-compliance in relation to environmental practices that would have a significant impact on the Group.

## Energy Conservation

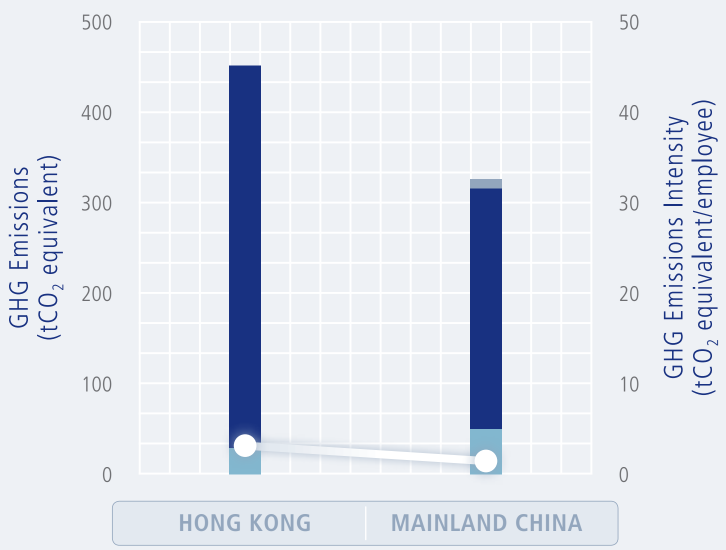
Energy consumption is a major cause of environmental impact. CEL has initiated different measures to reduce energy usage. In order to cultivate awareness of environmental protection among employees, the Group's Green Office and Sustainable Procurement Policy has a strict requirement on employees' conduct, 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. Our printers are switched into energy-saving mode automatically when not in use to reduce energy usage. Notices on switching off computers and monitors before leaving the office are sent out to all employees before long holidays. In 2019, our electricity consumption intensity and fuel consumption intensity were reduced by 0.7% and 1.2% respectively.

| | Direct Energy Consumption | Direct Energy Consumption Intensity |
|---|---|---|
| Electricity | 986,241 kWh | 2,732 kWh/employee |
| Fuel | 29,932 L | 83 L/employee |

## Greenhouse Gas Emissions and Management

Effective management of greenhouse gas (GHG) emissions 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 (2010 Edition)"[1] compiled by the Electrical and Mechanical Services Department and the Environmental Protection Department of Hong Kong. The emission intensity is used as a reference for the Group in monitoring future GHG emission performance. Our overall GHG emissions intensity in 2019 has been reduced by 6.7% compared to the previous year, at 2.2 tCO2 equivalent/employee.

### GHG EMISSIONS IN 2019




| | HONG KONG | MAINLAND CHINA |
|---|---|---|
| Other Indirect GHG Emissions (Scope 3) ($tCO_2$ equivalent) | 0.5 | 11.2 |
| Energy Indirect GHG Emissions (Scope 2) ($tCO_2$ equivalent) | 432.6 | 271.8 |
| Direct GHG Emissions (Scope 1) ($tCO_2$ equivalent) | 29.8 | 51.2 |
| Intensity ($tCO_2$ equivalent/employee) | 2.6 | 1.8 |

Notes:

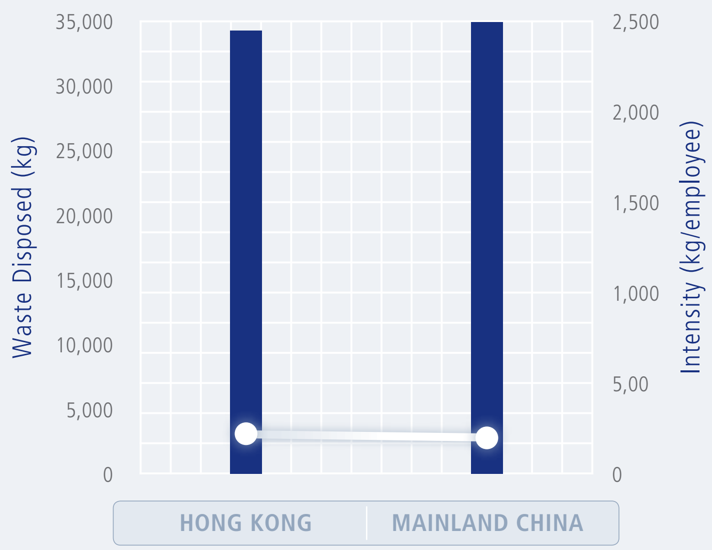
1 GHG calculation includes: direct fuel consumption (scope 1), electricity consumption (scope 2), paper and drinking water (scope 3); Emissions factors for electricity purchased is referenced to the latest information released by Hong Kong Electric and "2015 Average Regional Baseline Grid Emission Factor in China" released by the National Development and Reform Commission.

## 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 recycling box for paper 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 recycled 4,331 kg of paper and 6 cartridges[2].

### WASTE DISPOSAL IN 2019




| | HONG KONG | MAINLAND CHINA |
|---|---|---|
| Waste Disposal (kg) | 34,046 | 34,499 |
| Intensity (kg/employee) | 191.3 | 188.52 |

Notes:

2 Includes Hong Kong and Qingdao Office.

### Material Use

In order to lessen the burden on our environment, CEL pays special attention when sourcing materials. As printing paper ranks at the top out of our material consumption, the Group has a strict requirement in choosing printing paper. According to the Group's Green Office and Sustainable Procurement Policy, both Hong Kong and the Mainland offices are required to use Forest Stewardship Council (FSC)-certified paper from responsible forest resources that discourage 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 opts for printers with energy conservation functions and energy-saving lighting such as LED lights.

To reduce our impact on the environment in our supply chain, the Group chooses environmentally responsible suppliers in accordance with the Green Office and Sustainable Procurement Policy. Our printing paper suppliers are ISO 14001 certified, proven to possess an effective environmental management system.

### Resources 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 realised the paperless office concept. 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 reuse single-sided paper.

## AWARDS

In recognition of the Group and China Everbright Charitable Foundation's continuous efforts and contributions in corporate social responsibility, CEL has been awarded a "Caring Company" and "Caring Organisation" for eight consecutive years since 2011. CEL has been awarded a "Happy Company" label for the fifth consecutive year since 2015 jointly by the Hong Kong Productivity Council and the Promoting Happiness Index Foundation, in recognition of CEL's commitment in creating a healthy and caring corporate culture and prioritising work-life balance of employees. Moreover, in recognition of the Group's effort in engaging employees in social volunteering, CEL has been awarded "Drive for Corporate Citizenship Volunteer Team" logo for fourth consecutive years. CEL was also named as "Family-Friendly Employers" by the Home Affairs Bureau and the Family Council for two consecutive terms, in acknowledging of the company's efforts in promoting core-values relating to employee's work-life balance.

## CHARTERS AND MEMBERSHIPS

The Group maintains memberships in professional and trade organisations to stay abreast of key issues in our areas of operation, industry trends, new legislative rulings and best practices. The following table lists our memberships, charters and participation in industry and professional associations relevant to our business.

| Institution | Class of Membership |
|---|---|
| Hong Kong Venture Capital and Private Equity Association (HKVCA) | Corporate Member |
| The Chamber of Hong Kong Listed Companies (CHKLC) | Corporate Member |
| China Venture Capital and Private Equity Association (CVCA) | Corporate Member |
| Hong Kong Chinese Listed Companies Association Limited | Director |

## PERFORMANCE DATA

| Economic Performance | HK$'000 |
|---|---|
| DIRECT ECONOMIC VALUE GENERATED | |
| Income from contracts with customers | 611,778 |
| Income from investment | 3,724,311 |
| Income from other sources | 270,254 |
| Share of profits less losses of associates | 823,454 |
| Share of profits less losses of joint ventures | 88,713 |
| ECONOMIC VALUE DISTRIBUTED | |
| Finance costs | 1,164,915 |
| Other costs[3] | 1,498,770 |
| Dividends | 808,921 |
| Taxes[4] | 602,929 |
| Loss attributable to non-controlling interests | (25,396) |
| Charitable donations | 6,825 |
| ECONOMIC VALUE RETAINED | |
| Retained for CEL's sustainable operation and development | 1,461,546 |

Note:

3 Represents other costs but excludes depreciation and amortisation for the year.

4 Represents current income tax but excludes deferred tax for the year.

| Environmental Performance | |
|---|---|
| **GREENHOUSE GAS (GHG) EMISSIONS** | |
| Scope 1 (tonnes $CO_2$ equivalent) | 81.1 |
| Scope 2 (tonnes $CO_2$ equivalent) | 704.4 |
| Scope 3 (tonnes $CO_2$ equivalent) | 11.7 |
| GHG emission intensity (tonnes $CO_2$ equivalent/employee) | 2.2 |
| **FUEL AND WATER CONSUMPTION** | |
| Direct electricity consumption (kWh) | 986,241 |
| Direct electricity intensity (kWh/employee) | 2,732 |
| Water consumption[5] ($m^3$) | 21.20 |
| Water intensity ($m^3$/employee) | 0.06 |
| Direct fuel consumption – Petrol (L) | 29,932 |
| Direct fuel intensity (L/employee) | 83 |
| **MATERIALS CONSUMPTION AND RECYCLING** | |
| Paper consumption (kg) | 6,270 |
| Paper recycled (kg) | 4,331 |
| Cartridges recycled (pcs) | 6 |
| **WASTE DISPOSAL** | |
| Non-hazardous waste[6] (kg) | 68,545 |
| Non-hazardous waste intensity (kg/employee) | 190 |
| Hazardous waste (kg) | – |

Note:

5 Only includes water consumption for drinking.

6 The waste collection service is provided by the building's management and disposed of designated waste collectors.

| Social Performance | |
|---|---|
| **EMPLOYEES (BY EMPLOYMENT TYPE)** | |
| Full-time | 361 |
| Part-time | 0 |
| **EMPLOYEES (BY GENDER)** | |
| Male | 193 |
| Female | 168 |
| **EMPLOYEES (BY AGE GROUP)** | |
| Under 30 | 59 |
| 30-40 | 203 |
| 41-50 | 63 |
| Above 50 | 36 |
| **EMPLOYEES (BY EMPLOYEE CATEGORY)** | |
| Chief level executives | 14 |
| Senior management | 43 |
| Middle management | 103 |
| General staff | 201 |
| **TURNOVER RATE** | |
| Overall turnover rate | 14.7% |
| **TURNOVER RATE (BY GENDER)** | |
| Male | 14.0% |
| Female | 15.5% |
| **TURNOVER RATE (BY AGE GROUP)** | |
| Under 30 | 15.3% |
| 30-40 | 16.3% |
| 41-50 | 12.7% |
| Above 50 | 8.3% |
| **TURNOVER RATE (BY GEOGRAPHICAL REGION)** | |
| Hong Kong | 13.5% |
| Mainland China | 15.8% |
| **PERCENTAGE OF EMPLOYEES TRAINED (BY GENDER)** | |
| Male | 85% |
| Female | 93% |

| Social Performance | |
|---|---|
| **PERCENTAGE OF EMPLOYEES TRAINED (BY EMPLOYEE CATEGORY)** | |
| Chief level executives | 100% |
| Senior management | 95% |
| Middle management | 97% |
| General staff | 83% |
| **AVERAGE TRAINING HOURS (BY GENDER)** | |
| Male | 26.9 |
| Female | 27.7 |
| **AVERAGE TRAINING HOURS (BY EMPLOYEE CATEGORY)** | |
| Chief level executives | 26.4 |
| Senior management | 29.9 |
| Middle management | 29.0 |
| General staff | 25.8 |
| **OCCUPATIONAL HEALTH AND SAFETY[7]** | |
| Work-related fatalities | 0 |
| Fatality rate | 0 |
| Work-related injuries[8] | 2 |
| Injury rate | 0.53 |
| Lost days due to work injury | 2 |
| High-consequence work-related injuries[9] | 0 |
| High-consequence work-related injury rate | 0 |

Note:

7 Fatality rate, injury rate, and high-consequence work-related injury rate referred to the calculation methods suggested in GRI403-9. Calculation is based on 200,000 hours worked by 100 employees in a year.

8 Types of work-related injury include muscle sprain and minor injuries including cuts and bruises.

9 Refers to work-related injury that results in an injury from which the worker cannot or is not expected to recover fully to pre-injury health status within 6 months.

# GRI STANDARDS AND ESG REPORTING GUIDE CONTENT INDEX

This Report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Main Board Listing Rules of Hong Kong Stock Exchanges and Clearing Limited and the Core option of the GRI Sustainability Reporting Standards. The following table provides an overview on the material topics, 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.

## ESG Reporting Guide Content Index

| GENERAL DISCLOSURES AND KPIs | DESCRIPTION | CROSS-REFERENCES/REMARKS |
|---|---|---|
| ENVIRONMENTAL | | |
| Aspect A1: Emissions | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and 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. | We do not hold any relevant policy as our operations do not cause significant impact on the air, greenhouse gas emissions, discharges into water and land, and generation of hazardous waste.<br><br>There are no relevant laws or regulations that have a significant impact on the Group relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. |
| KPI A1.1 | The types of emissions and respective emissions data. | We do not generate significant gas 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; Performance Data |
| 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 office 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; Performance Data |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Our Environment |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Our Environment<br><br>We do not generate any hazardous waste in our office operations. |

| GENERAL DISCLOSURES AND KPIs | DESCRIPTION | CROSS-REFERENCES/REMARKS |
|---|---|---|
| **ENVIRONMENTAL** | | |
| Aspect A2: Use of Resources | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw material. | Our Environment<br><br>Our water supply in offices and washrooms are provided by the building's management. Therefore, we do not have policy on the efficient use of water as it is beyond our control. |
| 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; Performance Data |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Performance Data<br><br>Only includes water consumption for drinking. The property management could not provide the water consumption figure for the Group's offices. |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Our Environment |
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Our offices' water is managed by property management. We did not find any issue in water sourcing.<br><br>Measures to improve water efficiency (e.g. installation of appliances with low water consumption) would need to be planned and implemented by the property management. Thus, we are not in the position to plan for improving water efficiency. |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | We do not generate any packaging material in our office operations. |
| Aspect A3: The Environment and Natural Resources | | |
| General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | Our office operations will not cause any significant impact on the environment and natural resources. |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Our office operations will not cause any significant impact on the environment and natural resources. |

| GENERAL DISCLOSURES AND KPIs | DESCRIPTION | CROSS-REFERENCES/REMARKS |
|---|---|---|
| **SOCIAL** | | |
| Employment and Labour Practice | | |
| Aspect B1: Employment | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(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 Employees<br><br>There are no relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. |
| KPI B1.1 | Total workforce by gender, employment type, age group and geographical region. | Our Employee; Performance Data |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Performance Data |
| Aspect B2: Health and Safety | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(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 Employees<br><br>There are no relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards. |
| KPI B2.1 | Number and rate of work-related fatalities. | Performance Data |
| KPI B2.2 | Lost days due to work injury. | Performance Data |
| KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Our Employees |
| 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 |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Our Employees; Performance Data |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Our Employees; Performance Data |

| GENERAL DISCLOSURES AND KPIs | DESCRIPTION | CROSS-REFERENCES/REMARKS |
|---|---|---|
| SOCIAL | | |
| Employment and Labour Practice | | |
| Aspect B4: Labour Standards | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Our Employees<br><br>There are no relevant laws and regulations that have a significant impact on the Group relating to preventing child and forced labour.<br><br>Our operations do not involve any deployment of child or forced labour. Therefore, the Group did not formulate relevant policies. |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | The Group regularly reviews its employment practice to ensure that we are in compliance with the Employment Ordinance of Hong Kong, Labour Law of the PRC, and other laws and regulations related to child and forced labour. |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | The Group has zero tolerance towards such practice. Violations are subject to internal disciplinary actions or handled by relevant authorities. |
| Operating Practices | | |
| Aspect B5: Supply Chain Management | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | Our Environment |
| 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 |

| GENERAL DISCLOSURES AND KPIs | DESCRIPTION | CROSS-REFERENCES/REMARKS |
|---|---|---|
| **SOCIAL** | | |
| Employment and Labour Practice | | |
| Aspect B6: Product Responsibility | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(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. | The Group has not identified material concerns in its operations regarding health and safety, advertising, labelling and privacy matters relating to its services provided, thus a dedicated policy is not in place. Nevertheless, the Group strives to safeguard client assets, protect the interests of all stakeholders and at the same time meet our statutory responsibility as a Hong Kong listed company and parent of a number of regulated entities.<br><br>There are no relevant laws and regulations that have a significant impact on the Group relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. |
| 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. |

| GENERAL DISCLOSURES AND KPIs | DESCRIPTION | CROSS-REFERENCES/REMARKS |
|---|---|---|
| **SOCIAL** | | |
| Employment and Labour Practice | | |
| Aspect B7: Anti-corruption | | |
| **General Disclosure** | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | Our Employees |
| **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 were 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 General Disclosure, Our Employees, and the Corporate Governance section of our 2019 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 |
| **KPI B8.1** | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Our Community |
| **KPI B8.2** | Resources contributed (e.g. money or time) to the focus area. | Our Community |

## GRI Standards Content Index

| DISCLOSURE NUMBER | DISCLOSURE | CROSS-REFERENCES/REMARKS |
|---|---|---|
| GENERAL DISCLOSURE | | |
| Organisational Profile | | |
| GRI 102: General Disclosures 2016 | | |
| 102-1 | Name of the organisation | About This Report |
| 102-2 | Activities, brands, products, and services | About This Report |
| 102-3 | Location of headquarters | About This Report |
| 102-4 | Location of operations | About This Report |
| 102-5 | Ownership and legal form | About This Report |
| 102-6 | Markets served | About This Report |
| 102-7 | Scale of the organization | CEL's Approach to ESG Management |
| 102-8 | Information on employees and other workers | Our Employees; Performance Data |
| 102-9 | Supply chain | Our Environment |
| 102-10 | Significant changes to the organization and its supply chain | There is no significant change to Sino Group and our supply chain during the reporting period. |
| 102-11 | Precautionary Principle or approach | CEL's Approach to ESG Management |
| 102-12 | External initiatives | About This Report |
| 102-13 | Membership of associations | Chapters and Memberships |
| Strategy | | |
| GRI 102: General Disclosures 2016 | | |
| 102-14 | Statement from senior decision-maker | Refer to the chapter "Directors' Report" in the Annual Report |
| Ethics and Integrity | | |
| GRI 102: General Disclosures 2016 | | |
| 102-16 | Values, principles, standards, and norms of behaviour | CEL's Approach to ESG Management |
| Governance | | |
| GRI 102: General Disclosures 2016 | | |
| 102-18 | Governance structure | Refer to the chapter "Corporate Governance Report" in the Annual Report |

| DISCLOSURE NUMBER | DISCLOSURE | CROSS-REFERENCES/REMARKS |
|---|---|---|
| GENERAL DISCLOSURE | | |
| Stakeholder Engagement | | |
| GRI 102: General Disclosures 2016 | | |
| 102-40 | List of stakeholder groups | Our Stakeholders |
| 102-41 | Collective bargaining agreements | No current employees are covered by collective bargaining agreements. |
| 102-42 | Identifying and selecting stakeholders | Our Stakeholders |
| 102-43 | Approach to stakeholder engagement | Our Stakeholders |
| 102-44 | Key topics and concerns raised | Our Stakeholders |
| Reporting Practice | | |
| GRI 102: General Disclosures 2016 | | |
| 102-45 | Entities included in the consolidated financial statements | Refer to the chapter "Consolidated Statement of Financial Position" in the Annual Report |
| 102-46 | Defining report content and topic Boundaries | About This Report |
| 102-47 | List of material topics | Our Stakeholders |
| 102-48 | Restatements of information | There was no restatement of information in this Report. |
| 102-49 | Changes in reporting | About This Report |
| 102-50 | Reporting period | About This Report |
| 102-51 | Date of most recent report | Last report was published in March 2019. |
| 102-52 | Reporting cycle | About This Report |
| 102-53 | Contact point for questions regarding the report | About This Report |
| 102-54 | Claims of reporting in accordance with the GRI Standards | About This Report |
| 102-55 | GRI content index | GRI Content Index |
| 102-56 | External assurance | We have engaged an independent consulting firm in reviewing the report content.<br><br>We will consider the feasibility of external assurance in the future. |

| DISCLOSURE NUMBER | DISCLOSURE | CROSS-REFERENCES/REMARKS |
|---|---|---|
| MATERIAL TOPICS | | |
| GRI 200: Economic | | |
| Economic Performance | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Refer to the chapter "Management Discussion and Analysis" in the Annual Report |
| 103-3 | Evaluation of the management approach | Refer to the chapter "Management Discussion and Analysis" in the Annual Report |
| GRI 201: Economic Performance 2016 | | |
| 201-1 | Direct economic value generated and distributed | Performance Data |
| Auti-corruption | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Employees |
| 103-3 | Evaluation of the management approach | Our Employees |
| GRI 205: Anti-corruption 2016 | | |
| 205-3 | Confirmed incidents of corruption and actions taken | Our Employees |
| GRI 300: Environmental | | |
| Energy | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Environment |
| 103-3 | Evaluation of the management approach | Our Environment |
| GRI 302: Energy 2016 | | |
| 302-1 | Energy consumption within the organization | Our Environment; Performance Data |
| 302-3 | Energy intensity | Our Environment; Performance Data |
| 302-4 | Reduction of energy consumption | Our Environment; Performance Data |

| DISCLOSURE NUMBER | DISCLOSURE | CROSS-REFERENCES/REMARKS |
|---|---|---|
| MATERIAL TOPICS | | |
| GRI 300: Environmental | | |
| Emissions | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Environment |
| 103-3 | Evaluation of the management approach | Our Environment |
| GRI 305: Emissions 2016 | | |
| 305-1 | Direct (Scope 1) GHG emissions | Our Environment; Performance Data |
| 305-2 | Energy indirect (Scope 2) GHG emissions | Our Environment; Performance Data |
| 305-3 | Other indirect (Scope 3) GHG emissions | Our Environment; Performance Data |
| 305-4 | GHG emissions intensity | Our Environment; Performance Data |
| 305-5 | Reduction of GHG emissions | Our Environment |
| Environmental Compliance | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Environment |
| 103-3 | Evaluation of the management approach | Our Environment |
| GRI 307: Environmental Compliance 2016 | | |
| 307-1 | Non-compliance with environmental laws and regulations | Our Environment |
| GRI 400: Social | | |
| Employment | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Employees |
| 103-3 | Evaluation of the management approach | Our Employees |

| DISCLOSURE NUMBER | DISCLOSURE | CROSS-REFERENCES/REMARKS |
|---|---|---|
| MATERIAL TOPICS | | |
| GRI 300: Environmental | | |
| Emissions | | |
| GRI 401: Employment 2016 | | |
| 401-2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees | Our Employees |
| Occupational Health and Safety | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Employees |
| 103-3 | Evaluation of the management approach | Our Employees |
| GRI 403: Occupational Health and Safety 2018 | | |
| 403-9 | Work-related injuries | Performance Data<br><br>We do not have third-party contractors. |
| Training and Education | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Employees |
| 103-3 | Evaluation of the management approach | Our Employees |
| GRI 404: Training and Education 2016 | | |
| 404-1 | Average hours of training per year per employee | Our Employees; Performance Data |
| 404-2 | Programs for upgrading employee skills and transition assistance programs | Our Employees |

| DISCLOSURE NUMBER | DISCLOSURE | CROSS-REFERENCES/REMARKS |
|---|---|---|
| MATERIAL TOPICS | | |
| GRI 300: Environmental | | |
| Diversity and Equal Opportunity | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Employees |
| 103-3 | Evaluation of the management approach | Our Employees |
| GRI 405: Diversity and Equal Opportunity 2016 | | |
| 405-1 | Diversity of governance bodies and employees | Our Employees |
| Socioeconomic Compliance | | |
| GRI 103: Management Approach 2016 | | |
| 103-1 | Explanation of the material topic and its Boundary | Our Stakeholders |
| 103-2 | The management approach and its components | Our Community |
| 103-3 | Evaluation of the management approach | Our Community |
| GRI 419: Socioeconomic Compliance 2016 | | |
| 419-1 | Non-compliance with laws and regulations in the social and economic area | During the reporting period, there was no confirmed case of non-compliance in relation to social and economic area that would have a significant impact on the Group. |

# CORPORATE GOVERNANCE REPORT

## GOVERNANCE PRINCIPLES AND STRUCTURE

China Everbright Limited ("CEL" or the "Company") and its subsidiaries (the "Group") always aim 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 contributes 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 protecting and upholding the value of shareholders and stakeholders as a whole in a sustainable manner.

The Company's board (the "Board") of directors (the "Director(s)") would like to confirm that, following careful examination and review, the Company has complied with all code provisions of the Code for the year ended 31 December 2019.

## 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 comprises a balanced portfolio of Executive Directors and Non-executive Directors, including Independent Non-executive Directors ("INED(s)"). As at the date of this report, the Board has 8 members including:

| NAME OF DIRECTORS | TITLE |
|---|---|
| **EXECUTIVE DIRECTORS** | |
| • Dr. Cai Yunge | Chairman |
| • Dr. Zhao Wei | 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** | |
| • Dr. Lin Zhijun | |
| • Dr. Chung Shui Ming, Timpson | |
| • Mr. Law Cheuk Kin, Stephen | |

The number of INEDs represents not less than one-third of the Board as required under the Listing Rules. All the INEDs possess appropriate professional qualifications and accounting or related financial management expertise.

All Directors are management officers with extensive experiences in the financial industry. They have abundant professional expertise to fully understand our business 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 reasonable and appropriate, which can fully leverage balance of powers such that the interests of the Company, the shareholders and the stakeholders will be protected to the maximum extent.

All the existing Directors (including INEDs) have been appointed through formal service contracts or 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 shareholders' voting.

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 resolution. There are no relationships (including financial, business, family or other material/relevant relationship(s)) among the Board members.

## Board Diversity

According to the Board diversity policy of the Company, the Board recognises the importance of having a diverse Board for enhancing the board effectiveness and corporate governance. A diverse Board will possess 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 has the responsibility of identifying and nominating directors for approval by the Board. It takes the responsibility in assessing the appropriate mix of experience, expertise, skills and diversity required by the Board, assessing the extent to which the required skills are represented on the Board and overseeing Board succession. It 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 to the benefits of diversity on the Board, including age and gender. Selection of female candidates to join the Board will be, in part, depending 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 INEDs, of whom some are experts in strategic development, financial and/or risk management. Biographical details with the professional experience, skills and knowledge of the Directors are available in the section of "Directors and Senior Management" on pages 130 to 134 of this Annual Report.

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

At present, the Board has not set any measurable objectives for implementation of 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 the INEDs to be independent in character and judgment. The Board has received from the INEDs written annual confirmations of their independence pursuant to the requirement under Rule 3.13 of the Listing Rules and considers all the INEDs to be independent. The appointments of Non-executive Directors, including INEDs, are for a fixed term and all of them are subject to retirement by rotation at least once every three years 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 nine years. The conclusion of their independence is stated in the circular of the annual general meeting at which they are subject to re-election.

## 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 of the Group (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 its implementation;
- monitors and controls CEL's operations and financial performance through reviewing and approving its annual business plan and 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 that appropriate internal control systems 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 the 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 Group. 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 the 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 relating to the corporate governance policies and practices:

- Terms of Reference of the Board;
- Mandate;
- Risk Management Policy;
- Dividend Policy;
- Nomination 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 Dr. Zhao Wei 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 on which the Company is focusing 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. 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 the 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 conducts the induction programme for each of the newly appointed Directors, and the induction includes a description of directors' duties, the Listing Rules, introduction of corporate governance structure and the business of the Company.

To ensure that all Directors can constantly update their knowledge and make informed recommendations and advice to the Board, the Board has established a guideline on directors' training. In addition to arranging appropriate directors' training 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 training to 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 training during 2019:

| DIRECTORS | TYPE OF TRAINING |
|---|---|
| **EXECUTIVE DIRECTORS** | |
| Cai Yunge | A, C |
| Zhao Wei | A, B, C |
| Tang Chi Chun, Richard | A, C |
| Zhang Mingao | A, B, C |
| Yin Lianchen | A, C |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | |
| Lin Zhijun | A, C |
| Chung Shui Ming, Timpson | A, B, C |
| Law Cheuk Kin, Stephen | 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 and financial matters, investment and business of the Company

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

A total of seven 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 in the preceding 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 regular meetings being held. 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 can 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 committee meetings 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 the 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 annually arranges a meeting for the Chairman of the Board to meet the INEDs in the absence of other 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 2019 is set out below:

| DIRECTORS/MEMBERS | BOARD MEETING | NOMINATION COMMITTEE MEETING | AUDIT & RISK MANAGEMENT COMMITTEE MEETING | REMUNERATION COMMITTEE MEETING | GENERAL MEETING |
|---|---|---|---|---|---|
| Cai Yunge | 7/7 | 2/2 | N/A | 4/4 | 1/1 |
| Zhao Wei[1] | 5/5 | N/A | N/A | N/A | 1/1 |
| Chen Shuang[2] | 2/2 | N/A | N/A | N/A | N/A |
| Tang Chi Chun, Richard | 7/7 | N/A | N/A | N/A | 1/1 |
| Zhang Mingao | 7/7 | N/A | N/A | N/A | 1/1 |
| Yin Lianchen | 7/7 | N/A | N/A | N/A | 0/1 |
| Lin Zhijun | 7/7 | 2/2 | 7/7 | 4/4 | 1/1 |
| Chung Shui Ming, Timpson | 7/7 | 2/2 | 7/7 | 4/4 | 1/1 |
| Law Cheuk Kin, Stephen | 7/7 | 2/2 | 7/7 | 4/4 | 1/1 |

Notes:

1 Dr. Zhao Wei was appointed as an Executive Director with effect from 3 May 2019.

2 Mr. Chen Shuang resigned as an Executive Director with effect from 3 May 2019.

Every Director performs his duties as a 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 having in-depth understanding of 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 would 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 five Board committees to carry out its responsibilities, including 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 only 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 on the Company's website and the website of the Stock Exchange.

The 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 those provided by the Management themselves, he will make further enquiries, to which the 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. All Executive Directors are members of the Executive Committee. Upon 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 five members: Dr. Cai Yunge, Dr. Zhao Wei, Mr. Tang Chi Chun, Richard, Mr. Zhang Mingao and Mr. Yin Lianchen. Dr. Cai Yunge, the Chairman of the Board, is also the Chairman of the Executive Committee. In 2019, the Executive Committee approved a number of major issues through written resolutions.

## Audit and Risk Management Committee

The Audit and Risk Management Committee (the "Committee") was established in 1999 and formerly known as the Audit 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 authorised by the Board. The Terms of Reference of the Committee is available for inspection on the Company's website. 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 the time of which the Internal Audit Department will review the general adequacy of the accounting system 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 the time of which 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 meetings, 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. The non-audit service to be performed by the External Auditors shall be separately identified in connection with its pre-approval if the total amount of fees exceeds the annual caps authorised by the Committee;
- to meet the External Auditors at least annually, in the absence of the 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 the 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 the Management, determine appropriate actions required on significant control weaknesses, and recommend such actions to the Board; and
- to review the External Auditors' management letter, any material queries raised by the External Auditors to the Management about accounting records, financial statements or systems of control and the Management's response.

## Financial 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 the 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 the 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 the 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 106 to 113 in this Annual Report.

## 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 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 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 Committee in 2019 included the review and, where applicable, approval of:

- the Company's financial statements for the year ended 31 December 2018 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 2019 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 and non-audit fees payable to external auditors for the annual audit, interim review and other non-audit services; and
- CEL's internal audit plan and key areas of the internal audit work focus for 2020.

In addition, the 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 the Management to ensure that the 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 the 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 Committee currently comprises three members, and all members including the chairman are INEDs. It is chaired by Dr. Chung Shui Ming, Timpson and the other members are Mr. Law Cheuk Kin, Stephen and Dr. Lin Zhijun. All of them possess appropriate professional qualifications and experiences in financial business. Seven 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 under 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 the 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 provisions set out in the above paragraphs are the key nomination criteria and principles of the Company for nomination of directors, and these constitute the Nomination Policy of the Company adopted by the Nomination Committee during the year. The Nomination Committee monitors and reviews the Nomination Policy periodically.

The Nomination Committee currently has four members: Dr. Lin Zhijun, Dr. Cai Yunge, Dr. Chung Shui Ming, Timpson and Mr. Law Cheuk Kin, Stephen. Dr. Lin Zhijun, an INED, is the chairman. The INEDs represent a majority of the committee members. Stability of the Board members, committee members and senior management was maintained in 2019 and the Nomination Committee held two meetings in the year in relation to making recommendation to the Board on the appointment of a new Board member, 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 INEDs, and discussing and making recommendation to the Board on the re-election of the retiring Directors at the annual general meeting of the Company, etc. The attendance rate of the Nomination Committee meetings was 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 managements 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 2019 included the review and, where applicable, approval of:

- the performance appraisal of the Executive Directors and senior management for the year 2018;
- the proposal on staff bonus (including the senior management) for the year 2018 and salary adjustments for the year 2019 for the Company;
- the remuneration package of a newly appointed Executive Director;
- 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 an 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 with 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 2019 is listed in note 8(a) to the financial statements in this Annual Report. The remuneration received by the senior officers is disclosed in this report according to the band of their remuneration. For 2019, the Directors' remuneration approved by the Board as authorised by shareholders at the general meeting is as follows:

The Director's fee for the year ended 31 December 2019 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$12,000 for attending a Board meeting;

(b) HK$7,000 for attending a meeting of the Remuneration Committee, Nomination Committee and Strategy Committee; and

(c) HK$20,000 for the chairman of the Audit and Risk Management Committee attending its meeting and HK$16,000 for other members.

There is no director's fee for the year ended 31 December 2019 for Executive Directors.

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

The Remuneration Committee currently has four members comprising Dr. Lin Zhijun, Dr. Cai Yunge, Dr. Chung Shui Ming, Timpson and Mr. Law Cheuk Kin, Stephen. The Remuneration Committee is chaired by Dr. Lin Zhijun, an INED. The INEDs represent a majority of the members of the Remuneration Committee. A total of four 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 2019 is set out below:

| REMUNERATION BANDS (HK$) | NUMBER OF PERSONS |
|---|---|
| HK$3,500,001 to HK$4,000,000 | 1 |
| HK$4,500,001 to HK$5,000,000 | 2 |
| HK$5,000,001 to HK$5,500,000 | 1 |
| HK$5,500,001 to HK$6,000,000 | 2 |
| HK$6,000,001 to HK$6,500,000 | 1 |
| HK$6,500,001 to HK$7,000,000 | 2 |
| HK$10,500,001 to HK$11,000,000 | 1 |

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in 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 Group. The Strategy Committee is chaired by Mr. Law Cheuk Kin, Stephen, an INED, and currently has seven members including Mr. Law Cheuk Kin, Stephen, Dr. Cai Yunge, Dr. Zhao Wei, Mr. Zhang Mingao, Mr. Yin Lianchen, Dr. Lin Zhijin and Dr. Chung Shui Ming, Timpson. The Strategy Committee reviewed 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 on the Company's connected transactions and continuing connected transactions or other transactions of the Group that require independent shareholders' approval at general meetings.

## ACCOUNTABILITY AND AUDIT

CEL aims to ensure that the 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 formed by the Management will submit a "Representation Letter" to the Board, in which they give their confirmation on the competence of the accounting records, the compliance of financial reporting, the accuracy of the fair value of the investment projects and that the information provided to External Auditors and Board members are of 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 and 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, etc., which constitute a comprehensive operating system for the Company. Riding on the concept of comprehensive risk management and internal control systems, the Management 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 conditions 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, etc. The Management sets business goals and the overall risk limits at both the business unit level and the 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, middle and 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 the 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 provide checks and balances for 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 performance.

- 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 Risk Management Report on pages 106 to 113 in this Annual 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 adopted its own "Code for Securities Transactions by Directors and Relevant Employees" (the "Code") on terms 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 to govern the securities transactions of the Directors and relevant employees. Following a specific enquiry made by the Company, all Directors confirmed that they have complied with the required standard set out in both the Code and the Model Code throughout the year ended 31 December 2019.

## 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 2020 annual general meeting, the Board will authorise the Audit and Risk Management Committee to determine the remuneration for EY.

For 2019, EY charged total fees of HK$16,115,000 for audit services, HK$5,115,000 for non-audit services (including HK$1,844,000 for the review of the interim financial statements and HK$3,271,000 for tax and other services) and HK$1,921,000 for other assurance services. For 2018, EY charged total fees of HK$12,515,000 for audit services and HK$3,629,000 for non-audit services (including HK$1,492,000 for the review of interim financial statements and HK$2,137,000 for tax and other services), and there were no other assurance services.

## 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 2019 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 (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance") 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 of 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. 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 2019 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 HANDLING OF 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. Directors, including the Chairman and INEDs, and representatives of EY were present at the Company's 2019 annual general meeting held on 23 May 2019 to address to questions and comments raised by shareholders.

In addition, the Company also provided further information on the 2019 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong with contact number of (+852) 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 Corporate Communications Department by email to ir@everbright.com or by phone to (+852) 2528 9882.

## Dividend Policy

The Board has adopted a dividend policy for the Company. In principle, the policy allows the shareholders to share the profits of the Company to obtain reasonable, stable and sustainable dividend returns whilst retaining an adequate cash level to meet general working capital and future development requirements. Based on the above principle, the Company intends to distribute an appropriate amount of annual dividends, part of which may be declared in the form of an interim dividend, subject to the Articles of the Association of the Company, the Companies Ordinance and other applicable laws and regulations and taking into account any factor that the Board considers relevant. The dividend policy of the Company is subject to periodic review by the Board. The dividend policy does not form any commitment on distribution of dividends to the shareholders and there is no assurance that dividends will be paid in any particular amount for any given period.

## 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.

  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 COMMUNICATIONS

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 communications are 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 forum etc. will be available on a regular basis in order to facilitate communications 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 48 to 81 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 laws, 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.

INEDs' overseeing 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 overseeing 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 (for more details on the Company's risk and internal control review, please refer to the relevant sections in the 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 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 and other middle and back office teams, 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 provides 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 mitigation 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 organisation. 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 forms 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 2019, 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 periodically. 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 summarises 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 and not having a material adverse effect on the business.

| KEY RISK | CHANGES IN 2019 | 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 bank credit facilities and can use these facilities as appropriate to maintain liquidity, based on their utilisation and cash flow conditions, while maintaining financial leverage within the authorised limit. | • The Company's cash position, available facilities and forecast cash flows are closely monitored by Finance Department and under the overseeing of Risk Management Department.<br>• The Company performs long term forecasts and uses stress tests to assess the Company's 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.<br>• Additionally, high financial leverage may raise the risk of failing to fulfill the relevant requirements from loan covenants (if any) and result in technical default. | • Higher financial leverage as a result of the consolidation of subsidiary companies, 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 optimised financial leverage ratio and relevant limits for approval.<br>• The approved financial leverage ratio and relevant limits are closely monitored by Finance Department and Risk Management Department regularly. |

Key: ▲ Risk level increased ▼ Risk level decreased ▶ No significant change in risk level

| KEY RISK | CHANGES IN 2019 | MITIGATING FACTORS |
|---|---|---|
| **Foreign Currency Risk** | No significant change in risk level | |
| • Risk that the Company's financial position is exposed to adverse movements in exchange rates. | • Depreciation of RMB during the year had direct or indirect negative impact on the Company's assets invested in RMB, but it was partially offset by the positive impact on RMB panda bonds. Overall foreign currency risk had no significant change. | • Monitor asset exposures by currency and the foreign currency rate movement regularly.<br>• Improve currency matching between asset and liability, reducing currency mismatch risk.<br>• Perform sensitivity analysis on the effect of change in foreign currency rates. |
| **Interest Rate Risk** | No significant change in risk level | |
| • 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. | • Due to the Federal Reserve decreasing its benchmark US interest rate, there is a gradual decrease in the interest rates of USD / HKD, and RMB interest rate remains stable. | • Monitoring on interest rate mismatch and sensitivity test are performed regularly.<br>• The Company has managed to decrease overall loan borrowing cost by adjusting the whole loan structure by monitoring interest rate trends of USD/HKD and RMB. |
| **INVESTMENT** | | |
| **Market Risk** | Risk level increased | |
| • Risk arises from market movements, which can cause a fall in the value of investments. | • Although in 2019 the whole world equity market was in the uptrend, China and Hong Kong market showed significant volatility throughout the year. Overall the Company has faced an increase in market risk. | • Limits on the aggregate amount of seed capital investment and diversification of the assets invested.<br>• The Company actively develops businesses which are fee based so that our return and profitability will be more stable.<br>• Our asset allocation tends to put more weight into fixed income products which are more immune to market fluctuation.<br>• Actively seek market opportunities to speed up exiting existing investments in order to mitigate market risk of the Company. |

Key: ▲ Risk level increased ▼ Risk level decreased ▶ No significant change in risk level

| KEY RISK | CHANGES IN 2019 | MITIGATING FACTORS |
| --- | --- | --- |
| Credit Risk | ▲ | |
| • Risk exposed to credit losses if borrowers are unable to repay loans and outstanding interest and fees.<br>• In addition, the Company has exposure to counterparties with which we place deposits or trades, and derivative contracts. | • The Company's provision on loan has increased, yet the overall credit risk is still within a controllable level.<br>• Our counterparty risks are broadly unchanged. | We seek to minimise our credit risk from our lending by:<br>• Lending on a majorly secured basis with significantly emphasis placed on the underlying security.<br>• Manage to maintain consistent and conservative loan to value ratios and short-term tenor.<br>• Operating strong control and governance both within business units and with overseeing by Risk Management Department.<br>Our exposures to counterparties are mitigated by:<br>• Seek to diversify our exposures across different counterparties.<br>• 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.<br>• Three lines of defend model abovementioned is key point.<br>• 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/optimised to improve the control environment.<br>• We manage risk events through identification, evaluation reporting, risk mitigating resolution and continuous monitoring with the aim of preventing risk events from recurring.<br>• Relevant trading/settlement/investment management systems/information management systems are implemented, enhanced continuously and enhanced automation procedures to mitigate relevant operational risks. |

Key: ▲ Risk level increased ▼ Risk level decreased ▶ No significant change in risk level

| KEY RISK | CHANGES IN 2019 | MITIGATING FACTORS |
|---|---|---|
| **Legal and Regulatory Risk** | Risk level increased | |
| • Changes to the existing legal, regulatory and tax environments and failure to comply with existing requirements may materially impact the Company.<br>• 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 consequences including litigation, regulatory condemnation and customer redress. This applies to current, past and future business. | • 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 related countries' 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.<br>• Governance and control processes to review existing and approve new funds / products / investments.<br>• Training for relevant staff regarding the legal and regulatory requirements for running the Company's businesses.<br>• Continuous monitoring of key legal and regulatory requirement, as well as working with Finance Department to study tax developments to anticipate their potential impact. |
| **Information Technology Risk** | No significant change in risk level | |
| • Risk of failure to keep up with changing customer expectations or manage upgrades to existing technology may impact the Company's performance. | • The Company continued to invest in 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.<br>• We has strong governance in place to oversee our major IT projects.<br>• 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 2019 | MITIGATING FACTORS |
|---|---|---|
| Loss of Key Personnel Risk | No significant change in risk level | |
| • 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 2019. | • The Company seeks to develop, attract, motivate and retain staff through comprehensive human resource policies.<br>• Comprehensive, systematic and highly transparent evaluation policies are used to enhance staff performance.<br>• Maintains loyalty through appropriate remuneration and benefit packages, which include a significant deferred element.<br>• Contracts for relevant roles have restrictive covenants and enhanced notice periods are in place for key staff.<br>• Comprehensive training is offered to all staff to promote individual and team development.<br>• In order to avoid reliance on any one individual staff, teams are required to ensure each individual has another staff as alternative backup.<br>• We have set up promotion policy so that employees have clear career path to pursue and are motivated to stay for long term development. |
| **REPUTATIONAL** | | |
| Reputational Risk | No significant change in risk level | |
| • Risk that negative publicity regarding the Company will lead to client redemptions and a decline in AUM and revenue.<br>• The risk of damage to the Company's reputation is more likely as a result from one of the other key risks materialising rather than as a standalone risk. | • The Company's brand continued to strengthen in recent years as evidenced 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.<br>• Reputational risk is primarily mitigated through the effective mitigation of the other key risks.<br>• 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 (the "Board"or "Director(s)") 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 2019.

## 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 17 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 28 to 47 and the Risk Management Report set out on pages 106 to 113 respectively of this Annual Report. The discussion on the Group's environmental policies and performance, the Group's key relationships with employees, customers, suppliers and other stakeholders, and the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, can be found in the Environmental, Social and Governance Report set out on pages 48 to 81 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 43 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2019 are set out on page 142 of this Annual Report.

The Board has recommended the payment of a final dividend of HK$0.23 per share for the year ended 31 December 2019 (2018: HK$0.4 per share).

## MAJOR CUSTOMERS AND SUPPLIERS

Turnover from operations represents the aggregate of service fee income, sales of inventories, interest income, dividend income, rental income from investment properties, rental income from finance lease and gross sale proceeds from disposal of trading securities of secondary market investments. Accordingly, it is not practicable 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.

## 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 234 of this Annual Report.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

## PROPERTIES

Particulars of major properties held by the Group as at 31 December 2019 are set out on page 235 of this Annual Report.

## CHARITABLE DONATIONS

Charitable donation made by the Group for the year ended 31 December 2019 amounted to HK$6,825,000.

## SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of the Company's principal subsidiaries, associates and joint ventures as at 31 December 2019 are set out in notes 17, 18 and 19 to the financial statements respectively.

## BANK LOANS

Particulars of bank loans of the Group as at 31 December 2019 are set out in note 28 to the financial statements.

## BONDS PAYABLE

Particulars of bonds payable of the Group as at 31 December 2019 are set out in note 30 to the financial statements.

## SHARE CAPITAL

Details of the movement in share capital of the Company during the year are set out in note 32 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 or any of its subsidiaries during the year.

## RESERVES

Distributable reserves of the Company as at 31 December 2019 as calculated under the Companies Ordinance amounted to HK$3,883,720,000 (2018: HK$2,142,849,000). The movement in the Company's reserves are set out in note 34 to the financial statements.

## BORROWINGS AND INTEREST CAPITALISED

Bonds 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 TRANSACTIONS

The connected transactions disclosed in accordance with the Listing Rules are as follows:

1. On 1 August 2019, Luckfield Global Limited ("Luckfield"), an indirect non-wholly owned subsidiary of the Company, entered into a share transfer agreement with China Everbright Securities International Structured Finance Company Limited ("CESI"), an indirect wholly-owned subsidiary of Everbright Securities Company Limited ("Everbright Securities"), pursuant to which Luckfield agreed to purchase and CESI agreed to sell, 32,714,641 Class C preference shares in ESR Cayman Limited for a total consideration of US$44,746,624 (the "Acquisition").

   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, as at 1 August 2019, CE Group was, directly and indirectly, interested in 2,141,706,183 A shares of Everbright Securities, representing approximately 46.45% of the total issued share capital of Everbright Securities. As a result, both Everbright Securities and CESI are connected persons of the Company pursuant to the Listing Rules and the Acquisition constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

   The Acquisition 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.

2. On 13 November 2019, CEL Management Services Limited, a wholly-owned subsidiary of the Company, as the tenant, entered into a tenancy agreement with Gardex Investment Limited ("Gardex"), as the landlord, in respect of the lease of the whole of 48th Floor of Far East Finance Centre, No. 16 Harcourt Road, Hong Kong.

   Gardex is a wholly-owned subsidiary of CE Hong Kong. CE Hong Kong, through its wholly-owned subsidiaries, is interested in approximately 49.74% of the total issued share capital of the Company and is the controlling shareholder of the Company. Accordingly, Gardex, being an associate of CE Hong Kong, is a connected person of the Company and the entering into of the Tenancy Agreement constituted a connected transaction of the Company under the Listing Rules.

   The entering into of the above tenancy agreement 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.

3. On 29 November 2019, (a) China Everbright Senior Healthcare Company Limited ("Everbright Senior Healthcare"), a wholly-owned subsidiary of the Company, (b) Advance Hope Limited, a wholly-owned subsidiary of the Company, (c) Everbright Financial Holding Asset Management Co., Ltd. ("Everbright Financial Holding"), (d) Sun Life Everbright Life Insurance Co., Ltd. ("Sun Life Everbright"), (e) China Everbright Industry Group Limited ("Everbright Industry"), (f) Everbright Zhengzhou Guotou New Industry Investment Fund Partnership L.P. ("Everbright Industry Investment Fund"), and (g) Apex Shine Global Limited entered into an investment agreement, pursuant to which the relevant investors agreed to subscribe for, and Everbright Senior Healthcare agreed to allot and issue, in each case subject to the fulfilment of certain conditions, 524,640,000 new ordinary shares in the issued share capital of Everbright Senior Healthcare at the aggregate subscription price of RMB612,080,000 (the "Deemed Disposal").

   CE Group, through its wholly-owned subsidiary 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, each of Everbright Financial Holding, Sun Life Everbright, Everbright Industry and Everbright Industry Investment Fund is an associate of CE Group. As a result, Everbright Financial Holding, Sun Life Everbright, Everbright Industry and Everbright Industry Investment Fund are connected persons of the Company pursuant to the Listing Rules and the Deemed Disposal constituted a connected transaction for the Company under Chapter 14A of the Listing Rules.

   The Deemed Disposal was subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

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, tenancy agreement and technology services) are continuing connected transactions of the Company.

On 15 December 2017, the Company entered into the following framework agreements (collectively the "Framework Agreements") with CE Group:

1. Deposit services framework agreement;
2. Asset management services framework agreement;
3. Brokerage services framework agreement; and
4. Custodian services framework agreement.

The Framework Agreements set out the basis upon which members of the Group carry out the transactions contemplated under the Framework Agreements with CE Group and/or its associates for the three financial years ending 31 December 2020. The duration of the Framework Agreements was commencing on 15 December 2017 and expiring on 31 December 2020. CE Group, being the controlling shareholder of the Company, is a connected person of the Company under the Listing Rules and therefore 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.

## (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 annual cap for the transactions under the Deposit Services Framework Agreement for the three years ended/ending 31 December 2018, 31 December 2019 and 31 December 2020 are all set at HK$1,400,000,000. During the year ended 31 December 2019, none of the daily aggregate bank balance maintained with CE Bank exceeded HK$1,400,000,000.

## (2) 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 three years ended/ending 31 December 2018, 31 December 2019 and 31 December 2020 are all set at HK$360,000,000. The transaction amount under the Asset Management Services Framework Agreement for the year ended 31 December 2019 was approximately HK$439,000.

## (3) 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 three years ended/ending 31 December 2018, 31 December 2019 and 31 December 2020 are all set at HK$28,000,000. The transaction amount under the Brokerage Services Framework Agreement for the year ended 31 December 2019 was approximately HK$2,399,000.

## (4) 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 three years ended/ending 31 December 2018, 31 December 2019 and 31 December 2020 are all set at HK$28,000,000. The transaction amount under the Custodian Services Framework Agreement for the year ended 31 December 2019 was approximately HK$1,055,000.

## (5) Tenancy agreement

On 22 November 2017, CEL Management Services Limited, a wholly-owned subsidiary of the Company, as the tenant, entered into a tenancy agreement (the "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 three years from 22 November 2017 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 ended/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 2019 was approximately HK$8,578,000.

### (6) Technology services framework agreement

On 8 April 2019, the Company entered into the technology services framework agreement (the "Technology Services Framework Agreement") with CE Group with respect to the provision of technology services by the Group to CE Group and its associates for a term of three years commencing from 1 January 2019 and expiring on 31 December 2021.

Material terms:

- The Group shall provide technology services (including cloud payment platform integration, system platform integration, system development, software-related services, project management and outsourcing, hardware and software maintenance, etc.) to CE Group and its associates.

- The technology 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 technology services provided under the Technology Services Framework Agreement shall be non-exclusive. CE Group and its associates are at liberty to obtain technology services from third parties and the Group is at liberty to provide third parties with technology services.

The annual caps for the Technology Services Framework Agreement for the three years ended/ending 31 December 2019, 31 December 2020 and 31 December 2021 shall not exceed HK$100,000,000, HK$200,000,000 and HK$300,000,000 respectively. The transaction amount under the technology services framework agreement for the year ended 31 December 2019 was approximately HK$279,000.

#### Reviewed by INEDs and the auditor

The INEDs had reviewed the above continuing connected transactions for the year ended 31 December 2019 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 Rule 14A.56 of the Main Board Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

## RELATED PARTY TRANSACTIONS

A summary of the material related party transactions entered into by the Group during the year is contained in Note 36 to the financial statements. Save as disclosed above in the paragraphs headed "Connected Transactions" and "Continuing Connected Transactions", no other related party transactions constitute any connected transactions or continuing connected transactions as defined under the Listing Rules during the year. The Company has complied with the applicable requirements in accordance with Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year.

## DIRECTORS

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

### Executive Directors:

Dr. Cai Yunge
Dr. Zhao Wei (appointed on 3 May 2019)
Mr. Tang Chi Chun, Richard
Mr. Zhang Mingao
Mr. Yin Lianchen
Mr. Chen Shuang (resigned on 3 May 2019)

### Independent Non-executive Directors:

Dr. Lin Zhijun
Dr. Chung Shui Ming, Timpson
Mr. Law Cheuk Kin, Stephen

The Company has received an annual confirmation of independence from each of the three INEDs 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 at least 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. Zhang Mingao, Mr. Yin Lianchen and Dr. Chung Shui Ming, Timpson, being the Directors who have been longest in office since their last re-election, will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS OF SUBSIDIARIES

Other than certain Directors and senior management named in the section headed "Directors and Senior Management" as set out on pages 130 to 134 of this Annual Report, the names of persons who have served on the board of the subsidiaries of the Company during the financial year ended 31 December 2019 and up to the date of this Annual Report 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 2019, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares 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 were as follows:

## 1. Long position in shares of the Company:

| NAME OF DIRECTORS | TOTAL | PERSONAL INTEREST | OTHER INTEREST | % OF TOTAL ISSUED SHARES |
|---|---|---|---|---|
| Zhao Wei | 417,134 | – | 417,134[1] | 0.02% |
| Tang Chi Chun, Richard | 927,567 | 719,000 | 208,567[1] | 0.06% |
| Zhang Mingao | 208,567 | – | 208,567[1] | 0.01% |
| Yin Lianchen | 142,798 | 26,000 | 116,798[1] | 0.01% |
| Chung Shui Ming, Timpson | 50,000 | 50,000 | – | 0.00% |

Note:

(1) These interests in shares of the Company were held through an independently managed fund, of which the relevant Directors held certain non-voting, participating and redeemable shares.

## 2. Long position in shares of an associated corporation of the Company, namely China Aircraft Leasing Group Holdings Limited:

| NAME OF DIRECTOR | TOTAL | PERSONAL INTEREST | % OF TOTAL ISSUED SHARES |
|---|---|---|---|
| Tang Chi Chun, Richard | 200,000 | 200,000 | 0.03% |

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executives of the Company had interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (as 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 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 being offered 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 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' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following persons were recorded in the register kept by the Company under section 336 of the SFO as having interests in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

## Long Position in Shares and Underlying Shares of the Company:

| NAME OF SHAREHOLDERS | TOTAL | INTEREST OF CONTROLLED CORPORATION | SECURITY INTEREST | % OF TOTAL ISSUED SHARES |
|---|---|---|---|---|
| Central Huijin Investment Ltd. ("Huijin") | 838,306,207 | 838,306,207[1] | – | 49.74% |
| China Everbright Group Ltd. ("China Everbright Group") | 838,306,207 | 838,306,207[2] | – | 49.74% |
| UBS Group AG | 101,029,471[3] | 99,915,430 | 1,114,041 | 5.99% |

Notes:

1 Huijin was indirectly wholly-owned by the State Council of the People's Republic of China and held 55.67% equity interest in China Everbright Group. It was deemed to be interested in the 838,306,207 ordinary shares of the Company indirectly held by China Everbright Group pursuant to the SFO.

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

3 These interests included derivative interests in 2,910,890 underlying shares of the Company in respect of unlisted and cash settled derivatives.

Save as disclosed above, as at 31 December 2019, the Company had not been notified of any other person (other than the Directors or chief executives of the Company) having any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

## PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that subject to the provisions of the Companies Ordinance, every Director or other officer of the Company shall be indemnified out of the assets of the Company against all costs, 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 ensuring effective internal control and protecting 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.

Further details are set out in the "Corporate Governance Report" in this Annual Report.

## AUDIT AND RISK MANAGEMENT COMMITTEE

The Audit and Risk Management Committee currently comprises Dr. Chung Shui Ming, Timpson, Dr. Lin Zhijun and Mr. Law Cheuk Kin, Stephen. The committee is chaired by Dr. Chung Shui Ming, Timpson. All members of the committee are INEDs.

The Audit and Risk Management Committee and the Management have reviewed the accounting policies 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 2019. The terms of reference of the Audit and Risk Management Committee and a summary of the duties discharged in 2019 have been set out in the "Corporate Governance Report" in this Annual 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 2019 amounted to approximately HK$3.057 million.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this 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 payment of a final dividend of HK$0.23 per share for the year ended 31 December 2019 (2018: HK$0.4 per share). Together with the interim dividend of HK$0.25 per share already paid, the aggregate amount of dividends for the year is HK$0.48 per share (2018: HK$0.66 per share).

The final dividend, subject to approval at the forthcoming annual general meeting, is expected to be paid on Thursday, 18 June 2020 to those shareholders whose names appear on the register of members of the Company on Monday, 8 June 2020.

## Closure of Register of Members

The register of members of the Company will be closed from Monday, 18 May 2020 to Thursday, 21 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 15 May 2020.

The register of members of the Company will also be closed from Friday, 5 June 2020 to Monday, 8 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 4 June 2020.

## Annual General Meeting

The annual general meeting of the Company will be held on Thursday, 21 May 2020.

## Changes of Directors' Information

The changes of Directors' information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are as follows:

Mr. Zhang Mingao, an Executive Director, was appointed as a non-executive and non-independent chairman of Ying Li International Real Estate Limited (stock code: 5DM.SGX) with effect from 14 November 2019. He was also appointed as a director of Everbright Jiabao Co., Ltd. (stock code: 600622.SH) with effect from 23 December 2019.

Dr. Chung Shui Ming, Timpson, an INED, was appointed as an independent non-executive director of Postal Savings Bank of China Co., Ltd. (stock code: 1658.HK) with effect from 29 October 2019.

Mr. Law Cheuk Kin, Stephen, an INED, is an independent non-executive director of Bank of Guizhou Co., Ltd. (stock code: 6199.HK), which has been listed on the Stock Exchange since 30 December 2019. He ceased to be an executive committee member of Hong Kong Federation of Invention and Innovation in November 2019.

In respect of the changes in emoluments of Directors, please refer to note 8 to the financial statements.

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

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 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 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.

On 18 January 2018, the Company as borrower 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 Euro dollars) for a period of 3 years from the date of each drawdown and (ii) a revolving demand loan of up to US$100 million (or in equivalent Hong Kong dollars or Euro dollars) which shall be fully repaid within 12 months from the end of the availability period. Pursuant to the said facility letter, the total outstanding balance of the facilities shall not at any time exceed US$100 million. 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 30 April 2018, the Company entered into a supplementary facility letter with an independent third party bank as lender to an uncommitted revolving loan facility dated 18 December 2015 of up to US$300 million (or in equivalent Hong Kong dollars or Renminbi), pursuant to which the lender will continue to provide the revolving loan facility to the Company for a period of one year from the date of the acceptance of such supplementary facility letter, which is subject to a further extension for one more year at the lender's sole discretion. Pursuant to the terms of the revolving loan facility, 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 revolving loan facility together with all accrued interest and any other amounts accrued under the revolving loan facility may become immediately due and payable.

As at 31 December 2019, the circumstances giving rise to the obligations under Rules 13.18 of the Listing Rules continued to exist.

## Auditors

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

There has been no 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, 19 March 2020

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTOR

### Dr. Cai Yunge

#### Chairman

Dr. Cai Yunge, aged 48, is the Chairman of the Board and an Executive Director. He is also the Chairman of the Executive Committee and a Member of the Nomination Committee, the Remuneration Committee and the Strategy Committee of the Board. Dr. Cai is the Deputy General Manager of China Everbright Group Ltd., the Vice-chairman and General Manager of China Everbright Holdings Company Limited, a Non-executive Director of China Everbright Bank Company Limited (stock code: 601818.SH, 6818.HK) ("Everbright Bank") and the Executive Director and Chairman of China Everbright International Limited (stock code: 257.HK). Currently he is the Vice Chairman of The Hong Kong Chinese Enterprises Association. Dr. Cai holds a Master's degree in Business Administration from The University of Warwick, the United Kingdom 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 had served as the Secretary to the board, the General Manager of Executive Office of Everbright Bank, 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.

### Dr. Zhao Wei

#### Chief Executive Officer

Dr. Zhao Wei, aged 48, is an Executive Director and the Chief Executive Officer of the Group. He is also a Member of the Executive Committee and the Strategy Committee of the Board and the Chairman of the Management Decision Committee of the Group. He is responsible for the overall operation of the Group. Dr. Zhao is also the Chairman and an Executive Director of China Aircraft Leasing Group Holdings Limited (stock code: 1848.HK) and the Chairman of Everbright Jiabao Co., Ltd. (stock code: 600622.SH). Prior to joining the Group, Dr. Zhao was the Vice President and the Chief Financial Officer of China Reinsurance (Group) Corporation (stock code: 1508.HK) and a Director of Asian Reinsurance Corporation. Dr. Zhao used to serve in China Life Insurance (Group) Company and China Life Asset Management Company Limited, and also used to serve as the General Manager of China Life Asset Management (Hong Kong) Corporation Limited, the President of China Life Franklin Asset Management Co., Limited and the Vice President of New China Asset Management Corporation Limited. He also used to be the Vice Chairman and the General Manager of China Re Asset Management Company Ltd., the Chairman of China Re Asset Management (Hong Kong) Company Limited and the Chairman of China ReCapital Management Company Limited. He served as a Non-executive Director of China Everbright Bank Company Limited (stock code: 601818.SH, 6818.HK) from February 2015 to July 2019 and Beijing Jingneng Clean Energy Co., Limited (stock code: 579.HK) from December 2016 to January 2019. Dr. Zhao obtained a Master's degree in national economic planning and management from Jilin University and a Doctoral degree in finance from the Fiscal Science Research Institute of the Ministry of Finance (now known as Chinese Academy of Fiscal Sciences). He joined the Board in May 2019.

## Mr. Tang Chi Chun, Richard

### Chief Financial Officer

Mr. Tang Chi Chun, Richard, aged 58, is an Executive Director and the Chief Financial Officer of the Group. He is also a Member of the Executive Committee of the Board and a Member of the Management Decision Committee 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 Non-executive Director of China Aircraft Leasing Group Holdings Limited (stock code: 1848.HK). He is also a Non-executive and Non-independent Director of Ying Li International Real Estate Limited (stock code: 5DM.SGX). He was a Director of Everbright Securities Company Limited (stock code: 601788.SH, 6178.HK) 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 52, is an Executive Director and the Chief Investment Officer of the Group. He is also a Member of the Executive Committee and the Strategy Committee of the Board and a Member of the Management Decision Committee of the Group. Mr. Zhang is also a Director of Everbright Jiabao Co., Ltd. (stock code: 600622.SH) and a Non-executive and Non-independent Chairman of Ying Li International Real Estate Limited (stock code: 5DM.SGX). Mr. Zhang was the General Manager of Asset Management Department of Everbright Bank. Since Mr. Zhang joined Everbright Bank in 1999, he had served as 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 the College of Economics and Trade of Nanjing Agricultural University. He has over 30 years of industry and management experience in the financial industry. He joined the Board in December 2017.

## Mr. Yin Lianchen

### Chief Investment Officer

Mr. Yin Lianchen, aged 54, is an Executive Director and the Chief Investment Officer of the Group. He is also a Member of the Executive Committee and the Strategy Committee of the Board and a Member of the Management Decision Committee of the Group. Mr. Yin is also a Director of Everbright Securities Company Limited (stock code: 601788.SH, 6178.HK) and a Supervisor of China Everbright Bank Company Limited (stock code: 601818.SH, 6818.HK). He was the Division Chief in the Executive Office of China Everbright (Group) Corporation prior to joining our Group. Mr. Yin was formerly the Vice President of Beijing Yonder Environment Engineering Company Limited and the Chief Representative of China of Moody's KMV. He served as the General Manager of the Human Resources and Corporate Administration Department, the General Manager of Corporate Communications Department and the Managing Director of the Insurance Brokerage Department of the Group successively from 2002 to 2006. He also worked in several key positions in People's Bank of China Headquarter from 1990 to 2001. Mr. Yin holds a Bachelor's degree in Economic Management Professional and a Master's degree in Western Financial Accounting from Tianjin Nankai University. Mr. Yin has rich experience in financial and corporate management. He joined the Board in June 2017.

## Dr. Lin Zhijun

### Independent Non-executive Director

Dr. Lin Zhijun, aged 65, is an Independent Non-executive Director and the Chairman of the Nomination Committee and Remuneration Committee of the Board. He is also a Member of the Audit and Risk Management Committee and Strategy Committee of the Board. Dr. Lin is the Vice President and the Dean of the School of Business of 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: 3808.HK), SpringLand International Limited (stock code: 1700.HK), Dali Foods Group Company Limited (stock code: 3799.HK), CITIC Dameng Holdings Limited (stock code: 1091.HK) and BOCOM International Holdings Company Limited (stock code: 3329.HK), all of which 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 Doctoral 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. He 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, Justice of the Peace

### Independent Non-executive Director

Dr. Chung Shui Ming, Timpson, GBS, JP, aged 68, is an Independent Non-executive Director and the Chairman of the Audit and Risk Management Committee of the Board. He is also a Member of the Nomination Committee, the Remuneration Committee and the Strategy Committee of the Board. Dr. Chung 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: 762.HK), Glorious Sun Enterprises Limited (stock code: 393.HK), Miramar Hotel and Investment Company, Limited (stock code: 71.HK), China Overseas Grand Oceans Group Limited (stock code: 81.HK), Jinmao (China) Hotel Investments and Management Limited (stock code: 6139.HK), China Railway Group Limited (stock code: 601390.SH, 390.HK), Orient Overseas (International) Limited (stock code: 316.HK) and Postal Savings Bank of China Co., Ltd. (stock code: 1658.HK). Dr. Chung was an Independent Non-Executive Director of China Construction Bank Corporation (stock code: 939.HK) from October 2013 to June 2019 and an Independent Director of China State Construction Engineering Corporation Limited (stock code: 601668.SH) from December 2007 to January 2018. From November 2012 to June 2016, he served as an Independent Non-executive Director of Henderson Land Development Company Limited (stock code: 12.HK). Previously, Dr. Chung 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 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. He also received an Honorary Doctoral degree in Social Sciences from City University of Hong Kong in 2010. Dr. Chung is a Fellow Member of the Hong Kong Institute of Certified Public Accountants. He joined the Board in August 2012.

### Mr. Law Cheuk Kin, Stephen

#### Independent Non-executive Director

Mr. Law Cheuk Kin, Stephen, aged 57, is an Independent Non-executive Director and the Chairman of the Strategy Committee of the Board. He is also a Member of the Audit and Risk Management Committee, the Nomination Committee and the Remuneration Committee of the Board. Mr. Law is Independent Non-executive Director of Somerley Capital Holdings Limited (stock code: 8439.HK) and Bank of Guizhou Co., Ltd. (stock code: 6199.HK). Mr. Law served as the Finance Director and a member of the Executive Directorate of MTR Corporation Limited (stock code: 66.HK) ("MTR") from July 2013 to July 2016. Prior to joining MTR, he was the Chief Financial Officer of Guoco Group Limited, Hong Kong. Prior to that, Mr. Law had served as the Managing Director of TPG Growth Capital (Asia) Limited and had also held various senior positions in the Morningside Group and the Wheelock Group. He was also previously a Non-executive Director of China NT Pharma Group Company Limited (stock code: 1011.HK) and an Alternate Director in MIE Holdings Corporation (stock code: 1555.HK) until September 2012, and was an Independent Non-executive Director of AAG Energy Holdings Limited (stock code: 2686.HK) from July 2016 to September 2018. He was also an Independent Non-Executive Director of Stealth BioTherapeutics Corp. (stock code: MITO.Nasdaq), which has been listed on Nasdaq since February 2019, until July 2019. Mr. Law is currently the Managing Director of ANS Capital Limited. He is also currently a member of the Board of Directors of SOW (Asia) Foundation,and a council member of Hong Kong Business Accountants Association. He was a council member of the Hong Kong Institute of Certified Public Accountants from 2010 to 2017 and also served as an adjunct professor of the Hong Kong Polytechnic University from 2015 to 2017. He is currently a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Besides, Mr. Law has been appointed by the Ministry of Finance of the People's Republic of China (the "MOF") as an expert consultant to provide advice on finance and management accounting to the MOF. Mr. Law holds a Bachelor's degree in Science (Civil Engineering) from the University of Birmingham, the United Kingdom and also received a Master's degree in Business Administration from the University of Hull, the United Kingdom. He joined the Board in May 2018.

## SENIOR MANAGEMENT

### Mr. Tsang Sui Cheong, Frederick

Mr. Tsang Sui Cheong, Frederick, aged 60, is the Chief Risk Officer and a Member of the Management Decision Committee of the Group. He is in charge of the Group's risk matters. He is also a Non-executive Director of Kinergy Corporation Ltd. (stock code: 3302.HK) and a Supervisor of Everbright Jiabao Co., Ltd. (stock code: 600622.SH). Mr. Tsang is a Chartered Financial Analyst and was President of The Hong Kong Society of Financial Analysts Limited from 2012 to 2015. Since November 2016, Mr. Tsang has been appointed by Financial Services and the Treasury Bureau as a Member of the Process Review Panel for the Securities and Futures Commission of Hong Kong (the "SFC"). The appointment has been extended to October 2020. He served as a Member of the Advisory Committee of the SFC from 2011 to 2017. Mr. Tsang was also a Member of The Securities and Futures Appeals Tribunal from 2009 to 2015. He holds a Bachelor's degree in Arts and a Master's degree in Arts, majoring in Economics and Finance. Mr. Tsang joined the Group in February 2000, and has over 35 years of experience in the financial industry.

### Ms. Wong Tung Hung

Ms. Wong Tung Hung, aged 51, is the Chief Administration Officer and a Member of Management Decision Committee of the Group, mainly responsible for management of human resources and corporate administration of the Group. She has extensive human resources and administration experience in both China and Hong Kong and has been working in the Group for more than 22 years. She holds a Bachelor's degree in Arts from Fudan University. Prior to joining the Group, Ms. Wong worked in several well-known mass media organizations in both China and Hong Kong.

### Mr. Yang Ping

Mr. Yang Ping, aged 50, is the Chief Investment Officer and a Member of Management Decision Committee of the Group. He is in charge of the business of secondary market asset management, Everbright (Qingdao) Investment, Super Project Acquisition Fund Department II and Everbright Prestige Capital. Mr. Yang is also the Chairman and a Non-executive Director of Kinergy Corporation Ltd. (stock code: 3302.HK). Previously, he was responsible for the establishment, investment and management of Macquarie Everbright Greater China Infrastructure Fund, Everbright Ashmore China Real Estate Fund and venture capital funds. Before joining the Group, Mr. Yang 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 and company research and investment of private equity funds, and achieved excellent performance. The restructuring project Xiang Zhong Yi (now renamed as Hunan Investment) led by Mr. Yang was the first ST listed company "full restructuring" case in China and was selected in Top Ten Influential Restructuring Case of 1999 by Securities Times. He obtained a Doctoral degree in Economics from the Graduate School of Shanghai Academy of Social Sciences and a Bachelor's degree in Laws from East China University of Political Science and Law. He has over 23 years' experience in securities research and asset management. Mr. Yang joined the Group in December 2007.

### Mr. So Hiu Pang, Kevin

Mr. So Hiu Pang, Kevin, aged 44, is the Chief Strategy Officer and a Member of the Management Decision Committee of the Group. He is responsible for corporate strategies, external publicity, corporate branding and investor relations of the Group, as well as providing assistance to the Chief Executive Officer. Mr. So joined the Group since 2006. Prior to joining the Group, he was 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 the 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 Committee of Hong Kong Special Administrative Region and a member of the twelfth session of All-China Youth Federation. Mr. So has extensive knowledge and experience in the financial industry and management.

## COMPANY SECRETARY

### Mr. Chan Ming Kin, Desmond

Mr. Chan Ming Kin, Desmond, aged 50, 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 of the Group. He is also a Member of the Board of Directors of Everbright Securities Company Limited (stock code: 601788.SH, 6178.HK). 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 24 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.

EY 安永

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 142 to 233, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.

## KEY AUDIT MATTERS (continued)

| Key audit matters<br>*Valuation of Level 3 financial investments* | How our audit addressed the key audit matters |
|---|---|
| Refer to significant accounting policies in note 2(ab), accounting estimates and judgements in note 44(a)(i), and disclosures of fair values of financial instruments in note 41 to the financial statements.<br><br>The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, which include significant unobservable inputs, involve management making subjective judgements and assumptions. With different valuation techniques, inputs and assumptions applied, the valuation results can vary significantly.<br><br>As at 31 December 2019, the Group's financial assets measured at fair value, categorised within Level 3 of the fair value hierarchy, amounted to HK$33,722,006,000. The valuation of these financial assets involved significant unobservable inputs.<br><br>Given the level of judgement and assumptions involved in the valuations, we determined this to be a key audit matter. | The procedures performed, on a sample basis, with the assistance of our inhouse valuation specialists, to address the key audit matter included, but were not limited to:<br><br>– Evaluated the appropriateness of the financial instrument valuation policies;<br><br>– Evaluated the design and tested the operating effectiveness of key controls related to the valuation of financial instruments, including independent price verification, independent model validation and approval;<br><br>– Evaluated the valuation techniques adopted through comparison with those commonly used in the market;<br><br>– Evaluated assessments made by the Group, with respect to the selection of comparable companies, adjustments to the valuation multiples and other parameters used in other valuation methods through independent study, research and back-testing;<br><br>– Evaluated the observable inputs with reference to external market data;<br><br>– Evaluated the unobservable inputs and assumptions for individually significant items such as the discount rate and volatility adopted by comparing to pricing information from similar transactions which were observable and performed independent valuation; and<br><br>– Assessed the completeness and adequacy of the disclosures relating to financial instruments in Level 3 of the fair value hierarchy in note 41 to the financial statements against the requirements of HKFRS. |

## KEY AUDIT MATTERS (continued)

| Key audit matters<br>*Accounting for unconsolidated structured entities managed by the Group* | How our audit addressed the key audit matters |
|---|---|
| Refer to significant accounting policies in note 2(c), critical accounting judgements in applying the Group's accounting policies in note 44(b)(i), and disclosures of involvement with unconsolidated structured entities in note 39 to the financial statements.<br><br>The Group acts as the general partner or investment manager of a number of structured entities (such as investment funds and collective investment schemes). In these arrangements the Group has certain powers 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 fees, performance fees and also its interests in these entities.<br><br>Whether the Group has control over these structured entities requires significant management judgement.<br><br>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.<br><br>As at 31 December 2019, the carrying value of the interests held by the Group in unconsolidated structured entities managed by the Group amounted to HK$11,086,043,000 which is recorded in financial assets at fair value through profit or loss in the consolidated statement of financial position. | The procedures performed to address the key audit matter included, but were not limited to:<br><br>– Reviewed the legal structures and read 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;<br><br>– Evaluated the power held by other parties which allow the removal of the Group as the general partner or investment manager and assessed whether the rights held by other parties are substantive;<br><br>– Identified if 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; and<br><br>– Assessed the adequacy of the Group's disclosures of the unconsolidated structured entities in note 39 to the financial statements against the requirement of HKFRS. |

## KEY AUDIT MATTERS (continued)

| Key audit matters<br>*Impairment of investments in associates* | How our audit addressed the key audit matters |
|---|---|
| Refer to significant accounting policies in note 2(d), 2(e) and 2(l)(ii), critical accounting judgements in applying the Group's accounting policies in note 44(b)(iii), and disclosures of investments in associates in note 18 to the financial statements.<br><br>As at 31 December 2019, the Group's carrying value of its investment in Everbright Jiabao Co., Ltd ("Jiabao Group"), an associate of the Group, amounted to HK$3,963,063,000. Included within the carrying value of the associate is goodwill of HK$1,550,307,000 arising from the acquisition.<br><br>As at 31 December 2019, there was an indication that the investment in Jiabao Group may be impaired as the carrying value of the net assets of Jiabao Group was more than its market capitalisation.<br><br>An external specialist was engaged by the Group to estimate its value-in-use, using a discounted cash flow model with a forecast compiled by management.<br><br>In carrying out the impairment assessment, significant judgement and assumptions are required to estimate the value-in-use based on the forecasted future cash flows of the business of Jiabao Group.<br><br>Management has assessed and concluded that there was no impairment in respect of its investment in Jiabao Group as at 31 December 2019.<br><br>Given the level of judgement and assumptions involved in the calculation of the value-in-use of Jiabao Group, we determined that the impairment assessment of investments in associates is a key audit matter. | The procedures performed, with the assistance of our inhouse valuation specialists, to address the key audit matter included, but were not limited to:<br><br>– Assessed the competence, capabilities and objectivity of the external specialist appointed by management;<br><br>– Verified the accuracy and consistency of the data used in the value-in-use calculations against the strategic business plans approved by management of the associate;<br><br>– Checked the arithmetical accuracy of the value-in-use calculations;<br><br>– Reviewed the appropriateness of the valuation methodology by critically assessing the key assumptions, including the discount rates and growth rates, with reference to market information and the associate's historical data; and<br><br>– Back-tested the assumptions used in the prior year model against actual results. |

## KEY AUDIT MATTERS (continued)

| Key audit matters<br>*Business combination of Ying Li* | How our audit addressed the key audit matters |
|---|---|
| Refer to significant accounting policies in note 2(e) and 2(l)(ii), critical accounting judgements in applying the Group's accounting policies in note 44(b)(iv), and the disclosures of investments in subsidiaries in note 17 to the financial statements.<br><br>On 3 April 2019, the Group acquired an additional 767,052,161 shares in Ying Li International Real Estate Limited ("Ying Li"). Following the acquisition, the Group held 58.91% equity interest in Ying Li and Ying Li became a subsidiary of the Group.<br><br>With respect to the initial acquisition accounting, the Group engaged external specialists to assist the Group in the identification and valuation of the assets and liabilities of Ying Li. The fair values of the assets and liabilities of Ying Li were determined using various valuation models. A gain on bargain purchase of HK$619,358,000 was recognised.<br><br>Significant judgements and estimates were used to measure the fair value of the assets and liabilities acquired. In this respect, we consider the gain resulting from the bargain purchase is material and thus the business combination accounting of Ying Li is a key audit matter. | The procedures performed, with the assistance of our inhouse valuation specialists, to address the key audit matter included, but were not limited to:<br><br>– Understood the business rationale for the acquisition, including the initial intention to acquire with a view to sell the interest in the near term, and the subsequent change of strategy to hold for longer term capital appreciation;<br><br>– Analysed the purchase consideration in comparison with the market price of Ying Li shares and critically challenged the reason driving the recognition of the gain on bargain purchase;<br><br>– Evaluated the identification of the assets and liabilities acquired;<br><br>– Assessed the competence, capabilities and objectivity of the external specialists appointed by management;<br><br>– Understood the valuation methodologies developed by the external specialists;<br><br>– Evaluated the methodologies, inputs and assumptions adopted in the valuations with reference to market practice and the available market information;<br><br>– Performed an independent valuation on major assets acquired;<br><br>– Tested the data provided by management for completeness and accuracy; and<br><br>– Assessed the adequacy of the Group's disclosures of the investments in subsidiaries in note 17 to the financial statements against the requirement of HKFRS. |

## 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.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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.
- 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

19 March 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Continuing operations | | | |
| Turnover | 4 | 12,617,142 | 9,211,012 |
| Income from contracts with customers | 4 | 611,778 | 563,134 |
| Income from investments | 4 | 3,724,311 | 3,842,310 |
| Income from other sources | 4 | 270,254 | 290,943 |
| Impairment losses | 5 | (238,990) | (23,704) |
| Operating expenses | | (1,351,798) | (1,042,640) |
| Profit from operations | 6 | 3,015,555 | 3,630,043 |
| Finance costs | 7 | (1,164,915) | (946,737) |
| Share of profits less losses of associates | 18 | 823,454 | 583,850 |
| Share of profits less losses of joint ventures | 19 | 88,713 | 117,132 |
| Profit before taxation | | 2,762,807 | 3,384,288 |
| Income tax | 9 | (551,037) | (380,099) |
| Profit from continuing operations | | 2,211,770 | 3,004,189 |
| Discontinued operations | | | |
| Profit from disposal group held for sale | 10 | – | 6,775 |
| Profit for the year | | 2,211,770 | 3,010,964 |
| Profit attributable to equity shareholders of the Company | | | |
| Continuing operations | | 2,237,166 | 3,097,142 |
| Discontinued operations | | – | 6,775 |
| | | 2,237,166 | 3,103,917 |
| Non-controlling interests | | (25,396) | (92,953) |
| Profit for the year | | 2,211,770 | 3,010,964 |
| Basic and diluted earnings per share | 14 | | |
| Continuing operations | | HK$1.327 | HK$1.838 |
| Discontinued operations | | – | HK$0.004 |
| | | HK$1.327 | HK$1.842 |

The notes on pages 148 to 233 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 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Profit for the year | | 2,211,770 | 3,010,964 |
| Other comprehensive income for the year: | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| – Net movement in investment revaluation reserve of equity investments designated at fair value through other comprehensive income | | 1,180,982 | (950,719) |
| Items that may be reclassified subsequently to profit or loss | | | |
| – Share of other comprehensive income and effect of foreign currency translation of associates | | (379,565) | (843,158) |
| – Share of other comprehensive income and effect of foreign currency translation of joint ventures | | (14,288) | (47,331) |
| – Other net movement in exchange reserve | | (236,874) | (578,986) |
| | 13 | 550,255 | (2,420,194) |
| Total comprehensive income for the year | | 2,762,025 | 590,770 |
| Attributable to: | | | |
| Equity shareholders of the Company | | 2,764,470 | 727,096 |
| Non-controlling interests | | (2,445) | (136,326) |
| Total comprehensive income for the year | | 2,762,025 | 590,770 |

The notes on pages 148 to 233 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

| | Note | 31 December 2019 HK$'000 | 31 December 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | 494,546 | 448,433 |
| Investment properties | 15 | 5,190,773 | 446,306 |
| Right-of-use assets | 16 | 129,574 | – |
| Investments in associates | 18 | 18,727,491 | 17,886,726 |
| Investments in joint ventures | 19 | 1,052,931 | 1,167,987 |
| Equity investments designated at fair value through other comprehensive income | 20 | 7,742,741 | 6,561,759 |
| Financial assets at fair value through profit or loss | 21 | 32,495,404 | 36,190,718 |
| Advances to customers | 22 | 983,281 | 1,211,908 |
| Finance lease receivables | | 55,818 | – |
| Other assets | | – | 578,293 |
| | | 66,872,559 | 64,492,130 |
| **Current assets** | | | |
| Inventories | 23 | 1,851,827 | – |
| Financial assets at fair value through profit or loss | 21 | 3,953,959 | 1,371,003 |
| Advances to customers | 22 | 1,942,258 | 986,904 |
| Amount due from an associate | 18 | 253,704 | – |
| Debtors, deposits and prepayments | 24 | 2,104,866 | 1,234,888 |
| Trading securities | 25 | 2,251,727 | 1,573,693 |
| Cash and cash equivalents | 26 | 7,265,583 | 6,863,902 |
| | | 19,623,924 | 12,030,390 |
| Assets classified as held for sale | 10 | – | 738,244 |
| | | 19,623,924 | 12,768,634 |
| **Current liabilities** | | | |
| Trading securities | 25 | (283,150) | (136,312) |
| Creditors, deposits received and accrued charges | 27 | (3,147,425) | (3,314,280) |
| Bank loans | 28 | (9,577,956) | (3,501,739) |
| Bonds payable | 30 | (3,545,240) | (3,382,860) |
| Other financial liabilities | 29 | (98,320) | (241,019) |
| Notes payable | | (57,000) | (27,000) |
| Lease liabilities | 16 | (46,266) | – |
| Provision for taxation | | (863,137) | (336,563) |
| | | (17,618,494) | (10,939,773) |
| **Net current assets** | | 2,005,430 | 1,828,861 |
| **Total assets less current liabilities** | | 68,877,989 | 66,320,991 |

| | Note | 31 December 2019 HK$'000 | 31 December 2018 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bank loans | 28 | (9,407,892) | (10,684,234) |
| Bonds payable | 30 | (8,372,625) | (8,457,150) |
| Other financial liabilities | 29 | (4,909,113) | (4,353,828) |
| Notes payable | | – | (30,000) |
| Lease liabilities | 16 | (85,533) | – |
| Deferred tax liabilities | 31 | (2,315,456) | (1,415,582) |
| | | (25,090,619) | (24,940,794) |
| **NET ASSETS** | | 43,787,370 | 41,380,197 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 32 | 9,618,097 | 9,618,097 |
| Reserves | | 31,973,228 | 30,240,565 |
| **Total equity attributable to equity shareholders of the Company** | | 41,591,325 | 39,858,662 |
| Non-controlling interests | | 2,196,045 | 1,521,535 |
| **TOTAL EQUITY** | | 43,787,370 | 41,380,197 |

Approved and authorised for issue by the Board of Directors on 19 March 2020 and signed on behalf of the Board by:

**Zhao Wei**
*Director*

**Tang Chi Chun, Richard**
*Director*

The notes on pages 148 to 233 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

| | | 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 2018 | | 9,618,097 | 1,242 | 6,105,289 | (668,499) | (490,190) | 1,099,293 | 25,005,179 | 40,670,411 | 1,674,584 | 42,344,995 |
| Net movement by non-controlling shareholders | | – | – | – | – | (89,527) | – | – | (89,527) | (16,723) | (106,250) |
| Dividends paid | 12 | – | – | – | – | – | – | (1,449,318) | (1,449,318) | – | (1,449,318) |
| Profit for the year | | – | – | – | – | – | – | 3,103,917 | 3,103,917 | (92,953) | 3,010,964 |
| Other comprehensive income for the year | | – | – | (950,719) | – | (41,561) | (1,384,541) | – | (2,376,821) | (43,373) | (2,420,194) |
| As at 31 December 2018 and as at 1 January 2019 | | 9,618,097 | 1,242 | 5,154,570 | (668,499) | (621,278) | (285,248) | 26,659,778 | 39,858,662 | 1,521,535 | 41,380,197 |
| Net movement by non-controlling shareholders | | – | – | – | – | 90,179 | – | – | 90,179 | (711,608) | (621,429) |
| Dividends paid | 12 | – | – | – | – | – | – | (1,095,414) | (1,095,414) | – | (1,095,414) |
| Acquisition of a subsidiary | | – | – | – | – | – | – | – | – | 1,388,563 | 1,388,563 |
| Share of capital reserve of an associate | | – | – | – | – | (26,572) | – | – | (26,572) | – | (26,572) |
| Profit for the year | | – | – | – | – | – | – | 2,237,166 | 2,237,166 | (25,396) | 2,211,770 |
| Other comprehensive income for the year | | – | – | 1,180,982 | – | – | (653,678) | – | 527,304 | 22,951 | 550,255 |
| As at 31 December 2019 | | 9,618,097 | 1,242 | 6,335,552 | (668,499) | (557,671) | (938,926) | 27,801,530 | 41,591,325 | 2,196,045 | 43,787,370 |

The notes on pages 148 to 233 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES | 42(a) | (3,172,027) | 476,216 |
| INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (8,411) | (10,172) |
| Proceeds from disposal of investment properties | | 18,400 | 17,700 |
| Proceeds from disposal of property, plant and equipment | | 152 | 220 |
| Purchase of financial assets at fair value through profit or loss | | (4,839,458) | (10,815,911) |
| Increase in other financial liabilities | | 356,559 | 2,961,455 |
| Investments in associates | | (94,876) | (23,995) |
| Net cash inflow from losing control of subsidiaries | | 27,550 | – |
| Net cash outflow from deemed disposal of a subsidiary | | (51,474) | – |
| Purchase of disposal group held for sale | | – | (738,244) |
| Net cash from acquisition of a subsidiary | | 25,155 | – |
| Divestments/(investments) in joint ventures | | 86,517 | (202,275) |
| Increase in restricted cash | | (422,817) | – |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 7,188,605 | 6,560,228 |
| Proceeds from partial disposal of an associate | | – | 1,230,400 |
| Bank interest received | | 129,670 | 41,993 |
| Dividends received from investments | | 818,393 | 851,340 |
| Dividend received from associates and joint ventures | | 420,886 | 450,823 |
| NET CASH INFLOW FROM INVESTING ACTIVITIES | | 3,654,851 | 323,562 |
| NET CASH INFLOW BEFORE FINANCING ACTIVITIES | | 482,824 | 799,778 |
| FINANCING ACTIVITIES | | | |
| Issue of shares in subsidiaries to non-controlling shareholders | | 73,573 | 327,194 |
| Redemption of non-controlling shareholders' shares | | (586,420) | (6,664) |
| Proceeds from bank loans | | 13,055,198 | 15,393,071 |
| Proceeds from issue of bonds payable | | 196,190 | – |
| Repayments of lease liabilities | | (60,780) | – |
| Repayment of bank loans | | (11,914,637) | (13,168,048) |
| Dividends paid to non-controlling shareholders | | (70,029) | (192,326) |
| Dividends paid | | (1,095,414) | (1,449,318) |
| NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES | | (402,319) | 903,909 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 80,505 | 1,703,687 |
| CASH AND CASH EQUIVALENTS | | | |
| Beginning of year | | 6,863,902 | 5,178,356 |
| Exchange rate adjustments | | (101,641) | (18,141) |
| End of year | | 6,842,766 | 6,863,902 |
| ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash – general accounts | | 7,265,583 | 6,863,902 |
| Restricted cash | | (422,817) | – |
| End of year | 26 | 6,842,766 | 6,863,902 |

The notes on pages 148 to 233 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 Ltd. ("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 disclosure 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 2019 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)); and

– financial instruments classified as trading, financial assets at fair value through profit or loss, equity investments designated at fair value through other comprehensive income, financial liabilities at fair value through profit or loss and derivative financial instruments (notes 2(f) and 2(n)).

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.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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(aa)(i)).

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 44.

## (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.

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)).

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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(aa)(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 39.

### (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)). Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures. 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 further losses are not recognised 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.

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 ventures 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(aa)(i)).

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (e) Goodwill

Goodwill represents the excess of:

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

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

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(l)). In respect of associates or 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) Investments and other financial assets

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below (note 2(t)).

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (f) Investments and other financial assets (continued)

### Investments and other financial assets (continued)

*Subsequent measurement*

The subsequent measurement of financial assets depends on their classification as follows:

#### Financial assets at amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

#### Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as Dividend income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as Dividend income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably. Interest income arising from the financial assets at fair value through profit or loss is recognised as net gains or net losses in the statement of profit or loss.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (g) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

– the rights to receive cash flows from the asset have expired; or

– the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## (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(t).

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation, the group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 2(k)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases. Lease payments were accounted for as described in note 2(k).

## (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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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 | 3 to 20 years |
| – Motor vehicles | 5 years |
| – Right-of-use assets | over the shorter of the lease terms and the estimated useful lives |

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

#### Policies under HKFRS 16 applicable from 1 January 2019

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Group as a lessee*

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets. If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (k) Leased assets (continued)

### Policies under HKFRS 16 applicable from 1 January 2019 (continued)

*Group as a lessee* (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments or a change in assessment of an option to purchase the underlying asset.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office premises. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

*Group as a lessor*

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments, including the initial direct costs, and presented as a receivable at an amount equal to the net investment in the lease.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (k) Leased assets (continued)

### Policies under HKAS 17 applicable before 1 January 2019

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

## (l) Impairment of assets

### (i) Impairment of financial assets

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*Simplified approach*

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Impairment of assets (continued)

#### (i) Impairment of financial assets (continued)

*General approach*

For other financial assets recognised at amortised cost, ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

#### (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, including right-of-use assets (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.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (l) Impairment of assets (continued)

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

*Calculation of recoverable amount*

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

*Recognition of impairment losses*

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

*Reversals of impairment losses*

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

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

## (m) Accounts receivable and other receivables

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

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

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (n) Financial liabilities

### (i) Financial liabilities

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, derivative financial instruments and interest-bearing bank and other borrowings.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Financial liabilities at fair value through profit or loss*

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

*Financial liabilities at amortised cost (loans and borrowings)*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the statement of profit or loss.

### (ii) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (o) Inventories

Inventories are stated at specifically identified cost, including capitalised borrowing costs directly attributable to the development of the properties, exchange differences arising from foreign currency borrowings are capitalised to the extent that they are regarded as an adjustment to interest costs, aggregate cost of development, materials and supplies, wages and other direct expenses, less any allowance considered necessary by the directors.

Inventories are stated at lower of cost and net realisable value. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## (p) 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.

## (q) 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.

## (r) 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Income tax (continued)

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

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

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the 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)

## (s) Provisions, contingent liabilities and onerous contracts

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.

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

## (t) Revenue recognition

### Revenue recognition

*Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

*Construction services*

Revenue is recognised when the control over the residential and commercial projects has been transferred to the customer. At contract inception, the Group assesses whether the Group transfers control of the residential and commercial projects over time or at a point in time by determining if:

– its performance does not create an asset with an alternative use to the Group;

– the Group has an enforceable right to payment for performance completed to date.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) Revenue recognition (continued)

#### Revenue recognition (continued)

*Construction services* (continued)

The residential and commercial projects undertaken by the Group do not have alternative use for the Group due to contractual restriction and the Group does not have enforceable right to payment for performance completed to date. Accordingly, revenue is recognised only when the legal title passes to the buyer or when the equitable interest in the property vests with the buyer upon signing of the property handover notice by the buyer, whichever is earlier.

Revenue is measured at the transaction price agreed under the contract. Estimates of revenues, costs or extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in the profit or loss in the period in the which the circumstances that give rise to the revision become known by management.

*Provision of consultancy and management services*

Revenue from the provision of consultancy and management services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

*Revenue from other sources*

Rental income is recognised on a time proportion basis over the lease terms.

*Other income*

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

### (u) Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets as described in note 2(l).

### (v) Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the statement of profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

### (x) 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.

### (y) 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.

### (z) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

# 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

## (aa) 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.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (ab) Fair value measurement

The Group measures its investment properties, trading securities, derivative financial instruments, financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

### (ac) 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)

### (ac) 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.

### (ad) 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 new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation* |
| HKFRS 16 | *Leases* |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement* |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures* |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments* |
| *Annual Improvements to HKFRSs 2015-2017 Cycle* | Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 |

The nature and the impact of the new and revised HKFRSs amendments are described below:

## HKFRS 16 Leases

HKFRS 16 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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17.

### New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

### Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various properties. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (continued)

### HKFRS 16 Leases (continued)

As a lessee – Leases previously classified as operating leases

*Impact on transition*

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets and lease liabilities separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

– Using a single discount rate to a portfolio of leases with reasonably similar characteristics

– Relying on its assessment of whether leases are onerous immediately before the date of initial application

– Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

– Excluding the initial direct costs from the measurement of the right-of-use assets at the date of initial application

– Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impact arising from the adoption HKFRS 16 as at 1 January 2019 is as follows:

| | Increase/ (decrease) HK$'000 |
|---|---:|
| **Assets** | |
| Right-of-use assets | 634,299 |
| Debtors, deposits and prepayments | (2,583) |
| | 631,716 |
| **Liabilities** | |
| Lease liabilities | 631,716 |

## 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURE (continued)

### HKFRS 16 Leases (continued)

As a lessee – Leases previously classified as operating leases (continued)

*Impact on transition* (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

| | HK$'000 |
|---|---|
| Operating lease commitments as at 31 December 2018 | 40,479 |
| Discounted operating lease commitments as at 1 January 2019 | 38,173 |
| Less: | |
| Commitments relating to short-term leases and those lease with a remaining lease term ended on or before 31 December 2019 | (2,689) |
| Add: | |
| Discounted cancellable lease commitments not recognised as at 31 December 2018 | 596,232 |
| Lease liabilities as at 1 January 2019 | 631,716 |

### Amendments to HKAS 28

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's financial statements.

### HK(IFRIC)-Int 23

HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intragroup services. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's financial statements.

## 4. TURNOVER, INCOME FROM CONTRACTS WITH CUSTOMERS, INVESTMENTS AND OTHER SOURCES

Turnover from operations represents the aggregate of service fee income, sales of inventories, 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.

Income from contracts with customers, investments and other sources recognised during the year is as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Income from contracts with customers** | | |
| Recognised over time | | |
| Management fee income | 371,284 | 354,523 |
| Net rental income from investment properties | 146,658 | 1,953 |
| Recognised at a point of time | | |
| Consultancy fee and performance fee income | 72,551 | 206,658 |
| Sales of inventories | 132,867 | – |
| Cost of sales | (111,582) | – |
| | 611,778 | 563,134 |
| **Income from investments** | | |
| Interest income | | |
| Financial assets not at fair value through profit or loss | | |
| Bank deposits | 129,670 | 41,993 |
| Advances to customers | 212,711 | 303,753 |
| Debt investments | 70,186 | 41,056 |
| Dividend income | | |
| Financial assets at fair value through profit or loss and trading securities | 526,894 | 501,640 |
| Equity investments designated at fair value through other comprehensive income | 295,173 | 348,197 |
| Realised gain/(loss) on investments | | |
| Net realised gain on financial assets at fair value through profit or loss | 1,235,383 | 1,313,401 |
| Realised gain/(loss) on trading securities | 134,613 | (22,777) |
| Unrealised gain/(loss) on investments | | |
| Change of unrealised gain on financial assets at fair value through profit or loss | 225,589 | 1,359,547 |
| Change of unrealised gain/(loss) on trading securities | 57,380 | (133,131) |
| Others | | |
| Realised partial disposal gain on an associate | – | 88,631 |
| Gain on disposal of subsidiaries (note 42(c)) | 23,125 | – |
| Deemed disposal gain on investments in a subsidiary (note 42(b)) | 194,229 | – |
| Gain on bargain purchase (note 17) | 619,358 | – |
| | 3,724,311 | 3,842,310 |
| **Income from other sources** | | |
| Net surplus on revaluation of investment properties | 122,463 | 194,051 |
| Rental income from finance leases | 6,214 | 266 |
| Gain on disposal of investment properties | 1,800 | 600 |
| Gain on disposal of property, plant and equipment | 6 | 220 |
| Reversal of impairment losses on advances to customers | – | 3,670 |
| Exchange loss, net | (20,838) | (15,476) |
| Others | 160,609 | 107,612 |
| | 270,254 | 290,943 |

## 5. IMPAIRMENT LOSSES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Impairment losses on: | | |
| – Advances to customers | 222,745 | – |
| – Debtors, deposits and prepayments | 16,245 | 23,704 |
| | 238,990 | 23,704 |

## 6. PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Depreciation and amortisation expenses | 85,193 | 30,948 |
| Lease payments not included in the measurement of lease liabilities | 10,160 | – |
| Operating lease rentals in respect of rented premises | – | 44,948 |
| Auditor's remuneration | 16,115 | 12,515 |
| Employee expenses (wages, bonuses and allowances) | 549,890 | 555,018 |
| Employee expenses (wages, bonuses and allowances) for a disposal group | 93,764 | 64,026 |

## 7. FINANCE COSTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Interest on bank loans and other borrowings | 1,164,915 | 946,737 |

The effective interest rate of bank loans and other borrowings was approximately 3.75% (2018: 3.47%) per annum as of 31 December 2019.

# 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 2019

| | Directors' fee HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Retirement scheme contributions HK$'000 | 2019 Total HK$'000 |
|---|---|---|---|---|---|
| *Executive directors* | | | | | |
| Cai Yunge | – | – | – | – | – |
| Zhao Wei (note 1) | – | 2,298 | 3,551 | 9 | 5,858 |
| Chen Shuang (note 2) | – | 1,487 | 3,115 | 168 | 4,770 |
| Tang Chi Chun, Richard | – | 2,460 | 4,353 | 18 | 6,831 |
| Zhang Mingao | – | 2,059 | 3,694 | – | 5,753 |
| Yin Lianchen | – | 1,975 | 3,315 | 56 | 5,346 |
| *Independent non-executive directors* | | | | | |
| Chung Shui Ming, Timpson | 200 | 373 | – | – | 573 |
| Lin Zhijun | 200 | 345 | – | – | 545 |
| Law Cheuk Kin, Stephen | 200 | 345 | – | – | 545 |
| | 600 | 11,342 | 18,028 | 251 | 30,221 |

Notes:

1. Dr. Zhao Wei was appointed as an Executive Director and the Chief Executive Officer of the Company with effect from 3 May 2019.

2. Mr. Chen Shuang resigned as an Executive Director and the Chief Executive Officer of the Company with effect from 3 May 2019.

3. The discretionary bonuses to the directors of the Group amounted to HK$18,028,000, of which HK$3,501,000 are arising from an Associate.

# 8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

## (a) Directors' emoluments: (continued)

For the year ended 31 December 2018

| | Directors' fee HK$'000 | Salaries, allowances and benefits in kind HK$'000 | Discretionary bonuses HK$'000 | Retirement scheme contributions HK$'000 | 2018 Total HK$'000 |
|---|---|---|---|---|---|
| *Executive directors* | | | | | |
| Cai Yunge | – | – | – | – | – |
| Chen Shuang | – | 3,353 | 9,317 | 130 | 12,800 |
| Tang Chi Chun, Richard | – | 2,364 | 5,111 | 18 | 7,493 |
| Zhang Mingao | – | 1,985 | 4,089 | – | 6,074 |
| Yin Lianchen | – | 1,957 | 4,014 | 63 | 6,034 |
| *Non-executive directors* | | | | | |
| Tang Shuangning (note 1) | – | – | – | – | – |
| *Independent non-executive directors* | | | | | |
| Chung Shui Ming, Timpson | 200 | 283 | – | – | 483 |
| Seto Gin Chung, John (note 2) | 75 | 53 | – | – | 128 |
| Lin Zhijun | 200 | 245 | – | – | 445 |
| Law Cheuk Kin, Stephen (note 3) | 125 | 191 | – | – | 316 |
| | 600 | 10,431 | 22,531 | 211 | 33,773 |

Notes:

1. Mr. Tang Shuangning resigned as a Non-executive Director of the Company with effect from 16 March 2018.
2. Mr. Seto Gin Chung, John resigned as an Independent Non-executive Director of the Company with effect from 17 May 2018.
3. Mr. Law Cheuk Kin, Stephen was appointed as an Independent Non-executive Director of the Company with effect from 17 May 2018.
4. The discretionary bonuses to the directors of the Group amounted to HK$22,531,000, of which HK$5,313,000 are arising from an associate.

# 8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

## (b) Five highest paid individuals' emoluments

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Salaries and other emoluments | 17,758 | 15,103 |
| Bonuses | 57,271 | 57,130 |
| Retirement scheme contributions | 112 | 202 |
| | 75,141 | 72,435 |

| | 2019 | 2018 |
|---|---|---|
| Number of directors | – | 1 |
| Number of employees | 5 | 4 |
| | 5 | 5 |

Their emoluments were within the following bands:

| | Number of individuals | |
|---|---|---|
| | 2019 | 2018 |
| HK$7,500,001 to HK$8,000,000 | 1 | – |
| HK$8,500,001 to HK$9,000,000 | 1 | 2 |
| HK$9,500,001 to HK$10,000,000 | – | 1 |
| HK$10,500,001 to HK$11,000,000 | 1 | – |
| HK$12,500,001 to HK$13,000,000 | – | 1 |
| HK$15,000,001 to HK$15,500,000 | 1 | – |
| HK$32,500,001 to HK$33,000,000 | – | 1 |
| HK$33,000,001 to HK$33,500,000 | 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 (2018: 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% (2018: 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:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Current taxation | | |
| – Hong Kong profits tax | 171,076 | 46,426 |
| – Overseas taxation | 328,181 | 247,384 |
| – Overprovision in prior years | (112) | (177,597) |
| Deferred taxation | | |
| – Deferred taxation relating to the origination and reversal of temporary differences | 51,892 | 263,886 |
| Income tax | 551,037 | 380,099 |

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Profit before taxation | 2,762,807 | 3,384,288 |
| Calculated at the rates applicable to profits in the tax jurisdictions concerned | 512,464 | 743,400 |
| Tax effect of income not subject to taxation | (605,564) | (619,501) |
| Tax effect of expenses not deductible for taxation purposes | 538,486 | 370,861 |
| Tax effect of utilisation of previously unrecognised losses | (374) | (30,747) |
| Tax effect of tax losses and other deductible temporary differences not recognised | 106,137 | 93,683 |
| Overprovision of taxation in prior years | (112) | (177,597) |
| Income tax | 551,037 | 380,099 |

## 10. DISCONTINUED OPERATIONS

(i) On 3 April 2019 ("Date of Acquisition"), the Group acquired an additional 30% equity interests in Ying Li International Real Estate Limited ("Ying Li") and as a result, the Group held 58.91% equity interests upon completion of such acquisition. The Group further made a mandatory unconditional cash offer for all the shares in the capital of Ying Li. Upon completion of the offer, the Group held an aggregate of 72.04% of the shares of Ying Li, with a view to hold it for resale within one year.

As at 30 June 2019, the Group classified the above investment as a disposal group held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The adjusted aggregate balances of the assets and liabilities of Ying Li 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. The assets and liabilities of Ying Li classified as held for sale reflect the assets and liabilities of Ying Li at fair value (after taking into account the purchase price allocation performed by the Group with the best available information as at 30 June 2019), and also the adjustments needed to carry the Group's equity interest in Ying Li at the fair value less costs to sell. The fair value less costs to sell was measured with reference to the listed share price of Ying Li as at 30 June 2019. No profit or loss was recognised as Ying Li's share price as at 30 June 2019 equals the purchase consideration per share.

Further in late 2019, the Group has not proceeded with the potential disposal of Ying Li shares and considered that the latest business plan of continuing to hold the majority interest in Ying Li in the near future is in the interests of the shareholders of the Company. Accordingly, Ying Li ceased to be classified as a disposal group under HKFRS 5 and be accounted for and consolidated in the financial statements of the Group for the year ended 31 December 2019 with effect from the Date of Acquisition in accordance with HKFRS 5. After the reclassification, the financial position and results of Ying Li has been consolidated into the Group's financial statements on a line-by-line basis.

A purchase price allocation was performed by the Group. A gain on bargain purchase with reference to fair value measurement of HK$619,358,000 was recognised for the year ended 31 December 2019 (note 17).

(ii) On 5 May 2018, the Group acquired an associate with 22.4% equity interests with a view to hold it for resale within one year. The Group has disposed a part of the equity interests during the year ended 31 December 2019. The remaining equity interests was classified as financial assets at fair value through profit or loss. The aforesaid investee is a developer, manufacturer and marketer of medical devices.

## 11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Net profit for the year of the Company of approximately HK$2,836,285,000 (2018: approximately HK$1,533,887,000) 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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| – Interim dividend declared and paid of HK$0.25 (2018: HK$0.26) per share | 421,313 | 438,166 |
| – Final dividend proposed after the end of the reporting period date of HK$0.23 (2018: HK$0.4) per share | 387,608 | 674,101 |
| | 808,921 | 1,112,267 |

The Board proposed a final dividend of HK$0.23 per share for the year ended 31 December 2019 (2018: HK$0.4 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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| – Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.4 (2018: HK$0.6) per share | 674,101 | 1,011,152 |

## 13. OTHER COMPREHENSIVE INCOME

### Tax effects relating to each component of other comprehensive income

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Before tax amount<br>HK$'000 | Tax credit<br>HK$'000 | Net of tax amount<br>HK$'000 | Before tax amount<br>HK$'000 | Tax credit<br>HK$'000 | Net of tax amount<br>HK$'000 |
| Net movement in investment revaluation reserve of equity investments designated at fair value through other comprehensive income | 1,180,982 | – | 1,180,982 | (950,719) | – | (950,719) |
| Share of other comprehensive income and effect of foreign currency translation of associates | (379,565) | – | (379,565) | (843,158) | – | (843,158) |
| Share of other comprehensive income and effect of foreign currency translation of joint ventures | (14,288) | – | (14,288) | (47,331) | – | (47,331) |
| Other net movement in exchange reserve | (236,874) | – | (236,874) | (578,986) | – | (578,986) |
| | 550,255 | – | 550,255 | (2,420,194) | – | (2,420,194) |

# 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 2019 is based on the profit attributable to equity shareholders of the Company for continuing operations of HK$2,237,166,000 (2018: for continuing and discontinued operations of HK$3,097,142,000 and HK$6,775,000 respectively) and the weighted average number of 1,685,253,712 shares (2018: 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 2018 | 456,583 | 76,851 | 49,114 | 78,300 | 660,848 | 45,600 |
| Additions | – | – | 6,678 | 3,494 | 10,172 | 223,755 |
| Disposals | – | – | – | (3,215) | (3,215) | (17,100) |
| Surplus on revaluation | – | – | – | – | – | 194,051 |
| Exchange adjustments | 29,351 | (14,997) | (20,910) | 2,399 | (4,157) | – |
| As at 31 December 2018 | 485,934 | 61,854 | 34,882 | 80,978 | 663,648 | 446,306 |
| Representing: | | | | | | |
| Cost | 485,934 | 61,854 | 34,882 | 80,978 | 663,648 | – |
| Professional valuation | – | – | – | – | – | 446,306 |
| | 485,934 | 61,854 | 34,882 | 80,978 | 663,648 | 446,306 |
| As at 1 January 2019 | 485,934 | 61,854 | 34,882 | 80,978 | 663,648 | 446,306 |
| Additions | – | – | 341 | 8,759 | 9,100 | 48,206 |
| Acquisition | – | – | 60,738 | 4,546 | 65,284 | 4,780,905 |
| Disposals | – | – | (326) | (2,613) | (2,939) | (16,600) |
| Surplus on revaluation | – | – | – | – | – | 122,463 |
| Exchange adjustments | (2,363) | – | (3,181) | (1,572) | (7,116) | (190,507) |
| As at 31 December 2019 | 483,571 | 61,854 | 92,454 | 90,098 | 727,977 | 5,190,773 |
| Representing: | | | | | | |
| Cost | 483,571 | 61,854 | 92,454 | 90,098 | 727,977 | – |
| Professional valuation | – | – | – | – | – | 5,190,773 |
| | 483,571 | 61,854 | 92,454 | 90,098 | 727,977 | 5,190,773 |

## 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 2018 | 72,139 | 19,063 | 42,639 | 61,628 | 195,469 | – |
| Charge for the year | 6,885 | 3,379 | 3,338 | 6,346 | 19,948 | – |
| Written back on disposal | – | – | – | (3,215) | (3,215) | – |
| Exchange adjustments | 27,536 | (5,206) | (20,909) | 1,592 | 3,013 | – |
| As at 31 December 2018 and 1 January 2019 | 106,560 | 17,236 | 25,068 | 66,351 | 215,215 | – |
| Charge for the year | 8,876 | 580 | 3,596 | 5,946 | 18,998 | – |
| Written back on disposal | – | – | (180) | (2,130) | (2,310) | – |
| Exchange adjustments | (1,723) | 850 | 2,667 | (266) | 1,528 | – |
| As at 31 December 2019 | 113,713 | 18,666 | 31,151 | 69,901 | 233,431 | – |
| Net book value: | | | | | | |
| As at 31 December 2019 | 369,858 | 43,188 | 61,303 | 20,197 | 494,546 | 5,190,773 |
| As at 31 December 2018 | 379,374 | 44,618 | 9,814 | 14,627 | 448,433 | 446,306 |

(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 2019 by RHL Appraisal Limited, Cushman & Wakefield and Colliers International (Hong Kong) Limited, independent professional valuers who have 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 2019, 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$1,338,669,000 (2018: HK$1,405,526,000).

Investment properties of HK$4,646,203,000 (2018: HK$28,600,000) of the Group are rented out under operating lease. HK$527,810,000 (2018: HK$417,706,000) are under construction and will be rented out upon completion of construction.

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

During the year ended 31 December 2019, the Group acquired assets with a fair value of HK$4,846,189,000 through a business combination (Note 17) (2018: Nil).

## 15. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (continued)

### (c) The analysis of the net book value of properties is as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Held in Hong Kong** | | |
| – on long-term lease | **271,137** | 273,890 |
| – on medium-term lease | **–** | 16,600 |
| | **271,137** | 290,490 |
| **Held outside Hong Kong** | | |
| – on medium-term lease | **5,332,682** | 579,808 |
| | **5,603,819** | 870,298 |

### (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

| | | Fair value measurements categorised into | | |
|---|---|---|---|---|
| | Fair value<br>HK$'000 | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 |
| **Recurring fair value measurement** | | | | |
| Investment properties: | | | | |
| As at 31 December 2019 | **5,190,773** | **–** | **–** | **5,190,773** |
| As at 31 December 2018 | 446,306 | – | – | 446,306 |

During the year ended 31 December 2019, there were no transfers into or out of Level 3 (2018: 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.

## 15. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (continued)

### (d) Fair value measurement of properties (continued)

#### (ii) Information about Level 3 fair value measurements

| | Valuation technique | Unobservable input | Range |
|---|---|---|---|
| Investment properties – Hong Kong | Direct comparison approach | Premium (discount) on characteristic of the properties | -21% to 15% (2018: -24% to 20%) |
| Investment properties – The PRC | Hypothetical development method | Value of property | -4.3% to 2.5% (2018: -13.41% to 6.19%) |
| | Cost approach | Land price | 0% to 15.67% (2018: -5.58% to 16.99%) |
| | Direct comparison approach | Weighted average price per square meter | RMB7,100 (2018: N/A) |
| | Discounted cash flow method | Discount rate | 6% to 6.7% (2018: N/A) |
| | | Occupancy rate | 93% to 98% (2018: N/A) |
| | | Rental growth rate | 3% to 8% (2018: N/A) |

The fair value of investment properties in Hong Kong 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 fair value of investment properties under construction in PRC is determined by multiple approaches including hypothetical development method cost approach, direct comparison approach and discounted cash flow method, and uses market basis assuming sale upon completion of construction by making reference to comparable sales evidence. The valuations take into account the estimated construction cost and characteristics of the properties which included the location, size, floor level, years to complete 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:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Investment properties | | |
| At 1 January | 446,306 | 45,600 |
| Additions | 48,206 | 223,755 |
| Acquisition | 4,780,905 | – |
| Disposal | (16,600) | (17,100) |
| Net surplus on revaluation of investment properties | 122,463 | 194,051 |
| Exchange adjustments | (190,507) | – |
| At 31 December | 5,190,773 | 446,306 |

Net surplus on revaluation of investment properties is recognised as part of the "Income from other sources" (note 4) in the consolidated statement of profit or loss.

# 16. LEASES

## The Group as a lessee

The Group has lease contracts for various properties used in its operations.

### (a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

| | 2019<br>HK$'000 |
|---|---|
| As at 1 January 2019 | 634,299 |
| Additions | 31,897 |
| Disposal of a subsidiary | (468,666) |
| Depreciation expense | (66,195) |
| Exchange adjustments | (1,761) |
| As at 31 December 2019 | 129,574 |

### (b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

| | 2019<br>HK$'000 |
|---|---|
| As at 1 January 2019 | 631,716 |
| Additions | 31,897 |
| Disposal of a subsidiary | (492,243) |
| Interest expense | 22,768 |
| Payments | (60,780) |
| Exchange adjustments | (1,559) |
| As at 31 December 2019 | 131,799 |
| Analysed into: | |
| Current portion | 46,266 |
| Non-current portion | 85,533 |

## 17. 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 / registered capital | Percentage of equity interest held by the Company | Principal activities |
|---|---|---|---|---|---|
| CEL Venture Capital (Shenzhen) Limited | The PRC[#] | Not applicable | HK$4,770,000,000 | 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 |
| 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% | 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 |
| Everbright New Industries Capital Company Limited | The PRC[Δ] | Not applicable | RMB160,000,000 | 70% | Project investment |
| Everbright San Shan Capital Management Company Limited | The PRC[Δ] | Not applicable | RMB2,000,000 | 51% | Provision of asset management services |

## 17. INVESTMENTS IN SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ operation | Class of shares | Particulars of issued and paid up capital / registered capital | Percentage of equity interest held by the Company | Principal activities |
|---|---|---|---|---|---|
| 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 |
| 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 |
| 宜興光控投資有限公司 | The PRC* | Not applicable | RMB3,100,000,000 | 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 | RMB677,500,000 | 72.14% [1] | Investment |
| 光大控股(青島)投資有限公司 | The PRC# | Not applicable | US$160,000,000 | 100% | Investment |
| 成都光控西部創業投資有限公司 | The PRC* | Not applicable | RMB500,000,000 | 100% [1] | Investment |
| 上海光控嘉鑫股權投資管理有限公司 | The PRC* | Not applicable | RMB100,000,000 | 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 | RMB100,000 | 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 |

## 17. INVESTMENTS IN SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ operation | Class of shares | Particulars of issued and paid up capital / registered capital | Percentage of equity interest held by the Company | Principal activities |
|---|---|---|---|---|---|
| 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$50,000,000 | 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 |
| China Everbright Global Investment Advisors Company Limited | Hong Kong | Ordinary | 5,000,000 Shares HK$5,000,000 | 100% [1] | Provision of advisory services |
| 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^Δ | 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^Δ | Not applicable | US$50,000,000 | 100% [1] | Provision of leasing services |
| Neo Modern Limited | British Virgin Islands | Ordinary | 1 Share US$1 | 100% [1] | Investment holding |
| Diamond Wealth Global Limited | British Virgin Islands | Ordinary | 100 Shares US$100 | 100% [1] | Investment holding |
| Pioneer Act Investments Limited | British Virgin Islands | Ordinary | 1 Share US$1 | 100% [1] | Investment holding |

## 17. INVESTMENTS IN SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation/ operation | Class of shares | Particulars of issued and paid up capital / registered capital | Percentage of equity interest held by the Company | Principal activities |
|---|---|---|---|---|---|
| Glory Cresent 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 |
| 珠海光浦益投投資合夥企業（有限合夥） | The PRC◇ | Not applicable | RMB2,000,000 | 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 | RMB500,000,000 | 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 |
| China Golden Opportunities Fund III, L.P. | Cayman Islands | Not applicable | Not applicable | 75.09%[1] | Investment |
| CEL New Economy Fund, L.P. | Cayman Islands | Not applicable | Not applicable | 64.84%[1] | Investment |
| 湖南光控星宸股權投資合夥企業（有限合夥） | The PRC◇ | Not applicable | RMB5,100,000,000 | 50.94%[1] | Investment |
| 江蘇溧陽光控股權投資合夥企業（有限合夥） | The PRC◇ | Not applicable | RMB2,000,000,000 | 49.91%[1] | Investment |

(1) Subsidiaries held indirectly.
# Limited liability company (wholly-foreign-owned enterprise) registered under PRC law.
Δ Limited liability company (equity joint venture enterprise) registered under PRC law.
* Limited liability company registered under PRC law.
◇ Limited partnership enterprise registered under PRC law.

The list of subsidiaries above included certain consolidated structured entities of which the Group has capital commitment of HK$4,312,261,000 (2018: HK$2,506,990,000) 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 SUBSIDIARIES (continued)

As at 31 December 2018, the Group held a 28.91% interest in Ying Li. On 3 April 2019, the Group acquired approximately 30% shares of Ying Li for a consideration of SGD107,387,000 (equivalent to approximately HK$621,858,000), increased its shareholding to 58.91% and Ying Li was classified as a held-for-sale investment for the period from 3 April 2019 to 13 December 2019. The acquisition triggered a mandatory general offer and the Group's interest in Ying Li has further increased to 72.04% in May 2019. Following a board meeting on 13 December 2019, to reflect the Group's latest business plan in holding the investment in Ying Li, the board of directors of the Company approved the decision to cease classifying the investment in Ying Li as a disposal group held-for-sale but accounted for and consolidated in the financial statements of the Group as a subsidiary in 2019, with effect from 3 April 2019, in accordance with the relevant accounting standards (further details of the accounting for Ying Li as held-for-sale are included in note 10). As a result of the size and complexity of the transaction, the purchase price allocation remained provisional in late 2019 with an estimated gain on bargain purchase of approximately HK$680 million.

Subsequent to the provisional purchase price allocation, the fair values of the assets and liabilities were determined using updated appraisals. Fair value was determined using various valuation models, which were applied according to the assets and liabilities being measured. Judgement is used to measure the inventories and the investment properties, especially with regard to the choice of the valuation method to be used and the inputs to be considered. The purchase price allocation was finalised in March 2020 with a revised gain on bargain purchase of approximately HK$619,358,000, for the year ended 31 December 2019.

Gain on bargain purchase represents the excess of fair value of consideration transferred at acquisition over the fair value of the identified assets acquired and liabilities assumed for this acquisition. In the opinion of the directors, the consideration of the acquisition was mutually agreed between the parties in an arm's length basis and represented the fair value in an open market. The gain on bargain purchase is mainly attributable to the immediate exit opportunity offered to the seller in cash.

The principal activity of Ying Li is investment holding.

The Group has elected to measure the non-controlling interests Ying Li at their proportionate share of Ying Li's identifiable net assets.

The fair value of the identifiable assets and liabilities of Ying Li as at the date of acquisition were as follows:

| | HK$'000 |
|---|---|
| **Fair values of identifiable assets and liabilities** | |
| Property, plant and equipment | 65,284 |
| Investment properties | 4,780,905 |
| Financial assets at fair value through profit or loss | 1,086,516 |
| Inventories | 2,024,977 |
| Trade and other receivables | 1,855,938 |
| Cash and cash equivalents | 647,013 |
| Deferred tax liabilities | (862,684) |
| Trade and other payables | (1,628,609) |
| Bank loans and other borrowings | (4,740,102) |
| Total identifiable net assets at fair value | 3,229,238 |
| Non-controlling interests | (1,388,563) |
| Fair value of equity interests in hand (28.91%) | (599,459) |
| Satisfied by cash consideration (30%) | (621,858) |
| Gain on bargain purchase | 619,358 |

# 17. INVESTMENTS IN SUBSIDIARIES (continued)

The non-controlling interests included the 41.09% share of Ying Li held by independent third parties and non-controlling interests included the minority interests in the book of Ying Li of HK$78,107,000.

As at the acquisition date, the fair value of the 28.91% equity interests held by the Group immediately before the acquisition date is HK$599,459,000. A realised gain on financial assets at fair value through profit or loss of HK$102,765,000 was recognised upon the remeasurement to fair value on the date of acquisition.

The fair value of the trade and other receivables as at the date of acquisition amounted to HK$1,855,938,000. The gross contractual amount of trade and other receivables was HK$1,859,589,000, of which HK$3,651,000 is expected to be uncollectible.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | (621,858) |
| Cash and bank balances acquired | 647,013 |
| Net inflow of cash and cash equivalents included in cash flow from investing activities | 25,155 |

For the period from 3 April 2019 (date of acquisition) to 31 December 2019, Ying-Li contributed total income of approximately HK$212,000,000 and net loss of approximately HK$156,000,000 to the Group's result. If the acquisition had occurred on 1 January 2019, management estimates that the total income would have been approximately HK$272,000,000, and the net loss for the year would have been approximately HK$191,000,000. In determining the amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2019.

Further, in April to May 2019, the Group acquired a further interest of 13.13% under the mandatory general offer with an aggregate consideration of HK$272,024,000 which is lower than the carrying amount of the non-controlling interests. The decrease in the non-controlling interests of HK$413,494,000 has been recorded.

# 18. INVESTMENTS IN ASSOCIATES

## (a) Investments in associates

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Carrying value, net (note) | 18,727,491 | 17,886,726 |
| Market value of shares listed in mainland China | 16,268,972 | 11,864,929 |
| Market value of shares listed in Hong Kong | 2,002,827 | 1,821,704 |

Note:

A goodwill of approximately HK$1,550,307,000 (2018: HK$1,565,958,000) arising from the acquisition of Everbright Jiabao Co., Ltd has been included in the carrying value of investments in associates.

## 18. INVESTMENTS IN ASSOCIATES (continued)

(b) As at 31 December 2019, 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) | 21.30% |
| China Aircraft Leasing Group Holdings Limited## ("CALGH") | Cayman Islands | Investment holding (note 2) | 35.67%* |
| Everbright Jiabao Co., Ltd### ("Jiabao Group") | The PRC | Real estate development/real estate asset management (note 3) | 29.17%* |
| China Everbright Senior Healthcare Company Limited ("Everbright Senior Healthcare") | Hong Kong | Providing senior health care services (note 4) | 49.29%* |

# Market value of the listed shares in mainland China as at 31 December 2019 was equivalent to HK$14,364,606,000 (2018: HK$9,713,694,000).

## Market value of the listed shares in Hong Kong as at 31 December 2019 was HK$2,002,827,000 (2018: HK$1,821,704,000).

### Market value of the listed shares in mainland China as at 31 December 2019 was equivalent to HK$1,904,366,000 (2018: HK$2,151,235,000).

* Held indirectly

Note 1: Everbright Securities is the Group's cornerstone investment to capitalise on the growth of securities markets in mainland China and Hong Kong.

Note 2: CALGH is a strategic industry platform investment of the Group to capture multiple opportunities along the aircraft value chain arising from the rapid growth of aviation industry. CALGH's lease offerings are complemented by fleet planning consultation, structured leasing, aircraft trading and re-marketing and aircraft disassembly. During the year, the Group's equity interest in CALGH was increased from 34.05% to 35.67% due to the acquisition of CALGH's equity.

Note 3: Jiabao Group is the Group's strategic industry investment to capitalise on the growth of real estate development and asset management in mainland China.

Note 4: Everbright Senior Healthcare is the Group's strategic industry platform investment to provide integrated senior health care services including elderly health care, geriatric treatment, rehabilitation and community services in mainland China. During the year, the Group's equity interest in Everbright Senior Healthcare was decreased from 100% to 49.29%, with a gain on deemed disposal of a subsidiary of HK$194,229,000 (note 42(b)).

# 18. INVESTMENTS IN ASSOCIATES (continued)

(b) As at 31 December 2019, particulars of the principal associates of the Group are as follows: (continued)

For the year ended 31 December 2019, Everbright Securities has recorded an after tax profit of approximately RMB694 million (2018: RMB244 million) and the Group's share of profit under the equity method, amounted to HK$141 million (2018: HK$60 million).

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

(c) Amount due from an associate is unsecured, interest-bearing and repayable within one year.

## (d) 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 | |
|---|---|---|
| | 2019 HK$'000 | 2018 HK$'000 |
| **Gross amounts of the associate** | | |
| Current assets | 191,766,330 | 194,359,759 |
| Non-current assets | 36,069,929 | 40,493,799 |
| Current liabilities | (137,358,514) | (113,221,690) |
| Non-current liabilities | (35,755,599) | (65,985,016) |
| Non-controlling interests | (1,757,227) | (1,774,508) |
| Equity attributable to equity shareholders of the associate | 52,964,919 | 53,872,344 |
| Operating income | 11,432,304 | 8,960,278 |
| Profit from operations | 788,977 | 283,307 |
| Other comprehensive income | 294,060 | (496,619) |
| Total comprehensive income | 1,083,037 | (213,312) |
| Dividend received from the associate | 114,503 | 240,294 |
| **Reconciled to the Group's interest in the associate** | | |
| Gross amounts of net assets of the associate | 52,964,919 | 53,872,344 |
| Group's effective interest | 21.3% | 21.3% |
| Group's share of net assets of the associate | 11,262,789 | 11,476,894 |
| Carrying amount in the Group's consolidated financial statements | 11,262,789 | 11,476,894 |

Aggregate information of the associates that are not individually material:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Aggregate carrying amount of associates that are not individually material in the consolidated statement of financial position | 7,464,702 | 6,409,832 |
| Aggregate amounts of the Group's share of those associates: | | |
| Profit for the year | 682,946 | 523,957 |
| Other comprehensive income | (166,027) | (141,337) |
| Total comprehensive income | 516,919 | 382,620 |

# 19. INVESTMENTS IN JOINT VENTURES

## (a) Investments in joint ventures

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Carrying value, net | 1,052,931 | 1,167,987 |

## (b) As at 31 December 2019, details of the Group's principal investments in joint ventures are mainly as follows:

| Name of joint venture | Place of incorporation/ operation | Principal activities | Percentage of equity interest held by the Company |
|---|---|---|---|
| Everbright Guolian Capital Company Limited | The PRC | Venture capital and investment advisory services (note 1) | 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) | 48.0%* |
| CEL Capital Prestige Asset Management Co., Ltd. | The PRC | Assets management service (note 3) | 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: CEL Capital Prestige Asset Management Co., Ltd. is a joint venture of the Group to provide assets management service to an industrial sector investment fund in mainland China.

All of the above joint ventures are unlisted corporate entities whose quoted market prices were not available as at 31 December 2019. They are accounted for using the equity method in the consolidated financial statements.

## 19. INVESTMENTS IN JOINT VENTURES (continued)

### (b) As at 31 December 2019, details of the Group's principal investments in joint ventures are mainly as follows: (continued)

Aggregate information of joint ventures that are not individually material:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Aggregate carrying amount of joint ventures that are not individually material in the consolidated statement of financial position | **1,052,931** | 1,167,987 |
| Aggregate amounts of the Group's share of those joint ventures': | | |
| Profit for the year | **88,713** | 117,132 |
| Other comprehensive income | **(14,288)** | (47,331) |
| Total comprehensive income | **74,425** | 69,801 |

## 20. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| At fair value: | | |
| Listed equity securities | | |
| – outside Hong Kong | **7,742,741** | 6,561,759 |

The Group designated the investment in China Everbright Bank Company Limited ("China Everbright Bank") as financial assets at fair value through other comprehensive income because the Group intends to hold for the long-term strategic purposes.

No strategic investment was disposed of during the year ended 31 December 2019, and there were no transfers of any cumulative gain or loss within equity relating to this investment.

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| At fair value: | | |
| Listed equity securities | | |
| – in Hong Kong | – | 954,610 |
| – outside Hong Kong | – | 1,871,311 |
| Unlisted equity securities/collective investment schemes (i)* | | |
| – outside Hong Kong | 26,932,748 | 28,224,626 |
| Unlisted preference shares (i) | | |
| – outside Hong Kong | 4,731,775 | 4,628,940 |
| Unlisted debt securities (i) | | |
| – outside Hong Kong | 830,881 | 511,231 |
| | 32,495,404 | 36,190,718 |
| **Current assets** | | |
| At fair value: | | |
| Listed equity securities | | |
| – in Hong Kong | 1,484,328 | – |
| – outside Hong Kong | 2,040,936 | – |
| Unlisted equity securities/collective investment schemes (i)* | | |
| – outside Hong Kong | 428,695 | 648,053 |
| Unlisted debt securities (i) | | |
| – outside Hong Kong | – | 722,950 |
| | 3,953,959 | 1,371,003 |

(i) Classified as Level 3 in the fair value hierarchy (note 41).

* Included in the balance of unlisted equity securities/collective investment schemes, Group's interest in unconsolidated structured entities are amounted to HK$22,222,831,000 (2018: HK$22,082,363,000).

As at 31 December 2019, the Group's listed and unlisted equity securities amounting to a fair value of HK$24,188,557,000 (2018: HK$23,793,377,000) were investments in associates and joint ventures. The Group was exempted from applying the equity method to these investments and they were measured as financial assets at fair value through profit or loss.

In 2019, the Group had certain unlisted financial assets at fair value through profit or loss recorded 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:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| As at 1 January | 673,189 | 912,390 |
| Additions for the year | – | 25,902 |
| Released during the year | (425,688) | (237,129) |
| Exchange adjustment | (2,195) | (27,974) |
| As at 31 December | 245,306 | 673,189 |

# 22. ADVANCES TO CUSTOMERS

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Non-current assets** | | |
| Term loans to customers | | |
| – secured | 330,216 | 1,190,984 |
| – unsecured | 653,065 | 20,924 |
| | 983,281 | 1,211,908 |
| **Current assets** | | |
| Term loans to customers | | |
| – secured | 2,205,658 | 968,180 |
| Less: impairment allowance | (299,996) | (77,251) |
| | 1,905,662 | 890,929 |
| – unsecured | 36,596 | 95,975 |
| | 1,942,258 | 986,904 |

Certain term loans to customers are secured by unlisted securities or leasehold land and properties in Hong Kong and mainland China with third parties guarantees.

Movements in the impairment allowance for term loans to customers are as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| As at 1 January | 77,251 | 80,921 |
| Impairment loss, net | 222,745 | (3,670) |
| As at 31 December | 299,996 | 77,251 |

Except for the above impairment allowance of HK$299,996,000 (2018: HK$77,251,000), there were no other significant receivables, that were aged, requiring significant impairment provision as of 31 December 2019 and 2018.

## 23. INVENTORIES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Properties under development | 142,079 | – |
| Completed properties for sale | 1,709,748 | – |
| | 1,851,827 | – |

Inventories of fair value of HK$2,024,977,000 has been recognised upon the acquisition of a subsidiary – Ying Li International Real Estate Limited (note 17).

## 24. DEBTORS, DEPOSITS AND PREPAYMENTS

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Accounts receivable, net | 748,358 | 412,684 |
| Deposits, prepayments, interest and other receivables | 1,441,231 | 890,682 |
| | 2,189,589 | 1,303,366 |
| Less: impairment allowance | (84,723) | (68,478) |
| | 2,104,866 | 1,234,888 |

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

The carrying amount of debtors, deposits and prepayments approximated to their fair value as at 31 December 2019 and 31 December 2018.

Their recoverability was assessed with reference to the credit status of the debtors, and impairment allowance of HK$84,723,000 (2018: HK$68,478,000) was provided as at 31 December 2019.

Movements in the impairment allowance for debtors, deposits and prepayments are as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| As at 1 January | 68,478 | 44,774 |
| Impairment loss, net | 16,245 | 23,704 |
| As at 31 December | 84,723 | 68,478 |

## 25. TRADING SECURITIES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| **Current assets** | | |
| At fair value: | | |
| Listed equity securities | | |
| – in Hong Kong | 397,531 | 226,131 |
| – outside Hong Kong | 230,855 | 182,115 |
| Listed debt securities | | |
| – in Hong Kong | 315,434 | 120,156 |
| – outside Hong Kong | 1,248,315 | 940,963 |
| Unlisted debt securities | 44,677 | 88,964 |
| Derivatives | | |
| – listed | 727 | – |
| – unlisted | 14,188 | 15,364 |
| | 2,251,727 | 1,573,693 |
| **Current liabilities** | | |
| At fair value: | | |
| Listed equity securities | | |
| – in Hong Kong | (93,266) | (20,881) |
| – outside Hong Kong | (126,070) | (91,663) |
| Listed debt securities | | |
| – outside Hong Kong | (16,225) | (8,691) |
| Derivatives | | |
| – listed | (1,620) | (1,681) |
| – unlisted | (45,969) | (13,396) |
| | (283,150) | (136,312) |

## 26. CASH AND CASH EQUIVALENTS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Cash on hand, savings and current accounts | 6,877,509 | 6,740,229 |
| Fixed deposits with banks | 388,074 | 123,673 |
| Cash and cash equivalents in the consolidated statement of financial position | 7,265,583 | 6,863,902 |
| Less: Restricted cash | (422,817) | – |
| Cash and cash equivalents in the consolidated statement of cash flows | 6,842,766 | 6,863,902 |

## 27. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Creditors, deposits received and accrued charges | 3,147,425 | 3,314,280 |

As at 31 December 2019 and 2018, creditors, deposits received and accrued charges included bonuses payable to staff.

## 28. BANK LOANS

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Repayment details are as follows: | | |
| Within 1 year | 9,577,956 | 3,501,739 |
| 1 to 5 years | 8,529,337 | 10,684,234 |
| Over 5 years | 878,555 | – |
| | 18,985,848 | 14,185,973 |

As at 31 December 2019, the bank loans were secured as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Bank loans: | | |
| – secured | 3,773,661 | – |
| – unsecured | 15,212,187 | 14,185,973 |
| | 18,985,848 | 14,185,973 |

As at 31 December 2019, the bank loans are secured by:

(a) Mortgage over certain investment properties with carrying value of approximately HK$4.4 billion;

(b) Mortgage over certain inventories with carrying value totalling approximately HK$409 million;

(c) Pledged by the equity interests in subsidiaries with carrying value of approximately HK$429 million; and

(d) Bank balances pledged amounting to HK$177 million.

## 29. OTHER FINANCIAL LIABILITIES

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Current:** | | | |
| Financial liabilities to third party investors | (a) | 98,320 | 241,019 |
| **Non-current:** | | | |
| Financial liabilities to third party investors | (a) | 4,909,113 | 4,353,828 |

(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.

## 30. BONDS PAYABLE

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| As at 1 January | 11,840,010 | 12,414,675 |
| New issuance during the year | 196,190 | – |
| Exchange rate adjustments | (118,335) | (574,665) |
| As at 31 December | 11,917,865 | 11,840,010 |
| Current liabilities | 3,545,240 | 3,382,860 |
| Non-current liabilities | 8,372,625 | 8,457,150 |
| | 11,917,865 | 11,840,010 |

# 31. DEFERRED TAXATION

The movements in the deferred tax liabilities recognised in the consolidated statement of financial position are as follows:

| | Fair value adjustment for financial assets at fair value through profit or loss and investment properties | | Withholding tax on subsidiaries' and associates' profit | | Total | |
|---|---|---|---|---|---|---|
| | 2019 HK$'000 | 2018 HK$'000 | 2019 HK$'000 | 2018 HK$'000 | 2019 HK$'000 | 2018 HK$'000 |
| At 1 January | (1,010,936) | (690,399) | (404,646) | (462,850) | (1,415,582) | (1,153,249) |
| (Charged)/credited to profit or loss | (51,892) | (322,090) | – | 58,204 | (51,892) | (263,886) |
| Acquisition | (862,684) | – | – | – | (862,684) | – |
| Exchange adjustments | 14,702 | 1,553 | – | – | 14,702 | 1,553 |
| At 31 December | (1,910,810) | (1,010,936) | (404,646) | (404,646) | (2,315,456) | (1,415,582) |

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets, in respect of tax losses of approximately HK$3,338 million (2018: approximately HK$4,655 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.

# 32. SHARE CAPITAL

## (a) Share capital

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | No. of shares ('000) | HK$'000 | No. of shares ('000) | HK$'000 |
| **Ordinary shares issued and fully paid:** | | | | |
| At 1 January and 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.

# 32. SHARE CAPITAL (continued)

## (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 bonds 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.

The adjusted net debt-to-capital ratio at 31 December 2019 and 2018 was as follows:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Current liabilities | | |
| Bank loans | 9,577,956 | 3,501,739 |
| Notes payable | 57,000 | 27,000 |
| Bonds payable | 3,545,240 | 3,382,860 |
| | 13,180,196 | 6,911,599 |
| Non-current liabilities | | |
| Bank loans | 9,407,892 | 10,684,234 |
| Notes payable | – | 30,000 |
| Bonds payable | 8,372,625 | 8,457,150 |
| Total debt | 30,960,713 | 26,082,983 |
| Add: Proposed dividend | 387,608 | 674,101 |
| Less: Cash and cash equivalents | (6,842,766) | (6,863,902) |
| Adjusted net debt | 24,505,555 | 19,893,182 |
| Total equity | 43,787,370 | 41,380,197 |
| Less: Proposed dividend | (387,608) | (674,101) |
| Adjusted capital | 43,399,762 | 40,706,096 |
| Adjusted net debt-to-capital ratio | 56% | 49% |

As at 31 December 2019, the Group's liquidity remained healthy. The addition of financial resources is mainly attributable to fruitful returns, through divestments and dividends, from investments. During the year, the Group has also made ongoing investments over advances to customers, trading securities and financial assets at fair value through profit or loss. To enhance shareholders' 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 40(b)). These subsidiaries have complied with those requirements at all time during both the current and prior financial years.

# 33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 31 December 2019 HK$'000 | 31 December 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 17 | 7,189,175 | 7,209,709 |
| Amounts due from subsidiaries | | 15,168,960 | 14,910,643 |
| Investment in an associate | | 1,538,313 | 1,538,313 |
| Equity investments designated at fair value through other comprehensive income | | 7,742,741 | 6,561,759 |
| | | 31,639,189 | 30,220,424 |
| **Current assets** | | | |
| Amounts due from subsidiaries | | 16,426,044 | 14,843,148 |
| Debtors, deposits and prepayments | | 357,094 | 361,660 |
| Cash and cash equivalents | | 14,002 | 31,264 |
| | | 16,797,140 | 15,236,072 |
| **Current liabilities** | | | |
| Amounts due to subsidiaries | | (7,335,973) | (9,675,907) |
| Bank loans | | (5,629,244) | (1,820,000) |
| Bonds payable | | (3,349,050) | (3,382,860) |
| Creditors, deposits received and accrued charges | | (155,367) | (150,402) |
| | | (16,469,634) | (15,029,169) |
| **Net current assets** | | 327,506 | 206,903 |
| **Total assets less current liabilities** | | 31,966,695 | 30,427,327 |
| **Non-current liabilities** | | | |
| Bank loans | | (3,491,360) | (4,789,320) |
| Bonds payable | | (8,372,625) | (8,457,150) |
| Deferred tax liabilities | | (265,341) | (265,341) |
| | | (12,129,326) | (13,511,811) |
| **NET ASSETS** | | 19,837,369 | 16,915,516 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 32 | 9,618,097 | 9,618,097 |
| Reserves | 34 | 10,219,272 | 7,297,419 |
| **TOTAL EQUITY** | | 19,837,369 | 16,915,516 |

Approved and authorised for issue by the Board of Directors on 19 March 2020 and signed on behalf of the Board by:

**Zhao Wei**
*Director*

**Tang Chi Chun, Richard**
*Director*

# 34. 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 2018 | | 9,618,097 | 6,105,289 | 2,058,280 | 17,781,666 |
| Dividends paid | 12 | – | – | (1,449,318) | (1,449,318) |
| Profit for the year | | – | – | 1,533,887 | 1,533,887 |
| Other comprehensive income for the year | | – | (950,719) | – | (950,719) |
| As at 31 December 2018 and 1 January 2019 | | 9,618,097 | 5,154,570 | 2,142,849 | 16,915,516 |
| Dividends paid | 12 | – | – | (1,095,414) | (1,095,414) |
| Profit for the year | | – | – | 2,836,285 | 2,836,285 |
| Other comprehensive income for the year | | – | 1,180,982 | – | 1,180,982 |
| As at 31 December 2019 | | 9,618,097 | 6,335,552 | 3,883,720 | 19,837,369 |

## (b) Nature and purpose of reserves

### (i) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of equity investments designated at fair value through other comprehensive income 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(x).

### (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 2019, 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$3,883,720,000 (2018: HK$2,142,849,000). After the end of the reporting period, the directors proposed a final dividend of HK$0.23 per share (2018: HK$0.4 per share), amounting to HK$387,608,000 (2018: HK$674,101,000) (note 12). This dividend has not been recognised as a liability at the end of the reporting period.

# 35. 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 2019

| | Indefinite HK$'000 | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| – Advances to customers | – | – | 60,080 | 1,882,178 | 983,281 | – | 2,925,539 |
| – Trading securities | 643,301 | – | 1,608,426 | – | – | – | 2,251,727 |
| – Equity investments designated at fair value through other comprehensive income | 7,742,741 | – | – | – | – | – | 7,742,741 |
| – Financial assets at fair value through profit or loss | 35,618,482 | – | – | – | 830,881 | – | 36,449,363 |
| – Cash and cash equivalents | – | 6,454,692 | 388,074 | 422,817 | – | – | 7,265,583 |
| | 44,004,524 | 6,454,692 | 2,056,580 | 2,304,995 | 1,814,162 | – | 56,634,953 |
| Liabilities | | | | | | | |
| – Bank loans (i) | – | – | (2,220,346) | (7,357,610) | (8,529,337) | (878,555) | (18,985,848) |
| – Other financial liabilities | – | – | – | (98,320) | (891,878) | (4,017,235) | (5,007,433) |
| – Trading securities | (266,925) | – | (16,225) | – | – | – | (283,150) |
| – Bonds payable (ii) | – | – | – | (3,545,240) | (8,372,625) | – | (11,917,865) |
| – Notes payable | – | (27,000) | – | (30,000) | – | – | (57,000) |
| – Lease liabilities | – | – | (13,057) | (33,209) | (81,319) | (4,214) | (131,799) |
| | (266,925) | (27,000) | (2,249,628) | (11,064,379) | (17,875,159) | (4,900,004) | (36,383,095) |

As at 31 December 2018

| | Indefinite HK$'000 | On demand HK$'000 | Less than 3 months HK$'000 | 3 to less than 12 months HK$'000 | 1 to 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Assets | | | | | | | |
| – Advances to customers | 5,765 | 225,524 | 316,971 | 438,644 | 1,211,908 | – | 2,198,812 |
| – Trading securities | 423,609 | – | 1,150,084 | – | – | – | 1,573,693 |
| – Equity investments designated at fair value through other comprehensive income | 6,561,759 | – | – | – | – | – | 6,561,759 |
| – Financial assets at fair value through profit or loss | 34,708,983 | – | – | 1,371,003 | 1,481,735 | – | 37,561,721 |
| – Cash and cash equivalents | – | 6,740,229 | 123,673 | – | – | – | 6,863,902 |
| | 41,700,116 | 6,965,753 | 1,590,728 | 1,809,647 | 2,693,643 | – | 54,759,887 |
| Liabilities | | | | | | | |
| – Bank loans (i) | – | – | – | (3,501,739) | (10,684,234) | – | (14,185,973) |
| – Other financial liabilities | (308,396) | – | – | (241,019) | (791,171) | (3,254,261) | (4,594,847) |
| – Trading securities | (127,620) | – | (8,692) | – | – | – | (136,312) |
| – Bonds payable (ii) | – | – | – | (3,382,860) | (6,765,720) | (1,691,430) | (11,840,010) |
| – Notes payable | – | (27,000) | – | – | (30,000) | – | (57,000) |
| | (436,016) | (27,000) | (8,692) | (7,125,618) | (18,271,125) | (4,945,691) | (30,814,142) |

(i) HK$5,151,964,000 (2018: HK$2,700,737,000) which is maturing in 1 to 2 years has been classified in the category of maturing in 1 to 5 years.

(ii) HK$4,465,400,000 (2018: HK$3,382,860,000) which is maturing in 1 to 2 years has been classified in the category of maturing in 1 to 5 years.

## 36. MATERIAL RELATED PARTY TRANSACTIONS

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Management fee income from: | | |
| – a joint venture | 1,256 | 1,946 |
| – associates exempted from applying the equity method and were recognised as a financial asset at fair value through profit or loss | 140,261 | 245,017 |
| Consultancy and other service income from an associate | 439 | 9,790 |
| Bank interest income from a fellow subsidiary/a related party bank | 112,063 | 22,788 |
| Dividend income from: | | |
| – associates exempted from applying the equity method and was recognised as a financial asset at fair value through profit or loss | 432,272 | 451,705 |
| – a fellow subsidiary/a related party bank | 295,173 | 348,197 |
| Bank loans interest expense to a fellow subsidiary/a related party bank | 30,242 | 37,363 |
| Consultancy fee to | | |
| – an associate | 22,977 | 24,946 |
| – a shareholder | – | 4,970 |
| Remuneration of key management personnel (including the Company's directors): | | |
| – short-term employee benefits | 54,956 | 58,706 |
| – retirement scheme contributions | 508 | 459 |

### (b) Except as disclosed elsewhere in the financial statements, included in the consolidated statement of financial position are the following balances with related parties:

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Loan to an associate | 253,704 | – |
| Amounts due from associates (included in debtors, deposits and prepayments) | 6,356 | 14,854 |
| Bank deposit with a fellow subsidiary/a related party bank (including bank deposit in trust accounts) | 5,086,176 | 5,504,761 |
| Bank loans from a fellow subsidiary/a related party bank | (780,000) | – |
| Interests in collective investment schemes issued by an associate (included in financial assets at fair value through profit or loss) | 3,196,718 | 2,837,261 |

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

Loan to an associate is unsecured, interest-bearing and repayable within one year.

## 36. 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.

## 37. CONTINGENT LIABILITIES

### Corporate guarantee

| | Note | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| Guarantee given by the Company to financial institutions in respect of banking facilities granted to subsidiaries | i | 7,037,520 | 8,222,000 |

Note:

i. The Group's subsidiaries have utilised these banking facilities of HK$6,002,934,000 as at 31 December 2019 (2018: HK$6,217,871,000).

## 38. COMMITMENTS

### (a) Capital commitment

As at 31 December 2019, the Group had capital commitments as follows:

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Contracted but not provided for: | | |
| – consolidated structured entities | 4,312,261 | 2,506,990 |
| – unlisted equity investments | – | 358,862 |
| – unconsolidated structured entities | 4,393,472 | 5,995,328 |
| – term loans to customers | 123,915 | – |
| | 8,829,648 | 8,861,180 |

The above amounts included capital commitment to consolidated and unconsolidated structured entities as disclosed in note 17 and note 39 to the financial statements respectively.

### (b) Operating lease commitments

As at 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

| | 2018 HK$'000 |
|---|---|
| Within 1 year | 22,598 |
| After 1 year but within 5 years | 17,881 |
| | 40,479 |

(c) As at 31 December 2019, the undiscounted lease payments receivable by the Group in the future periods under non-cancellable operating leases with its tenants are as follows:

| | 2019 HK$'000 |
|---|---|
| Within 1 year | 186,660 |
| After 1 year but within 2 years | 142,734 |
| After 2 years but within 3 years | 104,294 |
| After 3 years but within 4 years | 83,827 |
| After 4 years but within 5 years | 70,952 |
| After 5 years | 188,212 |
| | 776,679 |

# 38. COMMITMENTS (continued)

## (d) Off-balance sheet exposure

The fair values and the contractual or notional amounts of the Group's trading derivatives outstanding at 31 December 2019 are detailed as follows:

| | Fair value assets/(liabilities) | | Contractual/ notional amounts | |
|---|---|---|---|---|
| | 2019 HK$'000 | 2018 HK$'000 | 2019 HK$'000 | 2018 HK$'000 |
| Assets derivative contracts | 14,915 | 15,364 | 118,863 | 249,964 |
| Liabilities derivative contracts | (47,589) | (15,077) | 2,582,834 | 1,319,876 |

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.

# 39. 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<br>• 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 2019, the carrying values of interests held by the Group in unconsolidated structured entities amounted to HK$22,222,831,000 (2018: HK$22,082,363,000), which were recognised in financial assets at fair value through profit or loss in the consolidated statement of financial position.

As at 31 December 2019, the carrying value of interests held by the Group in unconsolidated structured entities managed by the Group and not managed by the Group were HK$11,086,043,000 (2018: HK$10,084,431,000) and HK$11,136,788,000 (2018: 11,997,932,000) respectively.

The maximum exposure to loss is the carrying value of the assets held.

Other than the invested and committed capital, the Group has no intention to provide financial or other support to the structured entities.

# 40. 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 objectives are 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.

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.

# 40. FINANCIAL INSTRUMENTS (continued)

## (a) Credit risk (continued)

### Maximum exposure and year-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December. The amounts presented are gross carrying amounts for financial assets.

As at 31 December 2019

| | Notes | 12-month ECLs<br>Stage 1<br>HK$'000 | Lifetime ECLs<br>Stage 2<br>HK$'000 | Stage 3<br>HK$'000 | Simplified approach<br>HK$'000 | HK$'000 |
|---|---|---|---|---|---|---|
| Advance to customers | 22 | 2,925,539 | – | 299,996 | – | 3,225,535 |
| Debtors and deposits | | | | | | |
| – Normal* | | 829,239 | – | – | 748,358 | 1,577,597 |
| – Doubtful* | | – | – | 84,723 | – | 84,723 |
| Cash and cash equivalents | | | | | | |
| – Not yet past due | 26 | 7,265,583 | – | – | – | 7,265,583 |
| Amount due from an associate | 18 | 253,704 | – | – | – | 253,704 |
| Finance lease receivables | | – | – | – | 55,818 | 55,818 |
| | | 11,274,065 | – | 384,719 | 804,176 | 12,462,960 |

As at 31 December 2018

| | Notes | 12-month ECLs<br>Stage 1<br>HK$'000 | Lifetime ECLs<br>Stage 2<br>HK$'000 | Stage 3<br>HK$'000 | Simplified approach<br>HK$'000 | HK$'000 |
|---|---|---|---|---|---|---|
| Advance to customers | 22 | 2,198,812 | – | 77,251 | – | 2,276,063 |
| Debtors and deposits | | | | | | |
| – Normal* | | 536,001 | – | – | 412,684 | 948,685 |
| – Doubtful* | | – | – | 68,478 | – | 68,478 |
| Cash and cash equivalents | | | | | | |
| – Not yet past due | 26 | 6,863,902 | – | – | – | 6,863,902 |
| | | 9,598,715 | – | 145,729 | 412,684 | 10,157,128 |

The Group applies the general approach for impairment of financial assets except for impairment of accounts receivable (included in debtors and deposits) and finance lease receivables, which the simplified approach was applied.

* The credit quality of the financial assets included in debtors and deposits is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

# 40. FINANCIAL INSTRUMENTS (continued)

## (b) Liquidity risk

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

For subsidiaries with statutory liquidity requirements, the Group closely monitors their liquidity positions. To ensure strict compliance, the Group maintains adequate cash reserves to prepare for immediate fund injection if required. If there is a medium to long-term operational need, 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:

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 3,147,425 | 3,147,425 | 3,147,425 | – | 3,314,280 | 3,314,280 | 3,314,280 | – |
| Bank loans | 18,985,848 | 20,685,111 | 10,025,585 | 10,659,526 | 14,185,973 | 15,329,032 | 4,019,086 | 11,309,946 |
| Notes payable | 57,000 | 58,697 | 58,697 | – | 57,000 | 60,864 | 2,167 | 58,697 |
| Bonds payable | 11,917,865 | 13,134,043 | 619,076 | 12,514,967 | 11,840,010 | 13,489,765 | 423,647 | 13,066,118 |
| Trading securities | 283,150 | 283,150 | 283,150 | – | 136,312 | 136,312 | 136,312 | – |
| Other financial liabilities | 5,007,433 | 5,007,433 | 98,320 | 4,909,113 | 4,594,847 | 4,594,847 | 106,922 | 4,487,925 |
| Lease liabilities | 131,799 | 144,169 | 51,017 | 93,152 | – | – | – | – |
| | 39,530,520 | 42,460,028 | 14,283,270 | 28,176,758 | 34,128,422 | 36,925,100 | 8,002,414 | 28,922,686 |

# 40. 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 by 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 2019, 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, by HK$54,983,647/HK$67,872,733 (2018: decrease/increase of HK$30,959,228/HK$46,223,286 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 end of the next reporting period. It is also assumed that all other variables remain constant. The analysis was performed on the same basis for 2018.

| | 2019 Effective interest rate | 2019 HK$'000 | 2018 Effective interest rate | 2018 HK$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Advances to customers | 9.9% | 2,925,539 | 9.20% | 2,198,812 |
| Cash and cash equivalents | 0.3% | 7,265,583 | 0.3% | 6,863,902 |
| **Total interest-bearing assets** | | 10,191,122 | | 9,062,714 |
| **Liabilities** | | | | |
| Bank loans | 3.81% | 18,985,848 | 4.03% | 14,185,973 |
| **Total interest-bearing liabilities** | | 18,985,848 | | 14,185,973 |

# 40. FINANCIAL INSTRUMENTS (continued)

## (d) Currency risk

The Group's exposure to currency risk primarily stems from holding 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:

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | In USD HK$'000 | In RMB HK$'000 | In SGD HK$'000 | In USD HK$'000 | In RMB HK$'000 | In SGD HK$'000 |
| Equity investments designated at fair value through other comprehensive income | – | 7,742,741 | – | – | 6,561,759 | – |
| Financial assets at fair value through profit or loss | 14,189,429 | 1,523,360 | – | 15,462,608 | 1,392,212 | – |
| Advances to customers | 865,761 | – | – | 416,117 | – | – |
| Amounts due from subsidiaries | – | 9,721,062 | – | – | 9,708,955 | – |
| Debtors, deposits and prepayments | 94,795 | 52,497 | – | 160,379 | 247,665 | – |
| Trading securities | – | 333,284 | – | – | 117,044 | – |
| Cash and cash equivalents | 444,325 | 13,658 | 152 | 294,376 | 14,857 | 314 |
| Bank loans | (4,413,942) | (390,723) | (1,220,704) | (5,979,304) | (1,133,258) | – |
| Bonds payable | (196,190) | (11,721,675) | – | – | (11,840,010) | – |
| Other financial liabilities | (1,031,562) | – | – | (850,075) | (308,396) | – |
| Creditors, deposits received and accrued charges | (296,539) | (148,143) | – | (302,099) | (144,185) | – |
| Net exposure arising from recognised assets and liabilities | 9,656,077 | 7,126,061 | (1,220,552) | 9,202,002 | 4,616,643 | 314 |

# 40. 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.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | 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% | (6,167) | 77,427 | 1% | (19,451) | 65,618 |
| | (1%) | 6,167 | (77,427) | (1%) | 19,451 | (65,618) |

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 end of the next reporting period. 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 2018.

## (e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (note 25), equity investments designated at fair value through other comprehensive income (note 20) and financial assets at fair value through profit or loss (see note 21). Other than unlisted securities held for medium to long-term 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 equity investments designated at fair value through other comprehensive income and financial assets 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.

# 40. 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 2018:

| | 2019 Increase/ (decrease) in equity price | 2019 Effect on profit before tax and retained profits HK$'000 | 2019 Effect on other components of equity HK$'000 | 2018 Increase/ (decrease) in equity price | 2018 Effect on profit before tax and retained profits HK$'000 | 2018 Effect on other components of equity HK$'000 |
|---|---|---|---|---|---|---|
| Listed equity investments | 10% | 393,431 | 774,274 | 10% | 308,796 | 656,176 |
| | (10%) | (393,431) | (774,274) | (10%) | (308,796) | (656,176) |
| Unlisted equity investments | 5% | 1,368,072 | – | 5% | 1,489,073 | – |
| | (5%) | (1,368,072) | – | (5%) | (1,489,073) | – |

## (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 2019 | | | | | |
| Trading securities | 1,843,020 | – | 1,843,020 | (247,590) | 1,595,430 |
| Debtors, deposits and prepayments | 194,990 | – | 194,990 | – | 194,990 |
| As at 31 December 2018 | | | | | |
| Trading securities | 1,320,106 | – | 1,320,106 | (128,859) | 1,191,247 |
| Debtors, deposits and prepayments | 47,843 | – | 47,843 | – | 47,843 |

# 40. 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 2019 | | | | | |
| Trading securities | 280,621 | – | 280,621 | (247,590) | 33,031 |
| Creditors, deposits received and accrued charges | 683,070 | – | 683,070 | – | 683,070 |
| As at 31 December 2018 | | | | | |
| Trading securities | 136,312 | – | 136,312 | (128,859) | 7,453 |
| Creditors, deposits received and accrued charges | 259,272 | – | 259,272 | – | 259,272 |

Reconciliation to the net amount of financial assets and financial liabilities presented in the consolidated statement of financial position

| Financial assets | Financial assets in scope of offsetting disclosures HK$'000 | Carrying amounts in the consolidated statement of financial position HK$'000 | Financial assets not in scope of offsetting disclosure HK$'000 | Note |
|---|---|---|---|---|
| As at 31 December 2019 | | | | |
| Trading securities | 1,843,020 | 2,251,727 | 408,707 | 25 |
| Debtors, deposits and prepayments | 194,990 | 2,104,866 | 1,909,876 | 24 |
| As at 31 December 2018 | | | | |
| Trading securities | 1,320,106 | 1,573,693 | 253,587 | 25 |
| Debtors, deposits and prepayments | 47,843 | 1,234,888 | 1,187,045 | 24 |

| Financial liabilities | Financial liabilities in scope of offsetting disclosures HK$'000 | Carrying amounts in the consolidated statement of financial position HK$'000 | Financial liabilities not in scope of offsetting disclosure HK$'000 | Note |
|---|---|---|---|---|
| As at 31 December 2019 | | | | |
| Trading securities | 280,621 | 283,150 | 2,529 | 25 |
| Creditors, deposits received and accrued charges | 683,070 | 3,147,425 | 2,464,355 | 27 |
| As at 31 December 2018 | | | | |
| Trading securities | 136,312 | 136,312 | – | 25 |
| Creditors, deposits received and accrued charges | 259,272 | 3,314,280 | 3,055,008 | 27 |

# 41. 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, financial assets 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 valuers, the Group also make 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.

# 41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

## Fair value hierarchy (continued)

As at 31 December 2019

| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Recurring fair value measurement** | | | | |
| **Assets** | | | | |
| Equity investments designated at fair value through other comprehensive income: | | | | |
| – Listed equity securities | 7,742,741 | – | – | 7,742,741 |
| Financial assets at fair value through profit or loss: | | | | |
| – Listed equity securities | 2,727,357 | – | 797,907 | 3,525,264 |
| – Unlisted equity securities/collective investment schemes | – | – | 27,361,443 | 27,361,443 |
| – Unlisted preference shares | – | – | 4,731,775 | 4,731,775 |
| – Unlisted debt securities | – | – | 830,881 | 830,881 |
| | 2,727,357 | – | 33,722,006 | 36,449,363 |
| Trading securities: | | | | |
| – Listed equity securities | 628,386 | – | – | 628,386 |
| – Listed debt securities | 1,563,749 | – | – | 1,563,749 |
| Unlisted debt securities | – | 44,677 | – | 44,677 |
| Derivatives: | | | | |
| – Listed | – | 727 | – | 727 |
| – Unlisted | – | 14,188 | – | 14,188 |
| | 2,192,135 | 59,592 | – | 2,251,727 |
| | 12,662,233 | 59,592 | 33,722,006 | 46,443,831 |
| **Liabilities** | | | | |
| Trading securities: | | | | |
| – Listed equity securities | (219,336) | – | – | (219,336) |
| – Listed debt securities | (16,225) | – | – | (16,225) |
| Derivatives: | | | | |
| – Listed | – | (1,620) | – | (1,620) |
| – Unlisted | – | (45,969) | – | (45,969) |
| | (235,561) | (47,589) | – | (283,150) |

# 41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

## Fair value hierarchy (continued)

As at 31 December 2018

| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Recurring fair value measurement** | | | | |
| **Assets** | | | | |
| Equity investments designated at fair value through other comprehensive income: | | | | |
| – Listed equity securities | 6,561,759 | – | – | 6,561,759 |
| Financial assets at fair value through profit or loss: | | | | |
| – Listed equity securities | 2,415,414 | – | 410,507 | 2,825,921 |
| – Unlisted equity securities/collective investment schemes | – | – | 28,872,679 | 28,872,679 |
| – Unlisted convertible preference shares | – | – | 4,628,940 | 4,628,940 |
| – Unlisted debt securities | – | – | 1,234,181 | 1,234,181 |
| | 2,415,414 | – | 35,146,307 | 37,561,721 |
| Trading securities: | | | | |
| – Listed equity securities | 408,246 | – | – | 408,246 |
| – Listed debt securities | 1,061,119 | – | – | 1,061,119 |
| – Unlisted debt securities | – | 88,964 | – | 88,964 |
| – Unlisted derivatives | – | 15,364 | – | 15,364 |
| | 1,469,365 | 104,328 | – | 1,573,693 |
| | 10,446,538 | 104,328 | 35,146,307 | 45,697,173 |
| **Liabilities** | | | | |
| Trading securities: | | | | |
| – Listed equity securities | (112,544) | – | – | (112,544) |
| – Listed debt securities | (8,691) | – | – | (8,691) |
| Derivatives: | | | | |
| – Listed | – | (1,681) | – | (1,681) |
| – Unlisted | – | (13,396) | – | (13,396) |
| | (121,235) | (15,077) | – | (136,312) |

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 2019 and 2018.

# 41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

## Fair value hierarchy (continued)

As at 31 December 2019, one of the financial assets at fair value through profit or loss with fair values of HK$410,507,000 were previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As unadjusted quoted prices are 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.

As at 31 December 2018, five of the financial assets at fair value through profit or loss with fair values of HK$121,318,000, HK$75,988,000, HK$348,814,000, HK$758,505,000 and HK$184,279,000, were previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As unadjusted quoted prices are 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.

As at 31 December 2018, one of the financial assets at fair value through profit or loss with fair value of HK$200,448,000 was previously determined to be Level 2 under fair value hierarchy using a quoted market price adjusted for a discount of lack of marketability. Due to change in business environment, the fair value measurement of the equity security was transferred from Level 2 to Level 3 of fair value hierarchy using a valuation technique that used significant unobservable inputs.

## 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 2019**

| Valuation techniques | Significant unobservable inputs | Range | Increase/ (decrease) in unobservable inputs | Favourable/ (unfavourable) impact on profit or loss HK$'000 |
|---|---|---|---|---|
| Market Comparable Companies | Discount for lack of marketability | 20% to 30% | 5% | (29,860) |
| | | | (5%) | 29,860 |
| | Market multiples | 1.0 to 29.4 | 5% | 82,019 |
| | | | (5%) | (82,019) |
| Binomial model and equity allocation model | Discount rate | 11.53% to 12.68% | 5% | (5,833) |
| | | | (5%) | 5,625 |
| | Volatility | 23.89% to 58.93% | 5% | (5,835) |
| | | | (5%) | 5,046 |
| Put Option Model | Discount for lack of marketability for restricted shares | 1.17% to 9.28% | 5% | (2,438) |
| | | | (5%) | 2,438 |

# 41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

## Information about Level 3 fair value measurements (continued)

As at 31 December 2018

| Valuation techniques | Significant unobservable inputs | Range | Increase/ (decrease) in unobservable inputs | Favourable/ (unfavourable) impact on profit or loss HK$'000 |
|---|---|---|---|---|
| Market comparable companies | Discount for lack of marketability | 30% | 5% | (48,669) |
| | | | (5%) | 48,669 |
| | Market multiples | 0.9 to 25.4 | 5% | 116,931 |
| | | | (5%) | (116,931) |
| Binomial model and equity allocation model | Discount rate | 9.26% to 21.49% | 5% | (9,154) |
| | | | (5%) | 9,230 |
| | Volatility | 28.35% to 44.80% | 5% | (1,773) |
| | | | (5%) | 1,552 |
| Put option model | Discount for lack of marketability for restricted shares | 18.02% | 5% | (4,511) |
| | | | (5%) | 4,511 |

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.

# 41. FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

## Information about Level 3 fair value measurements (continued)

The movements during the year in the balance of these Level 3 financial instruments are as follows:

| | Financial assets at fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| | Listed equity securities HK$'000 | Unlisted equity securities/ collective investment schemes HK$'000 | Unlisted preference shares HK$'000 | Unlisted debt securities HK$'000 | Total HK$'000 |
| At 1 January 2018 | 1,304,625 | 22,785,371 | 2,008,098 | 1,867,744 | 27,965,838 |
| Purchased | 378,808 | 7,868,266 | 1,362,525 | 1,209,368 | 10,818,967 |
| Net realised and unrealised gain/(loss) recognised in profit or loss | 518,308 | 2,431,140 | 1,265,111 | (683,339) | 3,531,220 |
| Conversion | – | 232,422 | 236,470 | (468,892) | – |
| Sold | (634,782) | (3,999,506) | (79,787) | (854,177) | (5,568,252) |
| Reclassification | (1,156,452) | (445,014) | (163,477) | 163,477 | (1,601,466) |
| At 31 December 2018 and at 1 January 2019 | 410,507 | 28,872,679 | 4,628,940 | 1,234,181 | 35,146,307 |
| Purchased | – | 3,448,517 | 1,367,906 | 624,078 | 5,440,501 |
| Net realised and unrealised gain/(loss) recognised in profit or loss | 151,470 | (608,908) | 148,840 | (43,771) | (352,369) |
| Sold | – | (3,874,715) | (21,124) | (989,372) | (4,885,211) |
| Reclassification | 235,930 | (476,130) | (1,392,787) | 5,765 | (1,627,222) |
| At 31 December 2019 | 797,907 | 27,361,443 | 4,731,775 | 830,881 | 33,722,006 |

## 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | 2019<br>HK$'000 | 2018<br>HK$'000 |
|---|---|---|
| Profit before taxation | 2,762,807 | 3,391,063 |
| Interest income on bank deposits | (129,670) | (41,993) |
| Interest expenses | 1,164,915 | 946,737 |
| Dividend income | (822,067) | (849,837) |
| Share of profits less losses of joint ventures | (88,713) | (117,132) |
| Share of profits less losses of associates | (823,454) | (583,850) |
| Depreciation and amortisation expenses | 85,193 | 30,948 |
| Realised gain on disposal of associates | – | (88,631) |
| Net realised gain on disposal of financial assets at fair value through profit or loss | (1,235,383) | (1,313,401) |
| Net unrealised gain on financial assets at fair value through profit or loss | (225,589) | (1,359,547) |
| Gain on losing control of subsidiaries | (23,125) | – |
| Deemed disposal gain on investment in a subsidiary | (194,229) | – |
| Gain on bargain purchase | (619,358) | – |
| Net surplus on revaluation of investment properties | (122,463) | (194,051) |
| Gain on disposal of investment properties | (1,800) | (600) |
| Gain on disposal of property, plant and equipment | (6) | (220) |
| Impairment loss/(reversal of impairment loss) on advances to customers | 222,745 | (3,670) |
| Impairment loss on debtors, deposits and prepayments | 16,245 | 23,704 |
| Profit from disposal group held for sale | – | (6,775) |
| Cash outflow before working capital changes | (33,952) | (167,255) |
| (Increase)/decrease in finance lease receivables | (55,818) | 21,374 |
| Decrease/(increase) in debtors, deposits and prepayments | 970,395 | (167,209) |
| Decrease in inventories | 86,784 | – |
| (Increase)/decrease in trading securities | (531,196) | 548,538 |
| (Increase)/decrease in advances to customers | (949,472) | 470,352 |
| Decrease in amounts due from investee companies | – | 38,110 |
| (Decrease)/increase in creditors, deposits received and accrued charges | (1,307,601) | 1,113,957 |
| Hong Kong profits tax paid | (2,795) | (29,801) |
| Overseas profits tax paid | (215,517) | (397,312) |
| Interest paid | (1,132,855) | (954,538) |
| Net cash (outflow)/inflow from operating activities | (3,172,027) | 476,216 |

# 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

## (b) Deemed disposal of a subsidiary

On 29 November 2019, a wholly owned subsidiary, Everbright Senior Healthcare, entered into an investment Agreement and agreed to allot and issue, in each case subject to the fulfilment of certain conditions, all of the Subscription Shares at the aggregate Subscription Price of RMB612,080,000 to new investors.

Following the transfer of risks and rewards to the new investors, the Group's share in Everbright Senior Healthcare was reduced to approximately 49.29%. Everbright Senior Healthcare was ceased to be a subsidiary of the Group and be accounted as an associate of the Group.

| | 2019<br>HK$'000 |
|---|---|
| **Fair values of identifiable assets acquired and liabilities assumed** | 661,105 |
| Less: Cash of subsidiary | (51,474) |
| | 609,631 |
| Net assets disposed of: | |
| Less: Other debtors and prepayment | (830,401) |
| Add: Creditors, deposits received and accrued charges | 410,527 |
| Add: Exchange Reserve | 4,472 |
| Gain on deemed disposal of a subsidiary | 194,229 |

## (c) Losing control of subsidiaries

During the year ended 31 December 2019, the Group lost control of certiain subsidiaries. The fair values of the assets and liabilities disposed of were as follows:

| | 2019<br>HK$'000 |
|---|---|
| Proceeds from losing control of subsidiaries | 31,925 |
| Less: Cash of subsidiaries | (4,375) |
| Net cash inflow from losing control of subsidiaries | 27,550 |
| Less: Other debtors and prepayment | (4,660) |
| Add: Creditors, deposits received and accrued charges | 235 |
| Gain on disposal of subsidiaries | 23,125 |

## 42. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

### (d) Changes in liabilities arising from financing activities

| | 1 January 2019 HK$'000 | Net cash flows HK$'000 | Foreign exchange movement HK$'000 | Acquisition/ (disposal) of a subsidiary HK$'000 | Dividend declared HK$'000 | Other HK$'000 | 31 December 2019 HK$'000 |
|---|---|---|---|---|---|---|---|
| Bank loans | 14,185,973 | 1,140,561 | (55,658) | 3,714,972 | – | – | 18,985,848 |
| Notes payable | 57,000 | – | – | – | – | – | 57,000 |
| Dividend payable | – | (1,095,414) | – | – | 1,095,414 | – | – |
| Bonds payable | 11,840,010 | 196,190 | (118,335) | – | – | – | 11,917,865 |
| Lease liabilities | 631,716 | (60,780) | (1,559) | (492,243) | – | 54,665 | 131,799 |
| Total liabilities from financing activities | 26,714,699 | 180,557 | (175,552) | 3,222,729 | 1,095,414 | 54,665 | 31,092,512 |

| | 1 January 2018 HK$'000 | Net cash flows HK$'000 | Foreign exchange movement HK$'000 | Dividend declared HK$'000 | 31 December 2018 HK$'000 |
|---|---|---|---|---|---|
| Bank loans | 11,986,234 | 2,225,023 | (25,284) | – | 14,185,973 |
| Notes payable | 57,000 | – | – | – | 57,000 |
| Dividend payable | – | (1,449,318) | – | 1,449,318 | – |
| Bonds payable | 12,414,675 | – | (574,665) | – | 11,840,010 |
| Total liabilities from financing activities | 24,457,909 | 775,705 | (599,949) | 1,449,318 | 26,082,983 |

## 43. SEGMENT INFORMATION

The Group manages and conducts the majority of its business activities by business units. Operating segments are reported in a manner consistent with the way in which information is reported internally to the Group's senior management for the purposes of resource allocation and performance assessment. During the year, the Group's senior management reconsidered the classification of the Group's principal investments and strategic investments which have been previously reported in 2018. These operating segments have been reclassified as "Principal Investments Business" in 2019 and further sub-divided into "Strategic Industry Platform Investments", "Financial Investments" and "Cornerstone investments", to better reflect the Group's different strategies in various types of investments. Segment information for the year ended 31 December 2018 was restated to reflect the change in composition of the reportable segments.

## 43. SEGMENT INFORMATION (continued)

### 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 – investment in unlisted equity securities or equity derivatives with 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. Areas of investments include new economy, artificial intelligence and advanced manufacturing, new energy, medical care and senior healthcare, overseas acquisition and infrastructure, real estate, aircraft industry chain, mezzanine fund and others.

- 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 demonstrates 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.

# 43. SEGMENT INFORMATION (continued)

## Principal Investments Business

The Group makes full use of its own capital to make the following three types of investments to promote the development of the fund management business and to optimise its income structure. They are:

- Strategic industry platform investments: Focus on aircraft leasing, artificial intelligence of things (AIoT) and elderly care industry platforms.
- Financial investments: Investing in equity, debts, structured products and other products.
- Cornerstone investments: The Group's stake in China Everbright Bank and Everbright Securities contributing relative stable earnings and dividend income.

## (a) Business segments

For the year ended 31 December 2019:

| | Continued operations | | | | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fund Management Business | | | | Principal Investments Business | | | | | |
| | Primary Market HK$'000 | Secondary Market HK$'000 | Fund of Funds HK$'000 | Wealth Management HK$'000 | Strategic Industry Platform Investments HK$'000 | Financial Investments HK$'000 | Cornerstone Investments HK$'000 | Reportable segments total HK$'000 | HK$'000 | Total HK$'000 |
| Income from contracts with customers | 273,064 | 116,603 | 22,494 | – | – | 199,617 | – | 611,778 | – | 611,778 |
| Income from investments | 269,464 | 420,132 | 397,459 | – | 486,687 | 1,855,396 | 295,173 | 3,724,311 | – | 3,724,311 |
| Income from other sources | 5,456 | (25,581) | – | – | – | 290,379 | – | 270,254 | – | 270,254 |
| Total income | 547,984 | 511,154 | 419,953 | – | 486,687 | 2,345,392 | 295,173 | 4,606,343 | – | 4,606,343 |
| Segment operating results | 65,480 | 379,794 | 394,613 | (750) | 421,945 | 1,804,393 | 295,173 | 3,360,648 | – | 3,360,648 |
| Unallocated head office and corporate expenses | | | | | | | | | | (1,510,008) |
| Share of profits less losses of associates | 364,047 | – | – | – | 304,980 | 13,919 | 140,508 | 823,454 | – | 823,454 |
| Share of profits less losses of joint ventures | 45,312 | – | – | 43,401 | – | – | – | 88,713 | – | 88,713 |
| Profit before taxation | | | | | | | | | | 2,762,807 |
| Less: Non-controlling interests | (2,060) | (46,284) | – | – | 10,353 | 63,387 | – | 25,396 | – | |
| Segment results | 472,779 | 333,510 | 394,613 | 42,651 | 737,278 | 1,881,699 | 435,681 | 4,298,211 | – | |

# 43. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

For the year ended 31 December 2018 (Restated):

| | Continued operations | | | | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fund Management Business | | | | Principal Investments Business | | | | | |
| | Primary Market HK$'000 | Secondary Market HK$'000 | Fund of Funds HK$'000 | Wealth Management HK$'000 | Strategic Industry Platform Investments HK$'000 | Financial Investments HK$'000 | Cornerstone Investments HK$'000 | Reportable segments total HK$'000 | HK$'000 | Total HK$'000 |
| Income from contracts with customers | 272,878 | 119,914 | 15,829 | – | – | 154,513 | – | 563,134 | – | 563,134 |
| Income from investments | 1,483,284 | (98,904) | 127,394 | – | 367,726 | 1,525,982 | 436,828 | 3,842,310 | – | 3,842,310 |
| Income from other sources | 2,050 | (17,383) | – | – | (37,115) | 343,391 | – | 290,943 | – | 290,943 |
| Total income | 1,758,212 | 3,627 | 143,223 | – | 330,611 | 2,023,886 | 436,828 | 4,696,387 | – | 4,696,387 |
| Segment operating results | 1,487,140 | (121,527) | 122,368 | – | 330,611 | 1,870,414 | 436,828 | 4,125,834 | 6,775 | 4,132,609 |
| Uallocated head office and corporate expenses | | | | | | | | | | (1,442,528) |
| Share of profits less losses of associates | 154,064 | – | – | – | 276,977 | 92,916 | 59,893 | 583,850 | – | 583,850 |
| Share of profits less losses of joint ventures | 52,473 | – | – | 64,659 | – | – | | 117,132 | – | 117,132 |
| Profit before taxation | | | | | | | | | | 3,391,063 |
| Less: Non-controlling interests | 115,793 | 4,104 | – | – | 12,148 | (39,092) | – | 92,953 | – | |
| Segment results | 1,809,470 | (117,423) | 122,368 | 64,659 | 619,736 | 1,924,238 | 496,721 | 4,919,769 | 6,775 | |

# 43. SEGMENT INFORMATION (continued)

## (a) Business segments (continued)

### Other Information

**As at 31 December 2019**

| | Continuing operations | | | | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fund Management Business | | | | Principal Investments Business | | | | | |
| | Primary Market HK$'000 | Secondary Market HK$'000 | Fund of Funds HK$'000 | Wealth Management HK$'000 | Strategic Industry Platform Investments HK$'000 | Financial Investments HK$'000 | Cornerstone Investments HK$'000 | Reportable segments total HK$'000 | HK$'000 | Total HK$'000 |
| Segment assets | 22,233,443 | 4,572,350 | 7,350,837 | – | 2,232,325 | 22,171,319 | 7,742,741 | 66,303,015 | – | 66,303,015 |
| Investments in associates | 3,963,063 | – | – | – | 2,209,252 | 1,292,387 | 11,262,789 | 18,727,491 | – | 18,727,491 |
| Investments in joint ventures | 261,752 | – | – | 791,179 | – | – | – | 1,052,931 | – | 1,052,931 |
| Unallocated head office and corporate assets | | | | | | | | | | 413,046 |
| Total assets | | | | | | | | | | 86,496,483 |
| Segment liabilities | 2,661,441 | 997,841 | 2,948,239 | – | – | 4,712,647 | – | 11,320,168 | – | 11,320,168 |
| Unallocated head office and corporate liabilities | | | | | | | | | | 28,210,352 |
| Provision for taxation | | | | | | | | | | 863,137 |
| Deferred tax liabilities | | | | | | | | | | 2,315,456 |
| Total liabilities | | | | | | | | | | 42,709,113 |

**As at 31 December 2018 (Restated)**

| | Continuing operations | | | | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fund Management Business | | | | Principal Investments Business | | | | | |
| | Primary Market HK$'000 | Secondary Market HK$'000 | Fund of Funds HK$'000 | Wealth Management HK$'000 | Strategic Industry Platform Investments HK$'000 | Financial Investments HK$'000 | Cornerstone Investments HK$'000 | Reportable segments total HK$'000 | HK$'000 | Total HK$'000 |
| Segment assets | 28,662,090 | 3,850,091 | 1,407,110 | – | 1,466,882 | 15,095,883 | 6,561,759 | 57,043,815 | 738,244 | 57,782,059 |
| Investments in associates | 3,700,771 | – | – | – | 1,434,654 | 1,274,407 | 11,476,894 | 17,886,726 | – | 17,886,726 |
| Investments in joint ventures | 356,347 | – | – | 811,640 | – | – | – | 1,167,987 | – | 1,167,987 |
| Unallocated head office and corporate assets | | | | | | | | | | 423,992 |
| Total assets | | | | | | | | | | 77,260,764 |
| Segment liabilities | 6,338,241 | 406,743 | – | – | 105,071 | 735,212 | – | 7,585,267 | – | 7,585,267 |
| Unallocated head office and corporate liabilities | | | | | | | | | | 26,543,155 |
| Provision for taxation | | | | | | | | | | 336,563 |
| Deferred tax liabilities | | | | | | | | | | 1,415,582 |
| Total liabilities | | | | | | | | | | 35,880,567 |

## 43. 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, right-of-use assets, interests in associates and joint ventures ("Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the Specified non-current assets is based on the physical 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 2019 | | | For the year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | Hong Kong HK$'000 | Mainland China HK$'000 | Total HK$'000 | Hong Kong HK$'000 | Mainland China HK$'000 | Total HK$'000 |
| Segment revenue | | | | | | |
| Income from contracts with customers | 242,373 | 369,405 | 611,778 | 222,895 | 340,239 | 563,134 |
| Income from investments | 487,731 | 3,236,580 | 3,724,311 | 1,409,028 | 2,433,282 | 3,842,310 |
| Income from other sources | 1,211 | 269,043 | 270,254 | 1,157 | 289,786 | 290,943 |
| | 731,315 | 3,875,028 | 4,606,343 | 1,633,080 | 3,063,307 | 4,696,387 |

| | For the year ended 31 December 2019 | | | For the year ended 31 December 2018 | | |
|---|---|---|---|---|---|---|
| | 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 | 3,181,413 | 22,413,902 | 25,595,315 | 3,020,213 | 16,929,239 | 19,949,452 |

## 44. 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.

# 44. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

## (a) Sources of estimation uncertainty

### (i) Unlisted investments

The fair values of unlisted financial assets at fair value through profit or loss 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 41.

### (ii) Impairment of advances to customers and debtors, deposits and prepayments

The impairment provisions for amortised receivables are based on assumptions about ECLs. The Group uses judgements in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the Group's historical experience, market benchmark and forward-looking information at the end of each reporting period. Changes in these assumptions and estimates could materially affect the results of the assessment and it may be necessary to make an additional impairment charge to profit or loss.

### (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 39.

### (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.

## 44. ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

#### (iii) Impairment of investment in an associate – Jiabao Group

As at 31 December 2019, the Group's carrying value of its investments in Jiabao Group, an associate of the Group, amounted to HK$3,963,063,000. This included goodwill of HK$1,550,307,000 arising from the acquisition. For impairment testing, the Group has performed an impairment assessment and calculated the value-in-use of Jiabao Group, using a discounted cash flow model with a forecast compiled by the management of Jiabao Group. In carrying out the impairment assessments, significant judgements and assumptions are required to estimate the value-in-use which was estimated based on a management forecast.

#### (iv) Gain on bargain purchase

The gain on bargain purchase is calculated with reference to the fair value of the assets and liabilities acquired in business combination of Ying Li, and the Group uses significant judgments in determining the valuation methodologies and parameters used in measuring the fair value. The valuation results can vary with changes in valuation methodologies and assumptions applied.

## 45. BANKING FACILITIES AND PLEDGE OF ASSETS

Aggregate banking facilities of the Group as at 31 December 2019 amounted to HK$24.9 billion (2018: HK$20.9 billion). The Group has utilised HK$19.0 billion (2018: HK$14.2 billion) of these facilities.

As at 31 December 2019, fixed deposits of HK$46 million were pledged to the banks for sales of mortgaged properties to customers and interest reserve account on bank loans and HK$177 million were used to secure banking facilities granted to the Group entities. Investment properties, shares and inventories with carrying value of approximately HK$4,400 million, HK$429 million and HK$409 million are mortgaged to secure certain bank loans granted to the Group. 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 2019, assets deposited with the prime brokers included HK$1,715 million and HK$195 million which formed part of the Group trading securities and debtors respectively.

## 46. 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.

| | |
|---|---|
| Amendments to HKFRS 3 | *Definition of a Business*[1] |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | *Interest Rate Benchmark Reform*[1] |
| HKFRS 17 | *Insurance Contracts*[2] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Material*[1] |

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021

## 46. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

## 47. IMPORTANT EVENT AFTER THE REPORTING DATE

After the reporting period, the outbreak of the novel coronavirus (COVID-19) has been declared a pandemic by the World Health Organization. If the outbreak remains protracted, it may create negative impacts on the Group's performance, including but not limited to the Group's income from investments. As at the date of this Annual Report, given the rapid development of the novel coronavirus outbreak, the Directors consider that it is impracticable to estimate the financial impact to the Group. The Board will continue to assess the impact of the outbreak on the Group's operation and financial performance, closely monitor the Group's exposure to the risks and uncertainties in connection with the outbreak, and maintain close communication with different stakeholders of the Group.

## 48. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 142 to 233 were approved and authorised for issue by the Board of Directors on 19 March 2020.

# FINANCIAL SUMMARY

## RESULTS

| | For the years ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2015 HK$'000 | 2016 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | **2019 HK$'000** |
| Turnover | 10,411,567 | 8,069,450 | 8,454,405 | 9,211,012 | **12,617,142** |
| Operating profit after finance costs | 1,157,844 | 5,440,414 | 3,565,481 | 2,683,306 | **1,850,640** |
| Net gain on deemed disposal of interests in associates | 1,304,042 | 160,631 | – | – | **–** |
| Share of adjusted profits less losses of associates and joint ventures | 3,255,437 | 1,301,323 | 1,372,474 | 700,982 | **912,167** |
| Profit before taxation | 5,717,323 | 6,902,368 | 4,937,955 | 3,384,288 | **2,762,807** |
| Income tax | (452,449) | (1,308,119) | (853,497) | (380,099) | **(551,037)** |
| Profit from continuing operations | 5,264,874 | 5,594,249 | 4,084,458 | 3,004,189 | **2,211,770** |
| Discontinued operations | 56,423 | 78,747 | 207,604 | 6,775 | **–** |
| Profit for the year | 5,321,297 | 5,672,996 | 4,292,062 | 3,010,964 | **2,211,770** |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 5,143,994 | 4,074,382 | 4,148,342 | 3,103,917 | **2,237,166** |
| Non-controlling interests | 177,303 | 1,598,614 | 143,720 | (92,953) | **(25,396)** |
| | 5,321,297 | 5,672,996 | 4,292,062 | 3,010,964 | **2,211,770** |
| Earnings per share (HK$) | 3.052 | 2.418 | 2.461 | 1.842 | **1.327** |

## ASSETS AND LIABILITIES

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2015 HK$'000 | 2016 HK$'000 | 2017 HK$'000 | 2018 HK$'000 | **2019 HK$'000** |
| Total assets | 65,281,043 | 67,495,336 | 72,918,271 | 77,260,764 | **86,496,483** |
| Total liabilities | (22,333,534) | (28,008,941) | (30,573,276) | (35,880,567) | **(42,709,113)** |
| Non-controlling interests | (3,581,344) | (2,276,904) | (1,674,584) | (1,521,535) | **(2,196,045)** |
| Shareholders' fund | 39,366,165 | 37,209,491 | 40,670,411 | 39,858,662 | **41,591,325** |

# 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, renewable for another 75 years | Residential |
| **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)
Zhao Wei (Chief Executive Officer)
Tang Chi Chun, Richard
(Chief Financial Officer)
Zhang Mingao (Chief Investment Officer)
Yin Lianchen (Chief Investment Officer)
Lin Zhijun*
Chung Shui Ming, Timpson*
Law Cheuk Kin, Stephen*

* Independent Non-executive Directors

## COMPANY SECRETARY

Chan Ming Kin, Desmond

## REGISTERED OFFICE

46th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

## PRINCIPAL BANKERS

China Everbright Bank Company Limited
Industrial and Commercial Bank of
China (Asia) Limited
China Construction Bank Corporation
Agricultural Bank of China Limited
Bank of Communications Company, Limited
Shanghai Pudong Development
Bank Company, Limited
DBS Bank Ltd., Hong Kong Branch

## SHARE REGISTRAR

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

## AUDITORS

Ernst & Young

## WEBSITE ADDRESS

http://www.everbright.com

## INVESTOR RELATIONS CONTACT

ir@everbright.com

## STOCK CODE: 165

Design, Printing & Production: GenNex Financial Media Limited www.gennexfm.com

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC™ C017167

CHINA EVERBRIGHT LIMITED

46/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong
Tel: (852) 2528 9882 Fax: (852) 2529 0177

www.everbright.com