

LEADING
一路領前 *THE WAY*

ANNUAL REPORT 2016 | STOCK CODE : 165



LEADING THE WAY

COVER STORY

In 2016, Everbright not only saw groundbreaking growth in fundraising scale, results were also achieved in diversity, specialisation and product innovation to contribute to the successful development of core competence across different dimensions. We can speak with pride that Everbright, after 20 years of development, is now at the forefront of China's cross-border asset management and investment scene.

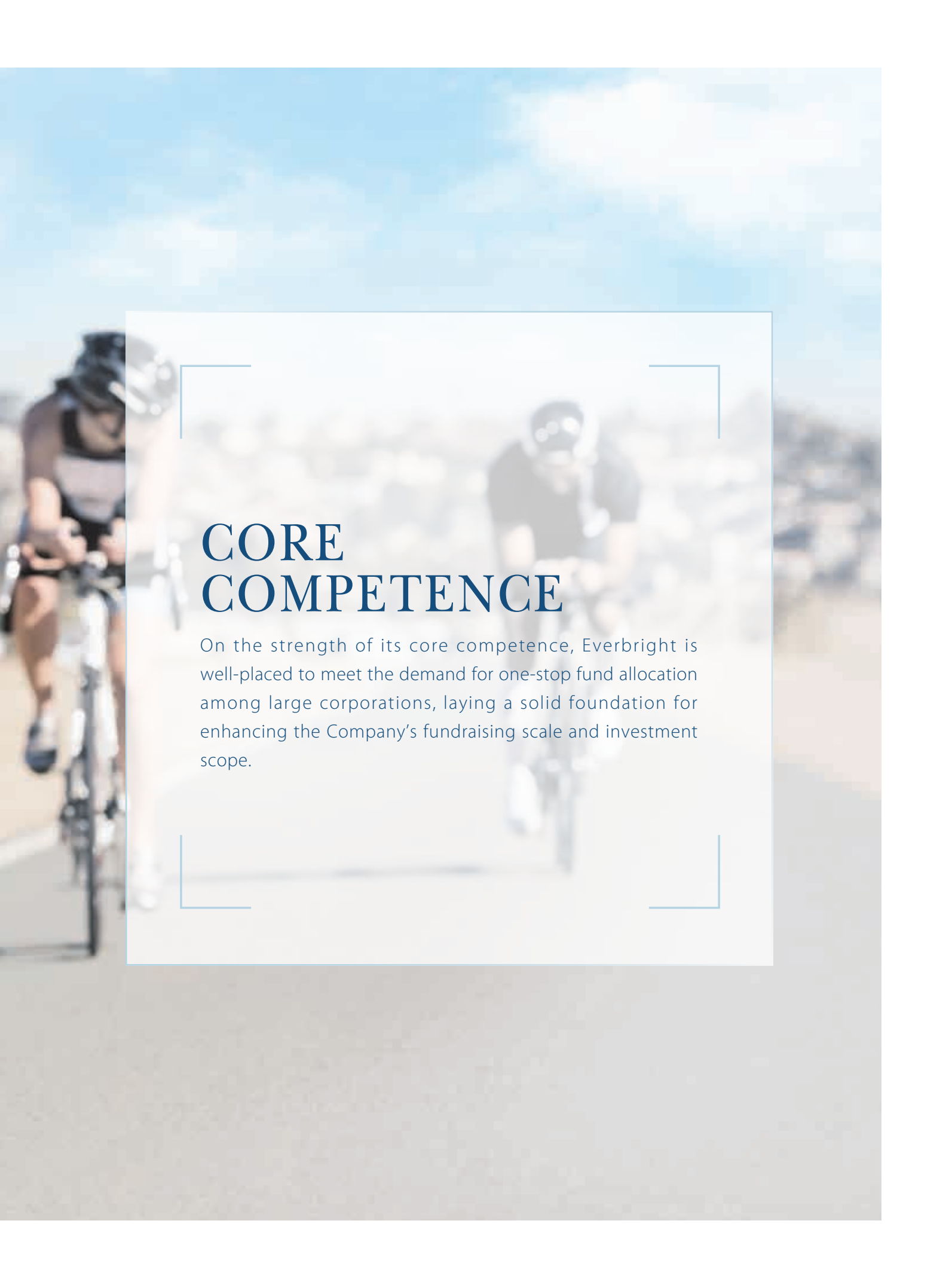




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CORE COMPETENCE

On the strength of its core competence, Everbright is well-placed to meet the demand for one-stop fund allocation among large corporations, laying a solid foundation for enhancing the Company's fundraising scale and investment scope.

A full-page background image showing a person sailing a sailboat. The sail is large and colorful, with orange, red, and yellow sections. The person is visible in the lower right, leaning over the side of the boat. The sea is a deep blue with white-capped waves. The sky is a clear, bright blue with a few wispy clouds. The sun is visible in the upper right, creating a lens flare effect. A white rectangular box with a thin blue border is centered on the page, containing the text.

CONVICTION

In a relatively volatile market, we place a high value on developing fund-management and investment as our core operations, resulting in a significantly higher profit contribution that reflects the growing sophistication of CEL's asset management platform.



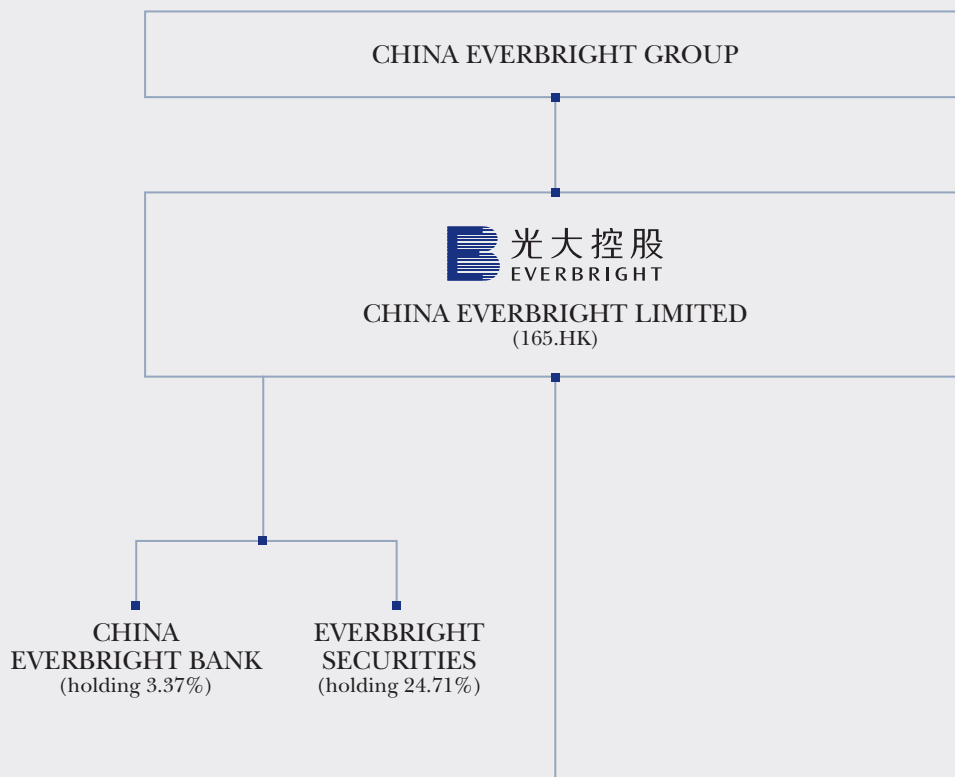
A full-page background image of a kayaker in a blue helmet and gear, paddling through white water rapids. The kayaker is smiling and looking towards the camera. The water is splashing around the kayak. A semi-transparent white rectangular box is overlaid on the left side of the image, containing the text.

SYNERGY

Everbright has not only created a system for generating synergy across the organization, but has also been working with its fellow subsidiaries and industry organisations with complementary strengths to expand business and build strong economies of scale to support their quick access to growth sectors.



COMPANY OVERVIEW



CROSS-BORDER ASSET MANAGEMENT AND INVESTMENT PLATFORM

FUND MANAGEMENT – FIVE DRIVERS		PRINCIPAL INVESTMENT – FOUR PHILOSOPHIES	
Primary market funds	Investing in unlisted enterprises and in those industries with long-term growth potential in China and Overseas	Fund Incubator	Support investment teams at the growth stage and to incubate quality private equity funds
Secondary market funds	Focus on investment opportunities in listed securities. Provide more options via flexible asset allocation	Direct investment & Co-investment	Create positive synergies between its fund management and capital operations
Mezzanine funds	Seek opportunities for financing & investments in the short-mid term	Long-term industry development	Participate in and nurture financial institutions that have the potential for long-term development
Everbright Prestige	A fund distribution platform, raising funds from HNW individuals onshore for investment in CEL and third-party products	Liquidity	Enhance its capital efficiency and improve cash flow through a treasury or wealth management model
Fund of funds	As CEL's first multi-strategy alternative investment fund, FoF can help diversify institutional investors' portfolios		

CORPORATE STRATEGY

We strive to build a cross-border asset management platform that combines our leading core competencies with high growth, high return and stable income



History and milestones of China Everbright Limited



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

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

2016 RESULTS HIGHLIGHTS



- **The domestic and overseas platforms** play a strong financing role, helping the Company to successfully issue panda bonds in mainland China and continue to secure syndicated loans elsewhere.
- As a Chinese-funded financial institution operating in Hong Kong for 20 years, we derive our **competitive edge from a wealth of experience and a full spectrum of cross-border business licences**.
- The Company, with the capacity for **long, short and medium term fund allocations**, is best placed to meet customers' diversified allocation needs in an investment cycle.
- The Company actively pursues **industry consolidation**, exiting projects through a combination of block trading, asset securitisation and fund replacement.
- The Company boasts **well-rounded product lines** that run the full gamut from venture capital, private equity investment and industry investment through secondary market investment to asset securitization. This diversity covers the full lifecycle of a corporation, enabling CEL to build its whole value chain capability.



- Committed to a development strategy of differentiation, CEL now relies on **fund management** and **principal investment** as its **dual growth drivers**.
- Fund management and investment business, CEL's **core operations, performed remarkably well** posting a pre-tax profit of HK\$5.6 billion, up 303% from last year.
- The **total amount of fundraising** reached HK\$87.5 billion, an increase of 79% from last year.
- **Recurrent income**, including management fee, consultancy fee and interest income, accounts for over 14% of the Group's total income.
- **Other net income**, derived mainly from investment business, reached HK\$5.22 billion, up 546%.
- During the year, a number of **investment projects went public**, bringing the number of listed investee projects to 13.
- CEL utilises its own capital to **expedite plans for expansion in** the Internet, elderly care, education and other **sectors with long-term growth potential**.



- **Working closely with China Everbright Group and its fellow subsidiaries**, CEL has benefited from synergies in project collaboration, fundraising, and post-investment management.
- The establishment of **Everbright-IDG Industrial Fund** reflects CEL's successful cooperation with IDG, a fund manager with a strong brand impact and a proven track record.
- CEL's deep cooperation with Focus Media, a media industry leader, leads to the birth of a new industry investment fund – **Everbright Zhongying Capital**.
- The synergies developed across business teams grew significantly as CEL's Secondary Market Fixed Income Team completed the **asset securitisation project for CALC** with Everbright Bank and China Aircraft Leasing.
- The **value of CEL's platform has been enhanced** by the strong synergies created between its asset management and investment operations.

2016 RESULTS HIGHLIGHTS (CONTINUED)

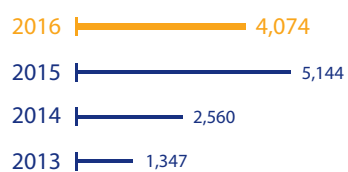
Operating income (in HK\$ 100 million)	2016	2015	Change
Operating income, mainly including:	21.7	21.3	2%
Fund management fees	5.4	2.5	116%
Consultancy fees	2.7	3.0	-10%
Interest income	2.4	6.0	-60%
Dividend income	10.7	8.4	27%
– Contribution from China Everbright Bank (after tax)	3.2	3.3	-3%
Financial performance of CEL's direct operating business (in HK\$ 100 million)	2016	2015	Change
Pre-tax profit of Fund Management Business	53.0	10.9	386%
Pre-tax profit of Principal Investment Business	3.0	3.0	–
Total expenditure	13.3	11.8	12.7%
Operating expenses	18.0%	40.1%	-22.1pp
Gearing ratio	49.6%	33.8%	+15.8pp
Allocation of equity attributable to the Company's equity shareholders (in HK\$ 100 million)	2016	2015	Change
Direct operating business	173	172	0.6%
Everbright Securities	130	142	-8.5%
China Everbright Bank	69	80	-13.8%

2016 RESULTS HIGHLIGHTS (CONTINUED)



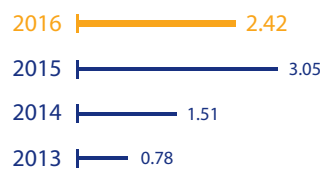
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

(HK\$ million)



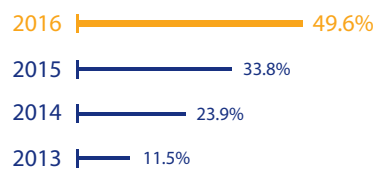
BASIC EARNINGS PER SHARE

(HK\$)



GEARING RATIO

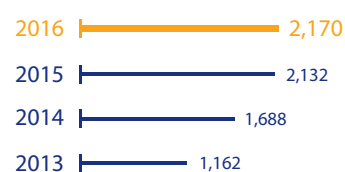
(%)



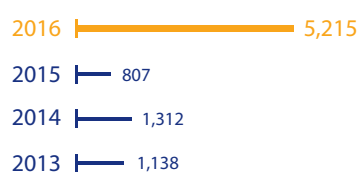
2016 RESULTS HIGHLIGHTS (CONTINUED)

OPERATING INCOME

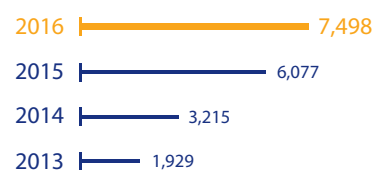
(HK\$ million)

**OTHER NET INCOME**

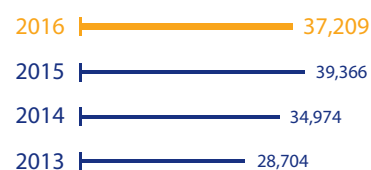
(HK\$ million)

**EBITDA***

(HK\$ million)

**TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY**

(HK\$ million)



* Excluded discontinued operations

DIVIDEND PAYOUT RATIO#

(%)



Excluded gain on deemed disposal of interest in associates and joint ventures.

2016 REVIEW

BUSINESS ACHIEVEMENTS

1 Fund Establishment and Fundraising Ventures

CEL and IDG Capital jointly launched an influential M&A investment fund in China – “Everbright-IDG Industrial Fund”, raised RMB10 billion to complete its first round of fundraising and invested in various projects. These included:

- Invested in the world’s leading cross-border e-commerce platform – Wish, exploring the TMT field
- Invested in mobile e-commerce company Daling, representing a strategic entry into consumption upgrade fields
- Investment in global leading blockchain venture Circle, signifying an important step to enter into the blockchain sector
- An investment in the Shanghai Film Art Academy and the acquisition of five-year exclusive rights to host the Venice Film Festival’s Asia-Pacific Unit



CEL and Focus Media joined forces to set up the RMB5 billion New Industry Investment Fund – “Everbright Zhongying Capital”, and boosted the Group’s presence in mobile video field through an investment in Yixia Tech

CEL Catalyst China Israel Fund raised more than US\$160 million, became the lead investor in SatixFy with a USD10 million funding, and invested in XJET, a revolutionary 3D printing company

CEL Global Investment Fund completed its first closing, taking another step toward overseas investment

CEL invested and became the largest investor of Haiyin Fund

Everbright Prestige – CEL China Real Estate Opportunities Fund III was officially launched

2 Investment Projects

To match with its development and business expansion, Everbright completed its acquisition of Dah Sing Financial Centre



CEL secured its acquisition of Beijing Huichen Nursing Home, strategically entered the elderly care industry



CEL jointly invested in Hope Education to create China's top private education brand

CEL's RMB Mezzanine Fund invested in Sichuan Dekang to drive the development of the modern agriculture industry; and invested in Neusoft Holdings, strengthening its strategic maneuvers position in the healthcare sector

CEL acquired Tirana International Airport, a reserve project of the establishing Overseas Infrastructure Fund



CEL invested in Shanghai Micro Electronics Equipment Group, widens its footprint in smart devices

CEL's Shandong High-Speed Everbright Industrial Fund invested in Yunnan Yimay Holiday

3 Project Listing

Bettapharma, a CEL investment project, was listed on the Shenzhen Stock Exchange's ChiNext

CEL investment project GDS Services was listed on Nasdaq

CEL's Everbright Guolian Fund exited from Jiacheng Environmental Protection through M&A by a listed company, with the approval of China Securities Regulatory Commission

China's first PERE+REITs product, the EBP-EBA IMIX Park asset-backed special programme, was officially launched and listed

4 Other Significant Events

CEL-issued panda bonds helped boost the internationalisation of the RMB

The 5th Everbright Investment Conference was successfully held in Qingdao



CEL's China Everbright Assets Management Limited was recognised by the Chinese blue chip private fund index; Everbright China Focus Fund was named a founding component fund of Suntime's Chinese Hedge Fund Index

CALC launched USD600 million in senior unsecured bonds; and signed an approximately USD195 million syndicated loan facility



CORPORATE SOCIAL RESPONSIBILITY

As a CSR-committed company, CEL participated in a number of charity projects benefitting communities in Hong Kong and mainland China. These included programmes related to education and care for youth; sight-saving campaigns in mainland China and overseas; and charity hiking events and staff volunteer activities.

1 Education and Care for Youth

CEL served as title sponsor of a collaboration project with Endeavour Education Centre, the “China Everbright Voice of the Stars Story-Telling Scheme”, which aimed to cultivate better understanding and greater awareness of Chinese history among young people in Hong Kong



The Group has sponsored a mainland China study tour for Hong Kong teachers for four consecutive years. These tours, organised by the Hong Kong Federation of Education Workers, provide an opportunity for Hong Kong teachers to experience and learn Chinese culture and history, and share their experiences with their students.



The Group supported the Future Star Federation of Student's “Future Stars Exchange Tour along the ‘Belt and Road’ Countries”, which aimed to promote exchange between teenagers from Hong Kong and the Mainland and allow university students from Hong Kong to gain a deeper understanding of the countries along the “Belt and Road”.

CEL supported the Hong Kong Ballet (HKB) as the title sponsor of the classic production “Swan Lake”, using donations to HKB's Accessibility Fund to offer tickets to children from low-income families and enable them to experience ballet performances.



2016 REVIEW (CONTINUED)

CEL sponsored the “YO Dancical” by Youth Outreach, an organisation that is committed to turning at-risk teenagers into positive contributors to society.



The Group funded the “Daddy Daughter Ball” hosted by The Child Development Centre to help children with special educational needs in Hong Kong.

CEL’s volunteer team visited children with special needs at Heep Hong Society, spreading love and care to children suffering from autism and developmental issues



2 Sight-saving Campaigns

As a major long-term supporter of Lifeline Express, CEL has sponsored the organisation’s annual fundraising dinner, participated in its charity golf day and provided assistance at its fundraising concert for five consecutive years. This year, CEL sponsored the first “International Sight Saving Mission” in Sri Lanka to help restore eyesight for underprivileged patients. In recent years, CEL has also arranged a

parent-child volunteer team with Lifeline Express to visit Lifeline Express’ “eye-train” hospitals and cataract patients in mainland China, providing support to paramedics and bringing love to patients.



3 Charity Hiking



CEL's CEO, Chen Shuang, led a team in the Oxfam Trailwalker 2016, where they completed the grueling 100km hiking trail and raised HK\$300,000 in funds.

CEL management and employees have entered teams in the "Sowers Action Challenge – Charity Hiking" for four consecutive years. The Group won the "Gold Award in Corporate Participation" thanks to employees' enthusiastic participation.



CEO Chen Shuang is deeply involved in promoting socioeconomic and cultural activities. He holds a number of honorary positions in the financial industry, including Honorary Chairman of the Chinese Financial Association of Hong Kong; Vice Chairman of the Chinese Securities Association of Hong Kong; the ninth Rotating Chairman of the China Mergers and Acquisitions Association; Standing Committee Member of the Center for China and Globalization; and visiting professor of East China University of Political Science and Law. He serves as a non-official member of the Financial Services Development Council of Hong Kong (FSDC), which has made many practical recommendations to the Hong Kong Government in relation to the internationalisation of the renminbi and development of Hong Kong's financial market.

In 2016, CEO Chen Shuang attended a number of professional financial seminars on behalf of CEL, including the "2016 Asian Financial Forum", the "2016 China and Globalization Forum", "GoforIsrael – The 16th China-Israel Investment Summit" and the "Ernst & Young's Outbound Investment Forum". He serves as a guest speaker for these events and shares his professional insights in finance, investment and the industry information with industry players.



2016 AWARDS



China Everbright Limited awarded

- Winner of Private Equity Fundraising
- The 4th among the Top 100 PE Firms
- Top 10 VC/PE Firms in Clean Energy/New Materials

in Zero2IPO Group's China Venture Capital & Private Equity Annual Rankings 2016

- Top 10 M&A Funds in Binggouwang Annual Rankings 2016

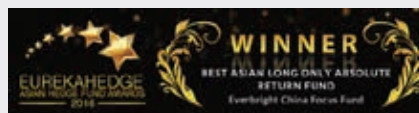
EBA Real Estate awarded

- No.1 of Top 10 Funds among the 2016 China Real Estate Funds
- Top 10 China's Most Powerful Real Estate Funds; and EBP-EBA IMIX Park Asset-blocked Special Programme won the Best Case Study Award in China's Real Estate Finance in BRIC Value Awards 2016



Everbright China Focus Fund awarded

- EurekaHedge 2016's Best Asian Long Only Absolute Return Fund



CORPORATE GOVERNANCE AND OTHERS

CEO Chen Shuang awarded

- The Best CEO - Banking and Finance in The Asset Corporate Awards 2016
- TOP TEN Leaders Award 2016 in CAPITAL Leaders of Excellence Award
- Top 10 PE Capitalists in Zero2IPO Group's China Venture Capital & Private Equity Annual Rankings 2016

China Everbright Limited awarded

- Gold Award in Governance, Social Responsibility and Investor Relations in The Asset Corporate Awards 2016
- The Hong Kong Corporate Governance Excellence Award 2016 by The Chamber of Hong Kong Listed Companies
- CEL's 2015 Annual Report attained Galaxy Award, LACP Vision Awards, ARC Awards and HKMA Best Annual Report Awards

CORPORATE SOCIAL RESPONSIBILITY AND HUMAN RESOURCES

Happy Company



- Hong Kong Outstanding Corporate Citizenship
- Hong Kong Outstanding Corporate Citizenship — Volunteer Team



Family-Friendly Employers



- Manpower Developer Award



- Gold Award in Corporate Participation of Sowers Action Challenging 2016

CHAIRMAN'S STATEMENT

China Everbright Limited is the Group's cross-border investment flagship, committed to asset management and investment as its dual growth drivers. CEL is now at the forefront of China's asset management and investment industry.

Cai Yunge
Chairman



In 2016, the world's economic recovery remained feeble amid growing global turbulence and a multitude of abrupt international and regional changes. More locally, the Chinese economy faced mounting downward pressure. However, undeterred by these complex externalities, China Everbright Group Ltd. ("the Group") stayed calm and composed, guided by its mission to build itself into a first-rate financial holding group. Riding the crest of its successful restructuring, it ushered in a golden age of corporate development, as evidenced by its ascent to 313th place among the Fortune Global 500, the greatest rise among all financial service companies.

China Everbright Limited ("CEL"), the Group's cross-border investment flagship, weathered all difficulties to forge ahead during the year under review. Committed to asset management and investment as its dual growth drivers, CEL is now at the forefront of China's asset management and investment industry. Its leadership was confirmed by a number of accolades in 2016. The Company came in fourth in China's most influential rankings of private equity firms, published annually by Zero2IPO, and it was named "Fundraising Winner of the Year". It also won

the highest honour in corporate governance for listed companies in Hong Kong, the "Corporate Governance Excellence Award" from the Chamber of Hong Kong Listed Companies.

CEL's asset management business grew strongly in 2016. From its base in the international financial hub of Hong Kong, the Company took a world-wide view and leveraged market trends to better draw in foreign capital, social capital, industry capital and financial capital. It used a creative touch to complete the design and sale of a fixed income products based on aircraft leasing agreements. It also completed the first round of fundraising for Global Investment Fund and the fundraising exercise for CEL Catalyst China Israel Fund. Working with industry leaders like IDG and Focus Media, it successfully raised more than RMB10 billion. As at the end of the year, CEL's total fundraising amount had reached HK\$87.5 billion, a 79% increase over last year. While significantly improving its fundraising capacity, the Company also continued to raise its asset allocation capacity and ability, as evidenced by the market-leading performance of its secondary market fixed income and equity funds.

CHAIRMAN'S STATEMENT (CONTINUED)

CEL achieved resounding success in industry integration. Placing equal emphasis on “bringing in” capital investment and helping investors “go out”, the Company targeted industry restructuring opportunities on a global basis, actively investing in quality assets with strategic value and the potential to transform sectors and promote upgrading in China. By investing in Haiyin Fund, Beijing Huichen, Hope Education and other industry-leading companies, the Company expedited its planning efforts in the promising smart technology, elderly care and education sectors as well as others. The excellent performance in business segments like CALC and overseas mergers and acquisitions demonstrated the company's leading position as an integrator in aircraft leasing, precision machinery manufacturing and more.

CEL further fortified its strong base for growth in 2016. Committed to operational prudence and stability, the Company places high value on risk management and maintains keen risk awareness. With its first-ever access to China's domestic capital market, the Company issued RMB panda bonds totalling RMB8 billion to effectively optimise its debt structure, demonstrating the strong synergistic benefits created across the organisation. Furthermore, the management company for EBA Real Estate Fund was successfully incorporated into Shanghai Jiabao Group, a listed A-share company, building a stronger foundation for sustainable growth and improving its market image and reputation.

The driving force behind CEL's excellent performance is the support and confidence of its investors and stakeholders, the wisdom of its board members, and the professionalism and diligence of its senior management and staff. For these contributions, I wish to express my sincerest gratitude and respect.

In 2017, the global economy continues to find itself in a period of profound readjustment and change amid a host of uncertainties. As CEL celebrates its 20th anniversary, we will continue to pursue our mission with a sense of gratitude. We will strive to identify investment opportunities that promise greater certainty in an uncertain macroeconomic environment. With our continued efforts to develop our asset management and investment business, we are building a unique, sizable platform for asset management, further unleashing core competencies, and making a better contribution to our shareholders and the public at large.

A century may pass like a fleeting moment, but dreams never age. As we travel through the ebbs and flows of history, the journey toward realising our dreams will be full of trial and tribulation. Let us work together with a sense of responsibility and commitment to the same direction and the same goal. By thinking alike and sharing together, we will have no regrets as we turn our dreams into reality in a great era!

Cai Yunge

Chairman

Hong Kong, 30 March 2017



THE POWER TO TRANSFORM

For a long time, CEL has strategically set its sights on “China elements”, while cross-border capabilities will remain CEL’s strength. CEL witnessed phenomenal growth in 2016, achieving good progress in all aspects and across all business segments.

MANAGEMENT DISCUSSION AND ANALYSIS

Review and Analysis

Review of the Macroeconomic Environment

In 2016, the global economy was generally stable but troubled by a flurry of black swan events. On one hand, the international political scene witnessed dramatic changes. Following general elections and referendums in a number of major economies, anti-globalisation sentiment intensified. On the other hand, the US Federal Reserve was increasingly conspicuous in its intention to raise interest rates, but the other major economies remained highly reliant on a low interest rate environment to forestall further economic weakness. The risk of an even more imbalanced monetary system persisted. Also, China's economic growth continued to slow, the A shares market underperformed.

At CEL, where we focus mainly on asset management and investment, our recent growth has been inextricably linked with increasingly globalised economic activities and the liberation of China's financial market. Over the years, continuous innovations in financial instruments and relaxed capital controls across the region have created important external conditions for us to "bring in", "go out" and build a cross-border platform for asset management. However, the changing international political landscape and the growing anti-globalisation movement have given rise to a host of uncertainties. Faced with these, one great challenge will be staying focused on our core businesses while planning and implementing asset allocations by adeptly adapting to market changes.

For a long time, CEL has strategically set its sights on "China elements". Our primary market segment benefitted from a solid customer base built through many years of development, as well as a good market reputation and a variety of product lines. Our increasingly mature secondary market and mezzanine financing segments, which are oriented towards the offshore market, started to show their mettle in equities, bonds, structured products and other areas. Together, these businesses have helped lay a solid foundation for the continued rapid expansion of our fundraising scale and investment scope in 2016.

Cross-border capabilities will remain CEL's strength. In a world of faster global asset allocation by Chinese interests, we have developed a number of overseas mergers and acquisitions ("M&A") segments, properly matching overseas M&A targets and their products with market potential in China and/or customer requirements, all based on the principle of "buying what China needs". Amid the tightening capital controls

of the past year, we are focused on leveraging the competitive advantages of our dual platforms at home and abroad, and on fully capitalising on CEL's cross-border investment and financing capabilities as a listed company. As a result, we are now better able to capture cross-border investment and financing opportunities through specific fund structures and generate a good return for investors.

Corporate Milestones in 2016

CEL witnessed phenomenal growth in 2016, achieving good progress in all aspects and across all business segments. Major events during the year were as follows:

1. Leveraging the strength of onshore and offshore financing platforms: The Group successfully issued two tranches totalling RMB8 billion (coupon rate: 2.92%-3.37%) following China Securities Regulatory Commission ("CSRC") approval of a public offer of panda bonds worth RMB12.8 billion, marking CEL's first-ever access to China's domestic capital market. Meanwhile, CEL also signed approximately HKD8.8 billion offshore bank loans.
2. Realising synergistic benefits between different teams: CEL's secondary market team partnered with China Aircraft Leasing Group Holdings Limited ("CALC") to complete the design and sale of fixed income products valued at approximately USD500 million, based on rental income from aircraft leasing and proceeds from forward sales, thereby expanding CEL's product offerings.
3. Working with fund managers with strong brands and proven track records: CEL and IDG jointly set up CEL-IDG Industrial Fund, which focuses on consumption and telecommunications media and technology ("TMT") M&A opportunities, and the initial fund raising was RMB10 billion.
4. Achieving in-depth cooperation with industry leaders: Working with Focus Media, CEL jointly established a new industry investment fund – Everbright Zhongying Capital to expedite plans for investing in the promising TMT sector.
5. Driving further expansion of maturing team members: EBA (Beijing) Real Estate Investment Consultancy Co., Limited ("EBA real estate") and EBA (Beijing) Asset Management Co., Limited ("EBA asset management") were successfully incorporated into a listed mainland platform, Shanghai Jiabao Industry & Commerce (Group) Co.,

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Ltd ("Shanghai Jiabao"), realising a handsome profit and achieving quantum development through a capital-raising platform.

6. Setting up of new funds by existing fund management teams: The Group successfully established CEL Global Investment Fund, L.P. ("CEL Global Investment Fund"), raising USD293 million. Overseas Infrastructure Fund was establishing, and completed its acquisition of the concession right of Tirana International Airport in Albania during the project warehousing period. Mezzanine Fund completed its first closure of secondphase RMB financing, successfully raising RMB820 million. Also, the New Energy team completed the formation of its new generation fund, Everbright Zhengzhou new sector focus Fund ("Everbright Zhengzhou Fund"), and raised RMB500 million in its first phase of financing.
7. Principal Investment accelerating its strategic planning for long-term industry involvement through equity investment: The Group completed its acquisition of Beijing Huichen, the city's largest elderly care institution, enabling fast access to the booming elderly care industry. As the largest investor in Haiyin Fund, the Group participated in a number of very exciting early-stage technology projects in the US. Meanwhile, CALC, now a listed company, has moved into a period of rapid growth, producing synergistic benefits with the CEL team.

Buoyed by continued growth, CEL has also enjoyed a growing market reputation. The Group won a number of major accolades in 2016:

1. In Zero2IPO's annual private equity awards, the most influential of their kind in China, CEL ranked 4th and won Finance House of the Year.
2. CEL clinched the Corporate Governance Excellence Award, the highest honour of its kind, in the Hong Kong Corporate Governance Excellence Awards organised by the Chamber of Hong Kong Listed Companies.
3. CEL won Gold Awards in the Governance, Social Responsibility and Investor Relations categories of The Asset Corporate Awards. In addition, our CEO, Mr Chen Shuang, was named "Best CEO – Banking and Finance".
4. Everbright China Focus Fund won EurekaHedge's "Best Asian Long Only Absolute Return Fund" award in 2016. Everbright Dynamic Bond Fund was nominated by AsiaHedge, a major hedge fund research company, for Asia's Best Fixed Income Fund in 2016.

We may announce with pride that after 20 years of development, CEL is now at the forefront of cross-border asset management and investment.



Management Decision Committee Members of China Everbright Limited includes (from left to right):

Mr. Yang Ping, Chief Investment Officer; Mr. James Pan, Chief Investment Officer; Mr. Tang Chi Chun, Richard, Executive Director & Chief Financial Officer; Mr. Chen Shuang, Executive Director & Chief Executive Officer; Mr. Tsang Sui Cheong, Frederick, Chief Risk Officer; Ms. Wong Tung Hung, Chief Administration Officer; Mr. Yin Lianchen, Chief Investment Officer and Mr. So Hiu Pang, Kevin, member of the Management Decision Committee.

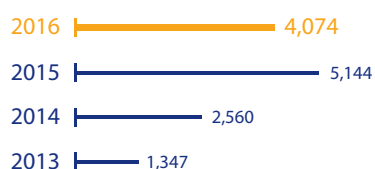
Operating Results

Profit attributable to shareholders

CEL posted profit attributable to shareholders of HK\$4.07 billion in 2016, down 21% year on year. This decline was mainly due to lower returns on two strategic investments. CEL's share of profit for the year from Everbright Securities amounted to HK\$890 million, or 71% less than last year. Everbright Bank contributed dividend income after tax of HK\$320 million, representing a 3% drop compared with last year. In a relatively volatile market, our direct operating businesses of fund management and investment performed remarkably well, posting a total profit of HK\$2.74 billion, which represents a sharp increase of 509% compared with last year.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

(HK\$ million)

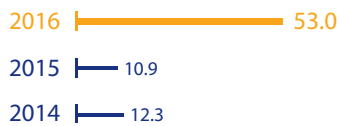


Profit from major business segments (in HK\$ 100 million)	2016	2015	Change
CEL's direct operating business	27.4	4.5	509%
Share of profit from Everbright Securities	8.9	30.4	-71%
Dividend income contributed by Everbright Bank	3.2	3.3	-3%
Gain on deemed disposal of Everbright Securities	1.2	13.2	-90%
Total	40.7	51.4	-21%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PRE-TAX PROFIT FROM FUND MANAGEMENT

(HK\$ 100 million)

**PRE-TAX PROFIT FROM PRINCIPAL INVESTMENT**

(HK\$ 100 million)

**Pre-tax profit of direct operating business**

It is encouraging that in 2016, CEL's direct operating business turned in commendable performances. The total pre-tax profit amounted to HK\$5.6 billion, representing an increase of 303% over 2015. Among which, In fund management, total fundraising scale increased to HK\$87.5 billion, up 79%. The business also recorded a pre-tax profit of HK\$5.30 billion, representing a year-on-year increase of 386%. On the investment front, CEL held 60 projects at the end of 2016 after exiting a number of investee projects. These projects were estimated at a total fair value of HK\$12.2 billion. The Group recorded a pre-tax profit of HK\$300 million for the full year, same as 2015.

Pre-tax profit from direct operating business (in HK\$ 100 million)	2016	2015	Change
Fund management	53.0	10.9	386%
Principal investment	3.0	3.0	–
Total	56.0	13.9	303%

In 2016, the Group's total expenditure was HK\$1.33 billion, up 12.7% compared with last year. Total cost-to-income ratio was 18%, down 22.1 percentage points.

To better meet the fund demand for cross-border investment, the Group completed the issuance of RMB8 billion in panda bonds during the year, bringing its gearing ratio to 49.6%. However, in adherence to its risk management strategy, CEL maintained a current ratio of 170.0%, or 20.7 percentage points higher than 2015, reflecting a continuously steady level of liquidity.

Other key financial data and indicators (in HK\$ 100 million)	2016	2015	Change
Operating expenses	13.3	11.8	12.7%
Total cost-to-income ratio (Note)	18.0%	40.1%	-22.1 pp
Gearing ratio	49.6%	33.8%	+15.8 pp
Current ratio	170.0%	149.3%	+20.7 pp

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

In line with Hong Kong Financial Reporting Standard 9 – Financial Instruments (HKFRS 9), which will be formally adopted for the accounting year starting 1 January 2018, we have launched accounting reviews and analytical work.



Analysis of CEL's Core Competencies

In 2016, following years of transformative development, CEL had a breakthrough year in the scale of its fundraising. The Group also achieved significant results in business diversification, specialisation and product innovation while developing the following core competencies:

1. Dual growth drivers + platform support

During the reporting period, CEL's competitive advantages truly shone. Our dual domestic and foreign platforms both played strong financing roles. Supported by long-term, stable financing costs and structures, the strength of our own capital is fortified, contributing to business differentiation and providing strong support to our fund management operations. The reinforced dual growth drivers created strong positive impact. During the year, we also completed fundraising for a number of flagship funds and a few investment projects of strategic significance, solidly enhancing CEL's overall scale and market position.

2. Cross-border capabilities

Cross-border capabilities is our competitive differentiation. The Group's cross-border capabilities include its wide range of business licenses, wealth of experience, and solid understanding of the differences in valuation systems between the domestic and overseas markets – all of which allow it to better identify investment opportunities. In the context of global asset allocations, we have continued to develop our overseas M&A segment and, in adherence to the principle of "buying what China needs", improved our capability to match overseas M&A targets and their products with the potential of the Chinese market and/or consumer demand.

At the same time, during a year of tightening cross-border liquidity, we focused on leveraging the strength of our dual platforms at home and abroad. This helped us further develop our cross-border investment and financing capabilities, optimise the composition of our fund investors in select funds, and position ourselves better to capture market opportunities.

3. Long-, medium- and short-term asset allocation capability

Uncertainties in the macroeconomic environment are imposing more stringent demands on management to identify long-term deployment opportunities with greater certainty. CEL's strategy is to demonstrate its strong capacity for long-, medium- and short-term asset allocations across diversified business segments, covering the full growth cycle of enterprises.

In the Primary Market segment, we focus on the long-term value of investments and provide continuing, value-added services for investees and partners. In the Structured Investment and Financing segment, we have adopted a hybrid model combining equities and bonds to capture medium-term opportunities. In the Secondary Market segment, we apply different investment strategies to flexibly invest in stock and bond products to meet investor demand for more liquid asset allocations. At the same time, we can deploy our own capital for extra-long-term investment in a series of very exciting industry projects with strong growth potential, such as aircraft leasing and elderly care, to share in the growth premium of these sectors.

4. Significant improvement in synergistic benefits among investment teams

In 2016, CEL's fixed income team successfully developed the asset securitisation project for CALC. This USD500 million project, featuring a combination of preferred and subordinated securities structures, is supported by rental income from aircraft leasing and proceeds from forward sales of aircraft. Established in mainland China, the project enables domestic investors to enjoy stable USD returns without having to leave home, fully demonstrating the synergistic benefits between CEL's Primary Market and Secondary Market teams and the level of CEL's product design. It also attests to CEL's ability to meet the increasingly diversified needs of investors.

During the year, CEL put its "old to the new generation" model to work, selling the China UMS project under its earlier fund to Everbright-IDG Industrial Fund after helping bring together the LPs of these two funds to reach a decision. This transaction allowed us to profit from the early project while also providing the opportunity of management participation in the future listing and subsequent development of the new project. This arrangement allows CEL to share the profit from the corporate's subsequent growth, afforded by a smaller stake.

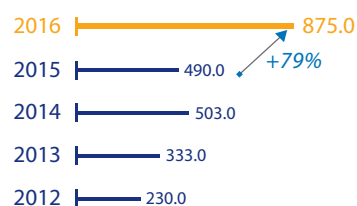
The successful development of these core competencies underscores CEL's ability to implement one-stop capital allocations for large institutions. It has also laid a solid foundation for expanding CEL's fundraising scale and investment scope.

Fund Management Business

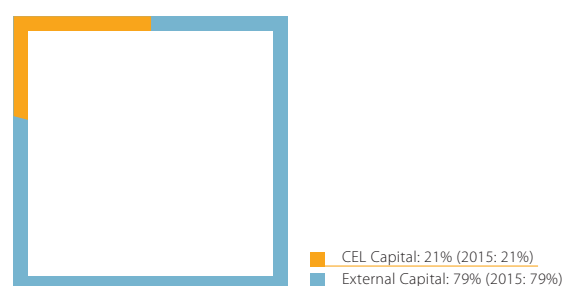
Our fund management business enjoyed a significant improvement in its fundraising scale and achieved an even more optimised investor structure in 2016. The Primary Market segment benefitted from a solid customer base, a good market reputation and a variety of product lines, all of which have been built through many years of development. The increasingly mature Secondary Market segment started to demonstrate its strength in equities, bonds and other product areas. Also during the year, FoF Fund and Everbright Prestige Capital Asset Management ("Everbright Prestige") provided more choices for different types of investors.

As at the end of 2016, the Group and its affiliates' asset management business managed a total of 36 funds and held 105 primary market post-investment management projects and 15 secondary market portfolios. Of the primary market projects, 13 have been listed on stock markets around the world. The fund management business's total fundraising amount increased to HK\$87.5 billion, up 79% from the end of 2015, with external funds accounting for 79%. The fair value of the projects and investment portfolios held amounted to HK\$63.0 billion.

TOTAL FUNDRAISING AMOUNT (HK\$ 100 million)



INTERNAL & EXTERNAL CAPITAL IN CEL FUNDS



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Below are the funds under the Group and its affiliates' fund management business (as at 31 December 2016):

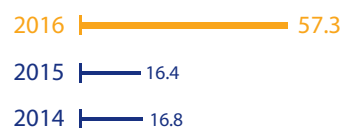
Fund business	Fund Type	Fund Name	Year of Launch	Investment Focus	Fundraising Scale
Primary Market Funds	Private equity funds	China Special Opportunities Fund I	2004	Manufacturing & servicing	USD50 M
		China Special Opportunities Fund II	2007	Telecom, media, high-tech & consumer	USD100 M
		China Special Opportunities Fund III	2010	Agriculture, consumer goods, servicing & financial auxiliary	USD399 M
	Venture capital funds	Beijing Zhongguancun Industry Investment Fund	2007	High-growth manufacturing, hi-tech & servicing	RMB160 M
		Everbright Jiangyin Asset Investment Fund	2009	High-growth industries	RMB260 M
		Everbright Guolian Fund	2009	High-growth industries	RMB320 M
	Sector focus funds	Everbright Ashmore China Real Estate Fund (USD)	2009	China real estate	USD140 M
		EBA Real Estate	2009	China real estate	RMB28.8 B
		Everbright Hero Fund	2014	Ying Li International Real Estate	USD120 M
		Everbright Medical and Healthcare Fund I	2012	Healthcare industry	RMB600 M
		Everbright Medical and Healthcare Fund II	2015	Healthcare industry	RMB1.2 B
		Everbright Jiangsu New Energy (Low Carbon) Fund	2010	New materials, environmental protection & energy saving	RMB100 M
		Everbright Qingdao New Energy (Low Carbon) Fund	2013	New materials, environmental protection & energy saving	RMB650 M
		Everbright Zhengzhou Fund	2016	High-growth industries	RMB2 B
		Shandong Hi-Speed Everbright Industrial Fund	2014	Municipal services, environmental protection, clean energy	RMB1.8 B
		Everbright-IDG Industrial Fund (IDG-Everbright M&A Investment Fund)	2016	Investment opportunities in sub-sector leaders	RMB10 B
		Everbright Zhongying Capital	2016	Pan-entertainment	RMB1.2 B
	Overseas funds	CEL Catalyst China Israel Fund	2014	Innovative Israel enterprise	USD160 M
		CEL Global Investment Fund	2016	Global Opportunities	USD293 M
	Mezzanine funds	RMB Mezzanine Fund I	2012	Onshore Mezzanine opportunity	RMB800 M
		RMB Mezzanine Fund II	2016	Onshore Mezzanine opportunity	RMB820 M
Secondary market funds	Equity funds		2012	Equity product investment	Equivalent of HK\$4.1 B
	Fixed-income funds		2012	Fixed income product investment	Equivalent of HK\$6.7 B
	New Third Board Market fund		2015	New Third Board Market	Equivalent of HK\$0.2 B
Everbright Prestige	Asset management for onshore clients		2014	Fundraising for CEL's actively managed products	RMB5.5 B
Fund of Funds (FoF)	Multi-strategy alternative investment Fund		2015	Market-leading private equity fund	RMB5 B
Total					Equivalent of HK\$87.5 B

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For the reporting period, income from the Group's fund management business was HK\$5.73 billion, representing an increase of 249% year on year. Of this total, management and consultancy fees rose by 53% to HK\$810 million as the Group completed work on establishing and raising funds for a number of large-scale investment funds. Interest income derived from various funds from the provision of structured financing products for clients grew by 13% to HK\$90 million. Dividends contributed by investees increased by 363% to HK\$370 million. The Group recorded a realised capital gain of HK\$3.35 billion, up 184% over the previous year, and an unrealised loss of HK\$1.27 billion.

MAJOR INCOME FROM FUND MANAGEMENT BUSINESS

(HK\$ 100 million)



Major income from fund management business (Classified by nature of income) (in HK\$ 100 million)

	2016	2015	Change
Management and consultancy fees	8.1	5.3	53%
Interest income	0.9	0.8	13%
Dividend income	3.7	0.8	363%
Capital gain/loss (realised)	33.5	11.8	184%
Capital gain/loss (unrealised)	(12.7)	(3.7)	243%



Primary Market Funds

As at 31 December 2016, Primary Market Funds had raised a total of HK\$64.6 billion, an increase of 119% over the previous year. The Funds have invested in and are holding 99 post-investment management projects with a total fair value estimated at HK\$49.7 billion. We can say with pride that through a diversified fund structure, as well as our market-leading full value chain capabilities and cross-border offerings, CEL is now among China's top alternative asset management institutions in the primary market. Our ability is mainly reflected in the following aspects:

A diversified fund structure: Based on a diversified fund structure, we set up funds by sector (investing for the long term in real estate, healthcare and new energy and expediting planned investments in the highly promising consumer, TMT and pan-media industries) and by investment stage (start-up stage, private equity stage and maturity stage). This allows us to raise funds flexibly to meet the investment needs of various types of limited partners (LP). We also emphasise the need for a division of labour among investment staff. In addition, our fund managers employ sustained research as part of their consistent, long-term focus on a sector or even a sub-sector, closely tracking and investigating to develop a higher level of investment expertise as well as the ability to make decisions in a more efficient and professional manner.

Full value chain capabilities: After years of painstaking effort across a number of industry segments, CEL has developed full value chain capabilities for systems within and outside the company, including the precision instruments, real estate and healthcare sectors.

During the year, the EBA Investment team launched a non-directional three-phase fund. Further strengthening its core competencies, the team exited its managed real estate project through asset securitisation after successfully completing the full investment cycle (fundraising, investment, management and divestment). At the same time, CEL also injected 51% equity interest in EBA real estate and EBA asset management into Shanghai Jiabao, realising an investment gain in the form of pre-tax profit attributable to the shareholders of approximately HK\$1.5 billion. In the future, CEL's real estate Fund – supported by Shanghai Jiabao with CEL as its largest shareholder – will be better placed to grow its management portfolio and develop more diversified real estate related asset management operations.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Cross-border offerings: Building on CEL's strong domestic resources, we continued to plan our cross-border manoeuvres from a strategic China perspective to capture a wealth of overseas M&A opportunities and continuously improve the post-investment valuation of our projects. At the same time, we established our CEL Global Investment Fund, L.P. ("Global Investment Fund") during the year and successfully raised USD293 million.

Funds in cooperation with multiple GPs: During the reporting period, we engineered a major breakthrough in fundraising by working with multiple general partners (GPs) to access new industries and markets in highly efficient, low-risk manner.

Working with fund managers who offer brand influence and proven track records is one way the Group has pursued full-scale investment expansion in new industry segments. An example of this is Everbright-IDG Industrial Fund (formally known as IDG-Everbright M&A Investment Fund), a fund that was established in partnership with IDG Capital in June 2016. Since then, the fund has completed final investments across a couple of projects, targeting investees in Germany, the US and China.

The Group also set up a new industry investment fund – Everbright Zhongying Capital in further cooperation with Focus Media, a leading media company. By integrating CEL's funding and branding strengths, the Fund can benefit from an enriched source of industry projects and seize industry consolidation opportunities across the upstream and downstream value chains.

Other major events concerning our Primary Market Funds in 2016 are as follows:

1. The China Special Opportunities Funds sold all their equity interest in the China UMS and Anhui Yingliu projects.
2. The Venture Capital Funds sold all their equity interest in the Jiacheng Environmental Protection and Hanbang Gaoke project, and partly divested from Yida Chemical, CECEP Wind-power.
3. Medical & Healthcare Fund sold all its equity interest in the Yuwell project and secured the successful listing of Betta Pharmaceuticals on the Shenzhen Stock Exchange in November 2016.
4. The New Energy Funds sold all their equity interest in the China Sinogy Electric Engineering Jiangsu Turbine Seal High-Technology projects. Meanwhile, the team completed the formation of a new fund, Everbright Zhengzhou Fund, and raised RMB500 million in the first phase of financing.
5. Establishing its role as an integrator in the high-precision instrument sector, our overseas team completed a number of upstream and downstream M&As, starting with Burke E. Porter Machinery Company ("BEP") and Lapmaster Group Holdings, LLC ("Lapmaster").
6. Overseas Infrastructure Fund was establishing, and completed its acquisition of the concession right of Tirana International Airport in Albania during the project warehousing period.
7. RMB Mezzanine Fund recorded a pre-tax profit of HK\$19.02 million, representing a 5.5% increase over from the corresponding period last year. The team also completed its first closing of RMB820 million for its RMB fund II, targeting mainly domestic insurance companies as LPs.

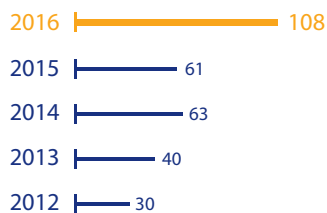
MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Secondary Market

As of 31 December 2016, CEL's Secondary Market manages 15 funds and managed accounts for a total of HK\$10.8 billion, 77% more than the same period last year. As a sub-advisor, the Secondary Market asset management team also manages HK\$2.9 billion of the funds raised by Everbright Prestige.

AUM OF SECONDARY MARKET

(HK\$ 100 million)



In 2016, CEL actively promoted product collaboration between Primary Market and Secondary Market to help generate win-win outcomes built on synergistic efforts across the Group's business units. For example, the Secondary Market fixed income Fixed Income Team worked with Everbright Bank and CALC to implement the successful asset securitisation of 10 aircraft worth US\$500 million by September 2016. It not only helped contribute to the firm's overall AUM, but also provided onshore domestic investors with a stable and low-risk USD-denominated product for diversification. In the future, we will further promote cross-selling, product collaboration and development between Primary Market and Secondary Market, and actively explore co-investment opportunities.

During the year, Secondary Market continued to expand in size while its flagship products generated excellent results:

1. Everbright China Focus Fund, managed by the equity team, weathered the stormy market in 2016. Despite a difficult year for equity investments – especially absolute return equity products – Everbright China Focus Fund generated a return of 4.5%, net of fees

(CSI 300 Index registered a loss of 11.3%). At the same time, the Fund gathered awards and recognitions. Namely, the Fund was awarded "Best Asian Long-Only Absolute Return Fund" by EurekaHedge and ranked No. 6 in Past 3-year (2014 to 2016) Performance among Emerging Market – Equity funds by BarclayHedge. Lastly, Everbright China Focus Fund was incorporated as a founding component fund into Suntime's Chinese Hedge Fund Index.

2. Everbright Dynamic Bond Fund, managed by the Fixed Income Team, was well-received by investors in 2016 and was able to successfully fundraise during the year. As of 2016 year end, it has grown to USD220 million, up 97.2% in assets under management, to become the Group's largest open-end fund. The fund also delivered solid return, 9.6% net of fee return for regular share class, 7.3% net return for preferred share and 24.7% for subordinated share class. The Fund was nominated twice for AsiaHedge's Best Fixed Income, High Yield & Distressed Fund and Investor Choice's Best Emerging Market Credit Fund.

Everbright Prestige

In 2016, Everbright Prestige made fundraising its major strategic focus. An important domestic fundraising platform for CEL, Everbright Prestige fully leveraged the strengths of its licensing platform and network during the year, contributing significantly to Everbright-IDG Industrial Fund (under CEL's Primary Market segment), Everbright Prestige – CEL China Real Estate Opportunities Fund III, Yongying asset management products (under the Secondary Market segment) and fundraising for FoF Parent Fund.

During the reporting period, the value of Everbright Prestige's special account business was RMB118 billion, representing a year-on-year increase of 154%. Everbright Prestige posted a net profit after tax RMB94 million. With its strong financing capability, Everbright Prestige will leverage CEL's diversified fund portfolio and proven track record to provide a one-stop solution for structuring capital allocations, and to build a reputation as a prominent industry leader in special asset allocation.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Multi-strategy Alternative Investment Fund ('Fund of Funds' or 'FoF')

As CEL's first multi-strategy alternative investment fund, FoF can provide simultaneous access to different markets, cycles and industries for institutional investors to help reduce the impact of market volatility on their investment portfolios. Through the Fund and by integrating Everbright Prestige's product design capability, CEL has proven its ability to provide one-stop solution that offers liquidity and potential returns for mega-size institutions in mainland China.

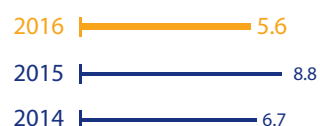
FoF's investment targets include funds initiated and managed by CEL as well as external funds with proven track records of performance and governance. This allows CEL to further develop and improve the Group's product lines by adjusting and optimising seed capital allocations for various funds, and to participate in the operation of external funds with good track records.

As at the end of 2016, the FoF had committed to an investment in the region of RMB5 billion. The Investment Committee had approved and completed investments in four sub-funds.

Principal Investment Business

We rely on our own strong capital resources as a key asset that to supports and promotes the development of our fund management business. As at 31 December 2016, Principal Investment was valued at HK\$12.2 billion. During the year, the Group recorded pre-tax profit of HK\$300 million, same as last year.

As interest items and corresponding fee rates declined with higher liquidity, interest income decreased 75% to HK\$130 million, while dividend income decreased 18% to HK\$320 million. In terms of investment returns, the business realised a capital gain of HK\$370 million from a number of exited projects, representing a year-on-year increase of 28%.

INCOME OF PRINCIPAL INVESTMENT
(HK\$ 100 million)

Income of Principal Investment (by nature of income) (in HK\$ 100 million)	2016	2015	Change
Interest income	1.3	5.2	-75%
Dividend income	3.2	3.9	-18%
Capital gain/loss (realised)	3.7	2.9	28%
Capital gain/loss (unrealised)	(3.1)	(4.5)	-31%
CALC (accounted for as an associate)	2.1	1.4	50%

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal Investment provides our fund management business with a distinct competitive edge. The segment is divided along four key function lines:

1. Fund incubator: Principal Investment helps the fund management team cultivate quality products.

CEL injects an appropriate proportion of seed capital during the initial and growth stages of a fund and seeks to grow with the fund management team by fully leveraging its strong platform, industry position and influence, and forward-looking strategic investment philosophy. During the year, CEL committed seed funds to Everbright Zhengzhou Fund and Mezzanine Fund II as part of its private equity business plans.

2. Direct investment and co-investment: CEL creates positive synergies between its principal investment and fund management businesses by directly investing or co-investing in Group projects.
3. Long-term industry investment: CEL uses rational equity investment to devise plans for long-term investment in strategic industries as well as new business development.

The Group's investment in China Aircraft Leasing Group Holdings Limited ("CALC"), in which it currently holds a 32.32% stake, is an important case in point. After many years of cultivation, CALC has moved into a period of rapid growth. In 2016, CEL's share of profit from CALC rose by more than 50% year-on-

year to HK\$210 million. CALC has benefitted from increased aircraft deliveries, which have contributed to higher revenues. The Company has also relied on its asset securitisation programme as an important source of growth, underlined by rental income from aircraft leasing and proceeds from forward sales. CEL's Secondary Market segment was fully involved in the work on asset securitisation for aircraft leasing. Through an innovative product structure and synergistic benefits between different teams, CEL enables domestic investors to enjoy long term, stable USD returns on their capital without having to leave home.

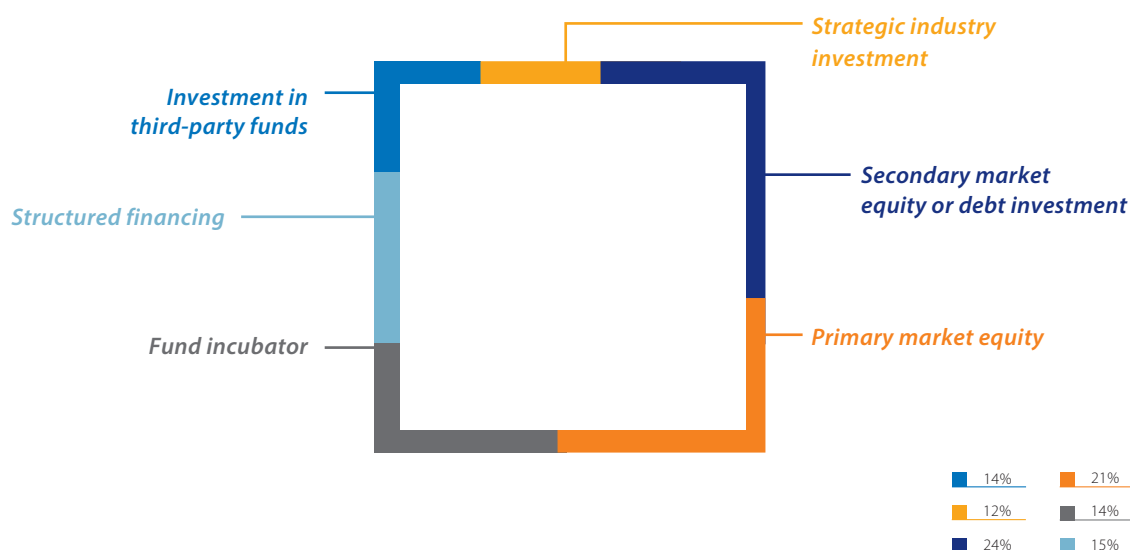
During the same period, CEL invested its own capital in Haiyin Fund, Beijing Huichen, Hope Education and other industry-leading companies, reflecting stepped-up planning efforts aimed at internet intelligence, elderly care, education and other sectors with strategic growth potential. By pursuing these kinds of investments with promising long-term prospects and massive market potential, we hope to realise long-term allocation of quality assets and integrate with fund management operations on an experimental basis, so as to generate sustainable, stable returns for CEL and its shareholders.

4. Liquidity: Principal Investment also assumes the functional responsibility for balancing CEL's liquidity and its total revenue. The Group employs diversified financial instruments – subject to rigorous risk control – to manage long, short and medium term capital allocation and industry concentration.

As of 31 December 2016, the Group's Principal Investment Projects sorted by category of investment are as follows:

Category	Percentage
Secondary market equity or debt investment	24%
Primary market equity	21%
Structured financing	15%
Fund incubator	14%
Investment in third-party funds	14%
Strategic industry investment	12%

INVESTMENT PROJECTS SORTED BY CATEGORY

**Strategic Investment****Everbright Securities**

As at 31 December 2016, the Group held 1.14 billion shares of Everbright Securities Company Limited ("Everbright Securities"), accounting for approximately 24.71% of the total capital of Everbright Securities at a fair value of HK\$20.5 billion. Everbright Securities continued to reinforce compliance management and risk control in its securities business, regaining its AA class rating under the regulatory authority's securities classification system to become one of China's only four "securities + futures" AA-level brokerage firms.

In 2016, the A-shares market put up a lacklustre performance, with the CSI 300 Index registering a loss of 11.3% on sharply lower trading volume. Securities firms' turnover from securities margin trading also shrank substantial. CEL's share of profits from Everbright Securities was sharply down 71% year-on-year to HK\$890 million.

On the other hand, the Group sold its remaining 49% equity in Everbright Securities (International) Limited on 15 June 2016 to Everbright Securities Financial Holdings Limited for a consideration of HK\$930 million. The transaction demonstrated CEL's determination to focus its resources on developing its fund management and investment business.

Everbright Bank

As at 31 December 2016, the Group held 1.57 billion shares of China Everbright Bank Company Limited ("Everbright Bank"), measured at a fair value of HK\$6.9 billion and accounting for approximately 3.37% of Everbright Bank's total capital. The Group received a dividend payment of HK\$320 million from Everbright Bank during the reporting period, down 3% from 2015.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook

In 2017, a number of issues will have major implications for global investment and asset allocation: Will the low-inflation environment we have seen for many years remain? Will interest rate policy (and the resulting liquidity) be tightened at a faster pace? Will the globalisation that has characterised trade and capital for the past 20 years move backwards? How will the conflicts and disputes fuelled by rising populism impact financial markets? Given the already highly inflated prices of all major asset classes buoyed by a glut of liquidity over the years, which assets remain attractive?

As a fund manager and investor, CEL is obliged to help clients allocate assets in a manner that promises greater assurances amid a host of uncertainties.

Against this background, CEL will focus on enhancing the long-term competitiveness of its cross-border asset management platform. We will also continue to accelerate the growth of our fund management scale and be highly selective with our investment targets. Building on strong financing momentum and a number of star investments in 2016, we have achieved broad market impact across various sectors and developed close partnerships with a number of prominent players in select industries, leading to the successful development of a pipeline of new investment projects.

In 2017 we will embark on a new round of financing for, among others, Mezzanine Fund (USD), Water Fund, Overseas Infrastructure Fund and Healthcare and Elderly Care Fund. By meeting the demand from major institutions for all-around, cross-border asset allocations, we will enhance CEL's ability to offer a full spectrum of fund products, covering venture capital, private equity, industry M&A, mezzanine financing, and secondary market liquidity.

At the 20th anniversary of CEL, we will uphold our belief of "Global Vision, China Insight", to bring sustained growth to shareholders and investors.

Financial Position

As at 31 December 2016, the Group's total assets amounted to HK\$67.5 billion with net assets amounting to HK\$39.5 billion. Net asset value per share attributable to equity shareholders of the Group was HK\$22.1, representing an decrease of 5.6% as compared to HK\$23.4 per share as at the end of 2015. As at 31 December 2016, the Group's gearing ratio increased to 49.6% (2015: 33.8%).

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 2016, the Group had cash and bank balances of HK\$6.0 billion, representing an increase of HK\$1.3 billion as compared to HK\$4.7 billion at the end of 2015. Currently, most of the Group's cash, representing 90%, 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 2016, the Group had banking facilities of HK\$15.45 billion, of which HK\$4.91 billion have not been utilised. The banking facilities are of 1 to 5 years terms, the Group had outstanding bank loan of HK\$10.54 billion, representing an decrease of HK\$2.91 billion as compared to HK\$13.45 billion at the end of 2015. All the outstanding bank loans are unsecured as at 31 December 2016. During the year, the Group issued corporated bonds with principal amount of RMB8 billion. The interest-bearing borrowings are mainly denominated in Renminbi, representing about 56% of the total, and the remaining is denominated in US and Hong Kong dollars.

Pledge Of Assets

As at 31 December 2016, no fixed deposits was pledged to secure banking facilities. Pursuant to the prime brokerage agreements entered with the prime brokers of a fund held by the Group, cash and securities deposited with the prime brokers are secured against liabilities to the prime brokers. As at 31 December 2016, assets deposited with the prime brokers include HK\$640 million and HK\$75 million which form part of the Group trading securities and debtors respectively.

Contingent Liabilities

As at 31 December 2016, the Company issued financial guarantees to 2 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 2016 for the provision of the guarantees related to the facilities utilised by the subsidiaries was HK\$4,104 million.

Employees

As at 31 December 2016, the Group had 274 employees. Total staff costs for the period under review amounted to approximately HK\$462 million as noted in the consolidated income statement. The Group ensures that the remuneration packages for employees are fair and competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Discretionary year end bonus may also be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

Final Dividend

The Board has resolved to recommend the payment of a final dividend of HK\$0.5 per share for the year ended 31 December 2016 (2015: HK\$0.5 per share). Together with the interim dividend of HK\$0.25 per share already paid, the aggregate dividends for the year is HK\$0.75 per share (2015: HK\$0.75 per share).

The final dividend, subject to shareholders' approval at the forthcoming annual general meeting, is expected to be paid on Thursday, 22 June 2017 to those shareholders whose names appeared on the register of members of the Company on Monday, 12 June 2017.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 19 May 2017 to Thursday, 25 May 2017, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for attendance of the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 18 May 2017.

The register of members of the Company will also be closed from Friday, 9 June 2017 to Monday, 12 June 2017, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 8 June 2017.

Annual General Meeting

The annual general meeting of the Company will be held at Drawing Room, M/F, Grand Hyatt Hong Kong, 1 Harbour Road, Hong Kong on Thursday, 25 May 2017 at 10:00 a.m.

Purchase, Sale or Redemption of Listed Securities

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

Corporate Governance

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

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

Details of the Company's implementation of its Corporate Governance, details of the Audit & Risk Management Committee, the Nomination Committee and the Remuneration Committee, can be found in the "Corporate Governance Report" and the "Risk Management Report" set out in pages 67 to 95.

Model Code for Securities Transaction by Directors

The Company has adopted a "Code for Securities Transactions by Directors and Relevant Employees" (the "Code") which is no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules. Having made specific enquiry to all Directors, the Directors confirmed that they have complied with the required standard of dealings set out in both the Code and the Model Code for the year ended 31 December 2016.

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

Hong Kong, 30 March 2017

*PASSING ON THE LOVE
WITH CARING,
UNIQUE CORPORATE
SOCIAL RESPONSIBILITY
INITIATIVES*

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

About this Report

This is the first Environmental, Social and Governance (ESG) Report ("Report") of China Everbright Limited ("CEL") (stock code: 165.HK), which encompasses the environmental, social and governance performance of CEL's headquarter in Hong Kong and our regional offices in Beijing, Shanghai, and Qingdao in Mainland China. CEL has published Corporate Social Responsibilities Report since 2011 and from this year onwards, the information on our corporate social performances are consolidated in this Report.

This Report was prepared with reference to the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Main Board Listing Rules of Hong Kong Stock Exchanges and Clearing Limited. This Report covers operations of our Hong Kong headquarters and regional offices in Mainland China for the period from 1 January 2016 to 31 December 2016¹.

This Report is also available in Traditional and Simplified Chinese. Electronic version of the Report can be accessed on our website: <http://www.everbright165.com>.

We welcome your comments and feedback on our Report and our sustainability performance. Please email us at media@everbright165.com.

CEL's Approach to ESG Management

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

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

Chapter 3 and Chapter 4: Our Clients and Collaborating Partners; Our Shareholders and Investors

In order to enhance communications and interactions with our fund investors and business partners, 5 Everbright Investment Conferences were held from 2012 to 2016, attracting more than 1,700 attendees in total, including institutional investors and business partners from around the world. Since 2014, CEL has also invited key journalists from Hong Kong and the Mainland, enabling the wider community to understand the business development of the Group. During the reporting period, the Group has participated in investor forums, one-on-one conferences and teleconferences to maintain strong communication channels and build a close contact with shareholders and investors across the globe. In addition, CEL has organized annual general meeting ("AGM") for direct communication between the Group's management and shareholders at the AGM.

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

Chapter 5: Our Employees

CEL sees its employees as its most important asset. In 2016, while promoting equality and non-discrimination principles, the Group was also dedicated in providing a healthy and safe working environment for its 270 employees. The Group has devoted large amount of resources in providing different learning opportunities, encouraging employees' to pursue further career development. During the reporting period, the Group has organized 6,605 hours in total for employee training, including 19 broad-based internal training sessions. Besides organising training sessions for employees, the Group has also established a guideline for directors' training, for all directors to attend the training activities, professional seminars, conferences and forums organized. To further enhance camaraderie among employees, the Group has also set up a volunteer team, encouraging employees to engage in charitable initiatives and to contribute back to the society. In 2016, the team has participated in different charitable activities, such as the "Sowers Action Challenging – Charity Hiking" and the "Oxfam Trailwalker 2016".

Chapter 6: Our Community

As a CSR-committed company, CEL is a strong supporter of charitable, educational and social projects. The Group has sponsored "China Everbright Voice of the Stars Story-Telling Scheme", "Everbright Teachers' Heritage Discovery Tour 2016", "Lifeline Express International Sight Saving Mission", fund-raising concert by Young Artists Development Foundation and the Exchange Tour along the "Belt and Road" countries organized by Future Star Federation of Student. In addition, the Group also leveraged its corporate strengths to contribute back to the society by the establishment of China Everbright Charitable Foundation (CECF) after the global financial crisis in 2008 to support a series of community projects.

Chapter 7: Our Environment

CEL understands the importance of sustainable development and environmental protection. CEL has been closely monitoring on our greenhouse gases emission and our waste generation. In the reporting period, a total of 800 tonnes of greenhouse gases and 45,527 kg of waste were generated with an intensity of 166 kg of waste per employee. The Group has instituted various energy-saving and conservation initiatives, looking into employees and office equipment to reduce energy consumption and considers every-saving features when sourcing for office equipment. CEL is dedicated in maximizing the Group's operational efficiency while minimizing the environmental impacts created through greenhouse gases management, energy conservation, waste management and recycling, material purchase, resources utilisation and green activities.

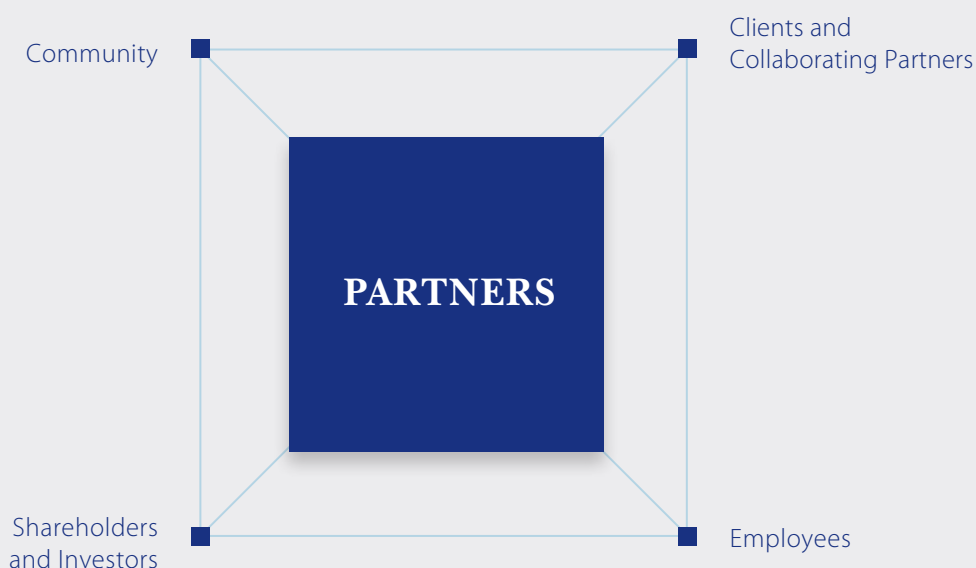
As recognition to the Group and China Everbright Charitable Foundation's work, CEL has been awarded with "Caring Company" and "Caring Organisation" for 6 consecutive years, so as to acknowledge the Group's effort and involvement in corporate social responsibility. In 2016, CEL has also attained Gold Award in three categories of Governance, Social Responsibility and Investor Relations at "The Asset Corporate Awards 2016" and the "Hong Kong Corporate Governance Excellence Awards" from the Chamber of Hong Kong Listed Companies (CHKLC), recognizing the Group's effort relating to corporate governance, corporate social responsibilities and the well-established communication channels with its stakeholders.



Our Clients and Collaborating Partners

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

LONG-TERM TRUSTING PARTNERSHIP WITH FOUR GROUPS OF STAKEHOLDERS



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

In the last decade, the financial sector was heavily impacted by market turbulence from the global financial crisis. The collapse of large financial institutions led to a review of fundamental thinking about the equilibrium between rapid business expansion and risk control. By leveraging its sound corporate governance and risk management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

system (please refer to the Corporate Governance Report and the Risk Management Report in our 2016 Annual Report for details), the Group has managed to achieve fast yet steady growth in notably bearish investment environment, while capturing opportunities by expanding its business horizons as markets recovered. In order to enhance communications and interactions with fund investors and business partners, the Group held its first Everbright Investment Conference in 2012, which received positive feedback from attendees as well as CEL's various business units. The conference has been held every year since then, which took place in Sanya, Shanghai, Xiamen, Chongqing and Qingdao respectively, has attracted more than 1,700 attendees totally including institutional investors and business partners from around the world. Attendees learn about the latest development 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 edition, 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, the Group places significant emphasis on maintaining strong communication channels and close contact with shareholders and investors. In 2016, the Group has participated in 13 investors forums organized by CICC, HSBC, Citibank, JP Morgan, DBS etc., and arranged roadshows in the U.S. and U.K. with CICC and JP Morgan after announcements of our annual results to timely engage with overseas investors. The Group has participated and organised 164 one-on-one conferences and 80 teleconferences to bring forth its strategies and performances through exchanging in a sustainable, genuine, accurate and complete manner with nearly 400 institutional investors and analysts from across the globe. Highlights of these conferences are available under the “Investor Relations” section of the Group’s website. As of December 2016, 18 analyst reports about the Group have been published by 6 well-known institutions, and research reports have been published by 2 other institutions. The Group also summarised investor relations report for the Board’s review on regular basis. The report, which is generated from the analysis of a series of investors relation work carried out through multiple surveys on shareholder profile throughout the year on shareholdings and patterns, included external communications, investor feedback and changes in stock price, allows the Board to better understand investors’ opinions and suggestions regarding CEL’s development strategies.

For the ease and convenience of investors and shareholders, CEL has continuously optimized and upgraded its website (www.everbright165.com) since 2013. In addition to giving the site a clear, compelling design and layout, the Group also enriches the content of the “Investor Relations” section by providing practical tools such as interactive financial data and stock charts. Regarding disclosure of information, visitors can keep abreast of the latest developments at CEL by subscribing to receive alerts to new announcements, circulars and press releases. In 2014, the Group upgraded its website’s back-end configuration, strengthening its login function for funds to allow closer communication and information sharing between fund management teams, clients and investors. In view of the growing popularity of mobile communication apps, CEL launched its WeChat public account 2015 (WeChat ID: chinaeverbright) in 2015, providing another convenient diversified information channel for stakeholders and the public.



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

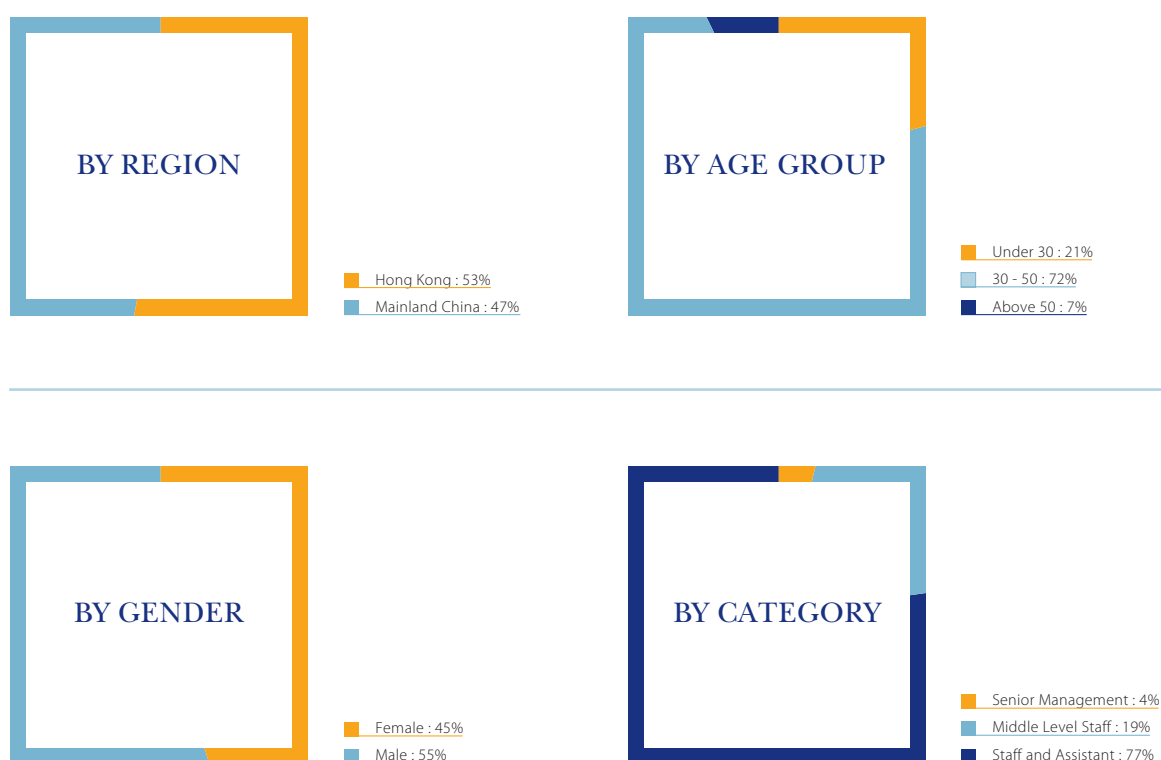


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Our Employees

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

The Group is dedicated in promoting equality in the workplace and has employed employees from different age group. In the reporting period, the Group has 274 employees in total, 144 of which are employed in Hong Kong and the male to female ration is approximately 1:1.

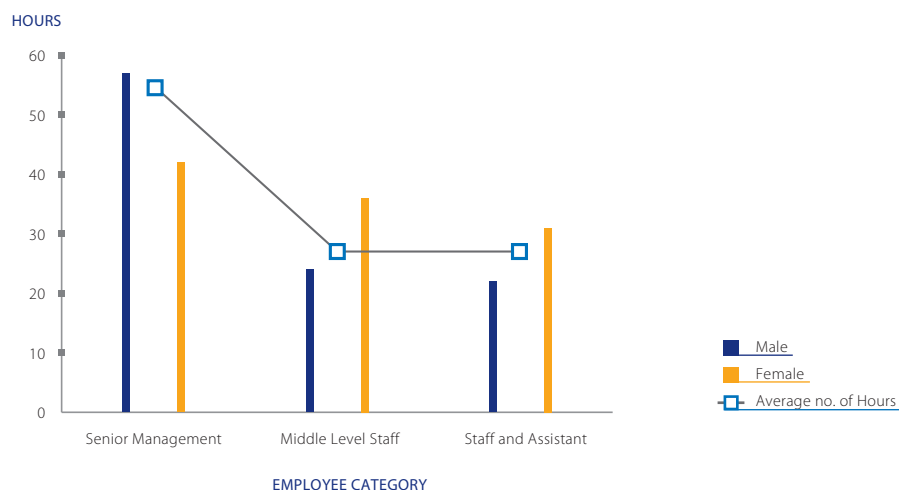


Employee Training and Development

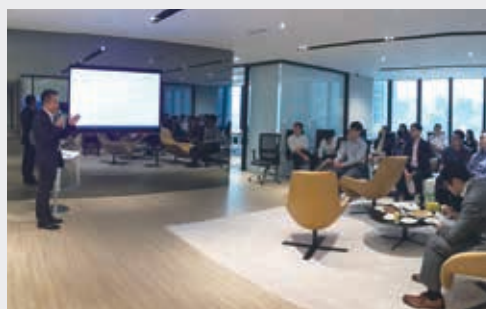
In terms of strengthening individual competencies, CEL provides a comprehensive package for its employees’ career development. This includes study allowances, paid study leave, and regular training programme to boost skills sets and team spirit. The Group sustains its core values and culture with its employees, its most valuable asset and resources.

According to the Group’s “Training and Development Policy”, all new joiners have a 30-hour annual training target, while existing employees’ target is 20 hours. In order to further standardize employee development programmes, the Group has developed a training system, which sets an annual training target hour with respective to the years of service of employees, and taking it into consideration during appraisals. This encourages employees’ involvement in both internal and external training activities, boosting their personal skill sets to be in line with the Group’s development strategies, hence increasing the Group’s competitiveness in the industry. In 2016, the Group has organised 6,605 hours in total for employee training, including 19 broad-based internal training sessions, covering business ethics, anti-money laundering, taxation, risks, macroeconomic trends, soft skills and other topics. All staff were required to join the trainings.

AVERAGE TRAINING HOURS



The Group also puts strong emphasis on directors' training. An induction system for new directors, which includes a description of directors' duties, the Listing Rules, introduction of corporate governance structure and the businesses of the Group. A guideline on directors' training and the "monthly circulars" for all Board members, contents includes Company's performance, monthly financial statement, investor relationship reports, industrial and regulatory updates etc, which allows the directors to perform their duties under Listing Rules 3.08 and Chapter 13 continuously. In addition to regular trainings organized by the company, Board members are also actively engaged in professional seminars, conferences and forums.



The group also arranges exchange visits for staff every year so that employees in Hong Kong and the Mainland have a chance to enrich their experiences and exchange views. In 2013, for example, CEL held an Outward Bound event in Qingdao for middle and senior management. China-based employees are provided training exchange opportunities in Hong Kong. From 2014 to 2016, the Group held exchange visits and training activities in Shanghai, Qingdao and Shenzhen for employees from Hong Kong to boost their knowledge of Mainland businesses, and enhance communication and cooperation between teams. In line with its growing overseas activities, the Group organized an overseas training for outstanding employees in 2015. In addition, the Group held an "Investment Salon" where internal specialists were invited to give speeches on financial investment and help colleagues better understand the scope of investment in different industries.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

New staff members receive a clear overview of the Group through regular training sessions on human resources, brand culture and risk management systems. The Group also arranges meetings to facilitate conversation between senior management and new staff, which not only enables better understanding of employees and their views, but also enhances contact and interaction.



Health and Safety

CEL employs different occupational health and safety precautions. In order to provide a healthy and safe working environment, the Group has formulated occupational health and safety policies ensure their well-beings in the workplace.

The Group operates in accordance with the Occupational Safety and Health Ordinance in Hong Kong and Labour Law of the People's Republic of China in the Mainland, respectively, to ensure equipment and systems are properly maintained, and are used under organized, clean and safe conditions. Employees in regional offices are required to execute precautionary and reasonable measures to ensure not only their own personal health and safety, but also the safety of others who may be affected. If an injury or accident occurs within the Group's premises or at other locations for business purposes, staff must report the incident to his or her Department in-charge and Human Resources Department, regardless of how minor the injury or accident may be. Employees are responsible to fully assist in the investigation of accidents.

Communication and Connection

CEL places appreciable emphasis on maintaining productive information exchange and interaction with its employees via various formats. The group uses an internal email system, "Partner Express", as the vehicle 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 scenes of employee life together in one handy publication, which is disseminated via online media to keep colleagues in the Mainland and Hong Kong in close contact. The group also publishes hard copies of the "Partner" by consolidating all the experiences of the past year into a single book, which accommodate the varied reading habits of employees. In order to offer more convenience for employees and improve work efficiency, CEL is also developing an online collaborative Office Automation Platform with comprehensive functions and mobile apps. It is the Group's wish that this platform will allow employees to access company information and conduct administrative work from anywhere, whether they are in or out of the office.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

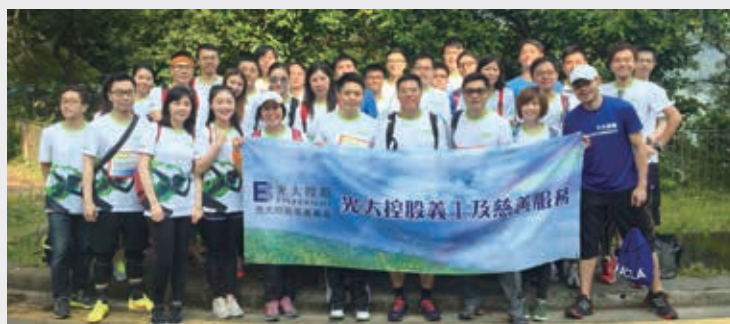
To increase the awareness of corporate justice, the Group has established a Whistleblowing Policy, which serves as both an effective internal control mechanism and a guidance for employees to report any unjust behaviours. This policy is audited by the Board and its Audit & Risk Management Committee ("ARMC") has overall responsibility; whereas the day-to-day responsibility of overseeing and implementation has been delegated to the Chief Risk Officer ("CRO") and Company Secretary of the CEL.

Volunteering Services

In 2012, CEL set up a volunteer team that gives staff the chance 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 home, special child-care centres and shelter workshops, participated in the Everbright Project and meal boxes making for the elderly. These activities were well received and supported by colleagues. In 2016, CEL was awarded the volunteer team with "Drive for Corporate Citizenship Volunteer Team" logo from Hong Kong Productivity Council.



CEL management and employees have entered teams in the "Sowers Action Challenging – Charity Hiking" for four consecutive years. The Group won the "Gold Award in Corporate Participation" thanks to employees' enthusiastic participation. On 18th to 19th November, 2016, the Group's Chief Executive Officer, Mr. Chen Shuang, has led a team in the 2016 Oxfam Trailwalker, Hong Kong's largest fund-raising hiking activity. The team managed to complete a 100km hiking trail in 29 hours and 51 minutes and raised a fund of HKD 300,000. CEL will continue to organize regular volunteer activities so that it can continue to grow in its service to the community.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Work-Life Balance

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



Since 2015, the Group has named September as its "Work-Life Balance Month". Cultural and recreational activities such as providing discounted tickets to ballet performance, organising indoor war-game competition, booking of badminton courts, forming of a basketball team in industry basketball league etc., are designed to meet different needs of employees and encourage work-life balance. To further promote work-life balance, CEL also hosts an annual family day, where family members of our employees are invited.

Awards

Since 2015, for two consecutive years, the Hong Kong Productivity Council and the Promoting Happiness Index Foundation has jointly awarded a “Happy Company” label to CEL in recognition of its commitment to building a caring corporate culture and representing staff quality of life. This was evidenced by the Group’s conscientious efforts to create a pleasant working environment for employees. In addition, CEL was awarded with outstanding achievement in the Employers Retraining Board Manpower Developer Award Scheme, recognizing the Group’s effort in talent development, and was also named as 2015/16 Family-Friendly Employers by the Home Affairs Bureau and the Family Council, praising the company’s effort in promoting core-values relating to work-life balance, allowing employees in achieving a balance between work and family.



Our Community

As a CSR-committed company, 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. For example, in 2009, before many of the social problems faced by the middle class emerged, CEL sponsored the Caritas Family Crises Supporting Centre and jointly launched “The Everbright Project” to provide community services specifically targeting Hong Kong’s middle class. The Group then lent its full support to Social Workers Across Borders in 2012-2014, and it established “Project Companion – Professional Social Workers in Greater China Scheme” (“Project Companion”) with the aim of training professional social workers and providing post-disaster counselling in the Mainland. CEL has sponsored the Hong Kong Federation of Education Workers since 2013, and it also launched the “Everbright Teachers Heritage Discovery Tour”, a programme providing Hong Kong educators with the opportunities to visit various cities in Jiangsu Province. After the

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

visit, teachers talked to students about what they saw and heard during their travels, enriching the students' National Education curriculum and deepening their love for their country. Since 2016, CEL has also been the title-sponsor of the collaboration project with Endeavour Education Trust – the "China Everbright Voice of The Stars Story-Telling Scheme", aiming to cultivate a better understanding and greater awareness of Chinese history among the young people in Hong Kong. The middle class, social workers and teachers share a common trait: They are all individuals who work hard and make huge contributions to society, yet they are often overlooked. In 2008, the Group has established China Everbright Charitable Foundation (CECF), a recognised charitable organization by the Hong Kong government. Through CECF, the Group hopes to initiate more projects that are beneficial to both Hong Kong community and the development of the Mainland.

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

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

The 5-day "Everbright Teachers' Heritage Discovery Tour 2016" was organised in late July, with the theme of "New Township Enterprises – Hua Xi Village". Teachers from Hong Kong experienced the Chinese educational culture in a visit to Fudan University, a world-class academic institution in China. In addition, through visiting the historical heritages such as Hua Xi Village, Donglin Academy, the Beijing-Hangzhou Grand Canal, former residence of Xu Beihong, etc., the programme provides an opportunity for Hong Kong teachers to experience and learn Chinese culture and history. From 2013 to 2016, participating teachers visited Nanjing, Jiangyin, Taicang, Wuxi, Suzhou, Zhangjiagang, Shanghai and other cities to develop a better understanding of local culture. After these visits, participating teachers are required to prepare a lesson plan to share their experiences with their students.



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

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



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

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



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Other Community Projects and Donations

Over the past few years, CEL has supported disaster relief efforts following the Sichuan and Qinghai earthquakes, Victims of the typhoons in Taiwan, and people living in impoverished areas in the Mainland. The Group has also helped the Central Conservatory of Hong Kong Foundation and the Jackie Chan Charitable Foundation organize fundraising events. In 2016, the Group has supported numerous community projects relating to childcare and teenagers, including the sponsorship of the fund-raising concert hosted by the Young Artists Development Foundation to provide professional painting training for Hong Kong teenagers with financial difficulties and little access to quality education. In addition, CEL has sponsored the “YO Dancical” by Youth Outreach, an organization that is committed in turning at-risk teenagers into positive teenagers. The Group has also funded the “Daddy Daughter Ball” hosted by The Child Development Centre to help children with special educational needs in Hong Kong. Furthermore, through supporting Future Star Federation of Student’s “Future Star’s Exchange Tour along the “Belt and Road” Countries”, which aims at promoting the exchange between teenagers from Hong Kong and the Mainland to allow



university students from Hong Kong gain a deeper understanding of the countries along the “Belt and Road”. CEL was also the title-sponsor of Hong Kong Ballet’s Swan Lake, contributing to the development of local culture while offering tickets to children in low-income families to experience ballet performances at the same time through donating to its Accessibility Fund. Since its establishment, the Everbright Charitable Fund’s donations to all these charitable activities have exceeded HK\$25 million.

Contributing to Socioeconomic and Cultural Activities

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

Our Environment

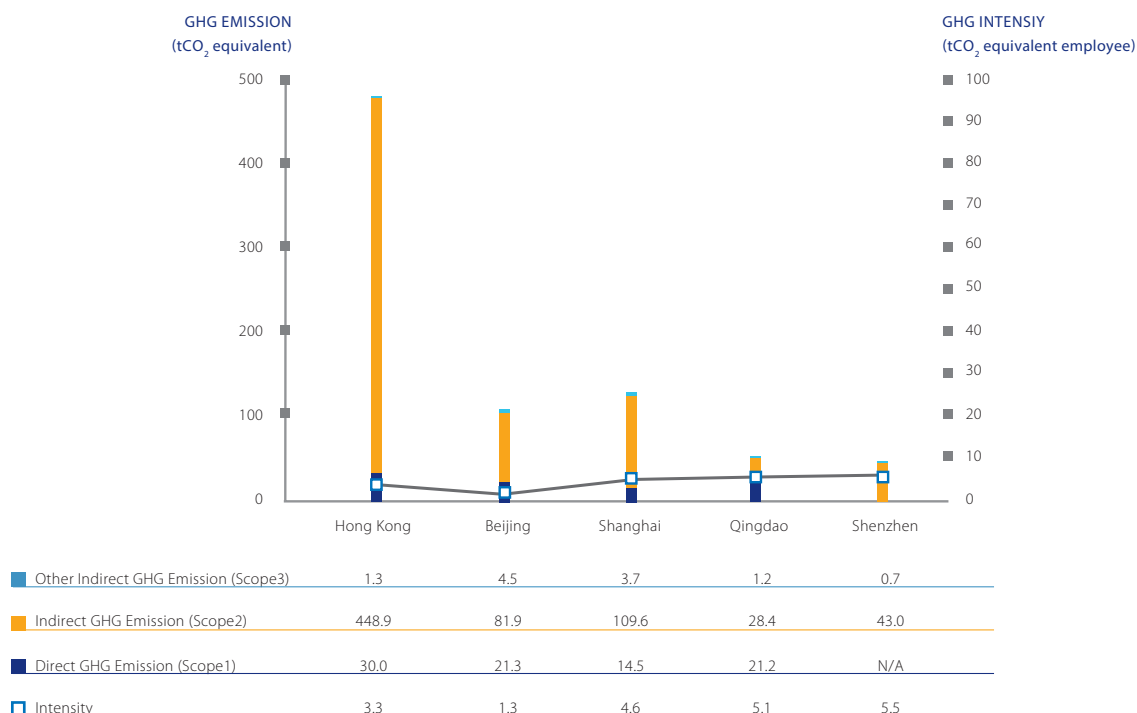
CEL understands the importance of sustainable development and environmental protection, and has been investing in environmental protection and renewable energy enterprises since 2006, including Goldwind Science and Technology Co., Ltd, CECEP Wind Power Corporation Co., Limited, Beijing Jingneng Clean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

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

Greenhouse Gases Emission and Management

Effective management of greenhouse gases (GHG) emission is one of the pressing topics in environmental protection. CEL closely monitors its GHG emissions in its operations. The GHG emissions reported are calculated according to "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purpose) in Hong Kong"¹. The emission intensity will be used as a reference for the Group in monitoring GHG emission performance in the future.

GHG EMISSION IN 2016



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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Energy Conservation

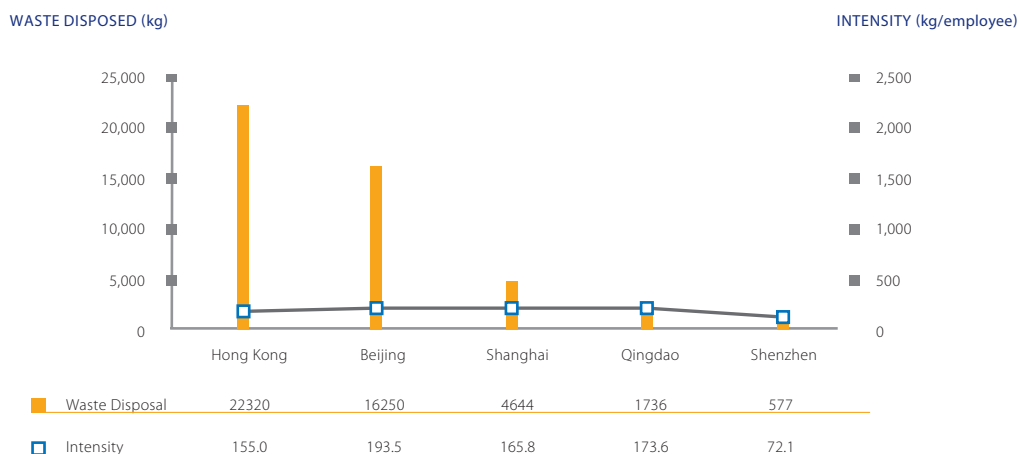
Energy consumption is an important factor causing environmental distress. CEL has initiated different measures to reduce energy usage. In order to cultivate awareness in environmental protection among employees, the Group has a strict requirement on employees' conduct, so as to reduce energy use in day-to-day operations. Our staffs are encouraged to conserve energy by turning off their computers and monitors after working hours through the Group's office policy. In addition, the Group purchases printers with energy conservation functions, where the machines will be switched into energy-saving mode automatically when not in use, to reduce energy usage. Notices on turning off computers and monitors before leaving the office are sent out to all staffs before long holidays. When renovation is being carried out in the office, the supply of air-conditioning will follow the building management's hours and a timer for air conditioning switches will be set.

Energy Consumption in 2016

	Consumption	Intensity
Electricity Consumption	944,913 (kWh)	3,449 (kWh/employee)
Fuel Consumption	32,151 (kl)	117 (kl/employee)

Waste Management and Recycling

CEL understands the importance of waste reduction; the Group has been closely monitoring the amount of waste disposed and the intensity to assess its performance. During the reporting period, a total of 45,527 kg of waste has been generated, with an intensity of 166 kg per employee.

WASTE DISPOSAL IN 2016

Waste is mainly generated from office operations. Cultivating a habit of recycling among employees is the key in our environmental protection initiative. A recycling box for paper is placed next to every the printers to make paper cycling easier for all employees. Employees are also encouraged to recycle toner cartridges. Recycling of toner cartridges is currently only available in Hong Kong office.

3,242 kg of paper and 22 cartridges² were recycled in the reporting period.

² Excluding offices in Mainland China.

Material Use

In order to lessen the burden on our environment, CEL pays special attention when sourcing materials. As printing paper ranks the top out in our material consumption, the Group has a strict requirement in choosing printing paper. Both Hong Kong and the Mainland offices use FSC-certified paper from responsible forest resources which dissuades deforestation. CEL's annual report is also printed on FSC-certified paper. To reduce our impact on the environment in our supply chain, the Group chooses environmentally responsible suppliers. Our printing paper suppliers are ISO 14001 certified, proven to possess an effective environmental management system.

During office renovation, the Group ensures compliance with Building Energy Code of the Buildings Energy Efficiency Ordinance and follows Electrical and Mechanical Service Department's guideline in the use of energy saving lightings and environmentally friendly material.

Resource Utilisation

Reducing wastage is one of the Group's operational principles. Efforts have been made in different aspects to conserve resources and reduce waste generation. The Group's online collaborative Office Automation Platform and Mobile app now cover various procedures for daily administration, management and approval, which has greatly promoted 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 joiners are set to black-and-white and employees are also encouraged to make photocopies on recycled paper.

Green Activities

Besides implementing environmental friendly measures in the office, the Group has also incorporated environmental protection elements in employees' daily activities, to raise others' environmental awareness while helping those in need.

"Food Angel": "Food Angel Meals" preparation

This year, CEL's volunteer team has participated in Food Angel's meal preparation for elderly in elderly homes. Through supporting Food Angel's Food Rescue and Food Assistance Programme, food wastage can be reduced, and, at the same time, the food can be served to people in need of food assistance. This Food Rescue and Food Assistance Programme gave volunteers an idea about the current food-wasting issues through involving in the collection and distribution of food waste while helping those in search for food assistance.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

Environmental, Social and Governance Content Index

China Everbright Limited's 2016 Environmental, Social and Governance Report is prepared with reference to the "Environmental, Social and Governance Reporting Guide" under Appendix 27 to the Main Board Listing Rules of Hong Kong Stock Exchanges and Clearing Limited. The following table provides an overview on the Subject Areas, Aspects and their General Disclosures, as well as the Key Performance Indicators (KPI), which are either referred to the relevant chapters of the Report or supplemented with additional information.

KPIs	Description	Cross-reference/Comments
<i>Environmental</i>		
<i>Aspect A1: Emissions</i>		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws of regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Our Environment (Page 57)
KPI A1.1	The types of emissions and respective emissions data.	We do not generate any emissions in our operations.
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Our Environment (Page 57)
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	We do not generate any hazardous waste in our operations.
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Our Environment (Page 57)
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Our Environment (Page 57)
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Our Environment (Page 57)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs	Description	Cross-reference/Comments
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw material.	Our Environment (Page 57)
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	Our Environment (Page 57)
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Not applicable Our water supply is provided by the building's management. We will explore ways to collect water consumption data with the management office.
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Our Environment (Page 57)
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Not applicable
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Not applicable
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Our Environment (Page 57)
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Our Environment (Page 57)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs	Description	Cross-reference/Comments
<i>Social</i>		
Employment and Labour Practice		
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Our Employees (Page 48)
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Our Employees (Page 48)
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	The overall turnover rate is 20%.
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Our Employees (Page 48)
KPI B2.1	Number and rate of work-related fatalities.	There are no cases of work-related fatalities during the reporting period.
KPI B2.2	Lost days due to work injury.	The total number of lost days is 6 days during the reporting period.
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Our Employees (Page 48)

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs	Description	Cross-reference/Comments
<i>Aspect B3: Development and Training</i>		
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Our Employees (Page 48)
KPI B3.1	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Our Employees (Page 48)
KPI B3.2	The average training hours completed per employee by gender and employee category.	Our Employees (Page 48)
<i>Aspect B4: Labour Standards</i>		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Our operations do not involve any child or forced labour. We strictly follows the "Recruitment Policy" in recruiting employees to prevent child and forced labour.
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Please refer to General Disclosure.
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Please refer to General Disclosure.
<i>Operating Practices</i>		
<i>Aspect B5: Supply Chain Management</i>		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Our Environment (Page 57)
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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs	Description	Cross-reference/Comments
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	We strive to safeguard client assets, protect the interests of all stakeholders and at the same time meet our statutory responsibilities as a Hong Kong listed company and parent of a number of regulated entities. Please refer to the Risk Management section in our 2016 Annual Report for more information.
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not applicable
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not applicable
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Not applicable
KPI B6.4	Description of quality assurance process and recall procedures.	Not applicable
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Not applicable
Aspect B7: Anti-corruption		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	All employees are required to strictly follow the "Anti-Money Laundering Policy". We have also formulated a "Whistleblowing Policy" to facilitate an effective internal monitoring system.
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	There are no legal cases regarding corrupt practices during the reporting period.
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Please refer to the Corporate Governance section of our 2016 Annual Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT (CONTINUED)

KPIs	Description	Cross-reference/Comments
<i>Community</i>		
<i>Aspect B8: Community Investment</i>		
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Our Community (Page 53)
KPI B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	Our Community (Page 53)
KPI B8.2	Resources contributed (e.g. money or time) to the focus area.	Our Community (Page 53)

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

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

CORPORATE GOVERNANCE REPORT

Governance Principles and Structure

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

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

The Board would like to confirm that, subsequent to careful examination and review, other than deviation from the Code A.4.1, providing that Non-executive directors should be appointed for a specific terms and, subject to re-election and the Code E.1.2, providing that the Chairman of the Board should attend the annual general meeting, the Company has complied with the Code for the year ended 31 December 2016. As proposed by Mr. Tang Shuangning, to pursue more commitments on the strategic development of China Everbright Holdings Company Limited and China Everbright Group Ltd. (both being controlling shareholders of the Company), he decided not to act as the Chairman of the Board and was redesignated as the Non-executive Director of the Company with effect from 12 December 2016. There is not a specific terms of appointment of Mr. Tang as Non-executive. However, pursuant to the Articles of Association of the Company, Mr. Tang shall retire by rotation and will subject to re-election at least once every three years. The Board believes that the current arrangement will enable the Company to have a greater flexibility to organise the composition of Board to serve the needs of CEL. In addition, due to other commitment, Mr. Tang as the then Chairman of the Board was unable to attend the annual general meeting held in May 2016. However, Dr. Liu Jun, the then Deputy Chairman of the Board, had attended the annual general meeting held in May 2016.

Board

Composition of the Board

The Company is led by the Board that is effective and of quality. The Board acts honestly and fiducially, which makes decisions objectively for the best interests of the Company, so as to bring maximum value to the shareholders in the long term and practically fulfill its obligations to the stakeholders of the Company. The Board is comprised of a balanced portfolio from executive directors, non-executive director and independent non-executive directors ("INEDs"). As at the date of this report, the Board has 7 members including:

Name of Directors	Title
<i>Executive Directors</i>	
Dr. Cai Yunge	Chairman
Mr. Chen Shuang	Chief Executive Officer
Mr. Tang Chi Chun, Richard	Chief Financial Officer
<i>Non-executive Director</i>	
Mr. Tang Shuangning	Non-executive Director
<i>Independent Non-executive Directors</i>	
Mr. Seto Gin Chung, John	Independent Non-executive Director
Dr. Lin Zhijun	Independent Non-executive Director
Dr. Chung Shui Ming, Timpson	Independent Non-executive Director

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

All directors are management officers with extensive experiences in the financial industry. They have abundant professional expertise to fully understand our businesses and the necessary skills to deal with our business matters. Each of them is prudent, objective, 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 advices on issues relating to CEL's strategies, performances, conflicts of interest and management processes, which ensure that the interests of all shareholders are taken into account.

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

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

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

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

Board Diversity

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Under the current board combination, all directors possess extensive experience in financial industry and management. In addition, one-third of them are Independent Non-executive Directors ("INEDs"), of whom some of them are experts in strategic development, financial and/or risk management. Biographical details of the professional experience, skills and knowledge of the directors are available in "Directors and Senior Management" section on pages 109 to 112.

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

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

Role of Independent Non-executive Directors

The Board believes that the INEDs play an important role in corporate governance. They provide the necessary checks and balances to ensure that CEL operates in a safe and sound manner and that its interests are protected. The INEDs also bring external experience and make judgment objectively. They are particularly important in performing a monitoring role. The Board considers all its INEDs to be independent in character and judgment. The Board has received written confirmation from the INEDs of their independence pursuant to the requirement under Rule 3.13 of the Listing Rules and considers all the INEDs to be independent. The appointment of an INED is for a fixed term and subject to retirement by rotation in accordance with the Articles of Association of the Company and the Listing Rules. Every year, the Board reviews and assesses the independence of any INED who is in office for more than 9 years. The conclusion of his independence is stated in the circular of the annual general meeting to shareholders.

Directors' Liability Insurance

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

Responsibilities of the Board

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

- approves CEL's long term strategy and monitors the implementation thereof;
- monitors and controls CEL's operations and financial performance through reviews and approves its annual business plan financial budget, and ensures CEL have 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 standard;
- reviews and monitors risk management and internal control of CEL to ensure the appropriate internal control system are in place, including systems for risk management, financial and operational control;
- monitors the effectiveness of the CEL's practices in corporate governance and corporate social responsibility, ensures good corporate governance and compliance; and
- monitors performance of the Management.

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

Corporate Governance Functions

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

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

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

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

Division of Responsibilities between the Chairman and the Chief Executive Officer

The positions of the Chairman and the Chief Executive Officer are held by Dr. Cai Yunge and Mr. Chen Shuang respectively. Their roles are distinct and are clearly established and stipulated in their terms of reference. The Chairman leads the Board in order to ensure that the Board discharges its formal responsibilities and conforms to good corporate governance practices and procedures. Besides, as the Chairman of the Board, he is also responsible for making sure that all directors are properly informed of important issues which the Company is focusing on and that all directors receive accurate, timely and clear information. The Chairman also leads the Board in formulating business objectives and their related strategies. He is also responsible for organising the business of the Board, setting its agenda to take full account of the important issues facing CEL and the concerns of all directors, and ensures 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, are delivered to the directors to fulfill its duties. The Chairman is also overseeing and giving guidance to the Management in order to enhance the functions of the Board. The Chief Executive Officer is responsible for leading the Management, who implements and executes the important policies and development strategies approved by the Board with the assistance of the Management. The Chief Executive Officer is also directly responsible for the day-to-day operation of the Company conducts the affairs of the Company in accordance with the practices and procedures adopted by the Board and promotes the highest standards of integrity, probity and corporate governance within the Company and regularly reports to the Board.

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

Training and Support for Directors

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

To ensure that all existing directors have a regular updates of their knowledge, so they can form informed recommendations and advices to the Board, the Board has established a guideline on directors' training. In addition to arranging appropriate trainings to existing directors on an annual basis, the Company issues "monthly circulars" to Board members, contents of which include the monthly financial statements of 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 material in relating to directors' responsibilities. The said reading material is mainly used to provide Board members 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 is of sufficient detail to enable the directors to perform relevant duties under Listing Rules 3.08 and Chapter 13.

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 enables the Board members to enhance better understanding of the front-line business development of the Company. In 2016, the Board members conducted meetings with business teams and attended the Two-Days Everbright Investment Conference 2016 held in Qingdao in October 2016 to comprehend the business operation and the recent development in the industry. In addition to arranging trainings to existing directors regularly, the Board members are also encouraged to participate in professional training programmes as they consider appropriate, with a view to develop and update their knowledge and skills.

Apart from the above training offered by the Company, based on the training records provided to the Company by the directors, the directors also participated in the following trainings during 2016:

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

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

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

A total of 6 Board meetings were held during the year. The schedule for the regular meetings of the Board and the Board Committees was prepared and approved by the Board at the end of the previous year. Unscheduled supplementary meetings may also take place as and when necessary of reasonable notice. Formal notices were sent to all directors at least 14 days before the meeting shall be held officially. In general, the Board agenda and meeting materials were dispatched to all Board or relevant committee members for review at least 3 working days before the meetings. The agenda had been prepared after sufficient consultation with the Board/Board Committee members and the Management and was then approved by the respective chairmen. The Company Secretary is responsible for submitting the papers of Board meetings and relevant information to the directors, who have to capture the related information timely. The Board ensures that Directors, especially Non-executive directors, are provided with efficient resources in the furtherance of their duties as Board/Committee members, including obtaining further information if necessary or seeking independent professional advice accordingly at the cost of the Company.

The minutes of the Board/Board Committees contain detailed records of all the issues considered and the decisions made by the directors. The minutes, upon reviewed by all the Board members, are properly kept by the office of the Company Secretary. The Company Secretary reported matters arising from previous Board meeting and the relevant follow up actions taken.

The Board can also seek the advices and services from the Company Secretary, the Designated Secretary or the secretaries of the respective Board Committees. The Company Secretary is also responsible for ensuring compliance of the procedures of the Board as well as the applicable laws, rules and regulations. Apart from the regular Board meetings, the Company Secretary also arranges a meeting for the Chairman and the Deputy Chairman of the Board to meet all INEDs in the absence of the executive directors and the management. Individual attendance records of the relevant directors in 2016 are as follow:

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 2016 is set out below:

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

Note: Dr. Cai Yunge joined the Board on 10 November 2016 and was appointed as Executive Director and Deputy Chairman with effect from even day. He was subsequently redesignated as Executive Director and Chairman of the Board with effect from 12 December 2016.

Every director performance his duties as director at all the time net in good faith, objective, 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 meeting and giving in-depth understanding to the follow-up issues under the agenda after the meeting. The Company also required the directors to disclose to the Company each year the number and nature of offices held in public companies or organisations and other significant commitments, with an indication of the time involved. The Board believes all directors devoted sufficient time and efforts to deal with matters of the Group, other commitments do not affect the effectiveness of their contribution or the time available to CEL.

Board Committees

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

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

Executive Committee

The Executive Committee, which was established in 2005, is the organ for making significant business decisions of the Company. Upon the delegation by the Board, the Executive Committee makes decisions regarding major issues as proposed by the Board through interactive communications from time to time concerning monitoring over the Company's business objectives, business development plans and major business projects. The Executive Committee currently comprised three members: Dr. Cai Yunge (Chairman of the Board), Mr. Chen Shuang (Chief Executive Officer) and Mr. Tang Chi Chun, Richard (Chief Financial Officer). Dr. Cai Yunge, the Chairman of the Board, is also the Chairman of the Executive Committee. In 2016, the Executive Committee approved a number of major issues through written resolutions.

Audit and Risk Management Committee

The Audit and Risk Management Committee, was established in 1999 and formerly known as the Audit Committee ("the Committee"). The Board is aware that risk management and control is one of the core parts of CEL's business operation. In February 2006, the Committee entirely consisting of all INEDs was renamed as Audit and Risk Management Committee, further to the terms of reference required to be performed by Audit Committee under the Listing Rules, it also assists the Board to formulate and monitor the risk management strategy and related framework and policy of the Company. The Chief Risk Officer and Risk Management Department assist the Committee to perform 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. The Committee assists the Board in fulfilling its responsibilities relating to the supervision of the financial statements, internal control, internal audit and external audit of the Company. The written terms of reference of the Committee, which were prepared with reference to "A Guide for Effective Audit Committees" published by the Hong Kong Institute of Certified Public Accountants and updated with reference to the requirement of the Code, were approved and properly authorized by the Board. The Terms of Reference of the Audit and Risk Management Committee is available for inspection at the Company's website. In short, the Committee mainly assists the Board in performing its role in the Company in the following areas, among others:

CORPORATE GOVERNANCE REPORT (CONTINUED)

Internal Audit Function

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

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

External Auditors

- to appoint, retain, dismiss and replace the Company's External Auditors, subject to endorsement by the Board and final approval and authorisation by the Shareholders of the Company in General Meeting, and to approve the remuneration and terms of engagement of the External Auditors, and any questions of its resignation or dismissal; and monitor the associated fees and independence of the External Auditors to ensure that the performance of non-audit services does not impair the independence of the External Auditors in connection with their audit. Each non-audit service to be performed by the External Auditors shall be separately identified in connection with its pre-approval;
- to meet with the External Auditors at least annually, in the absence of management, to discuss matters relating to any issues arising from the audit and any accounting, financial reporting or internal control matters the External Auditors may wish to raise;
- to review and monitor the effectiveness of the audit process in accordance with applicable standards and discuss with the External Auditors the nature and scope of the audit and reporting obligations before the audit commences;
- to review the work of the External Auditors (including the resolution of any disagreement between management and the External Auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work, the scope of their audit and any other services, and approve the fees for and terms of their services;
- review with the External Auditors recent or anticipated developments in accounting principles or reporting practices that may affect the Company or the scope of the audit; and discuss major anticipated audit problems, if any;
- to review results of audits performed by the External Auditors including any changes in accounting procedures and/or the system of internal controls noted or developed during the audit examination along with matters of controversy, if any, with management. Determine appropriate action required on significant control weaknesses, and recommend such actions to the Board of Directors; and
- to review the External Auditors' management letter, any material queries raised by the External Auditors to Management about accounting records, financial statements or systems of control and Management's response.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Finance Reporting

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

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

Risk Management

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

- (a) the changes, since the last review, in the nature and extent of significant risks, and how the Company responds to changes in its business and the external environment;
- (b) the scope and quality of Management's ongoing monitoring of risks and of the internal control system, the work of internal audit;
- (c) the monitoring results, which enables it to assess control of the Company and the effectiveness of risk management;
- (d) significant control failings or weaknesses identified 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, to monitor 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 88 to 95.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 abides by any applicable laws and complies with regulation of the relevant regulators and maintains its business ethics; and
- making recommendations to the Board where necessary, and to carry out duties within the delegated authority of the Board.

Whistleblowing

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

The work performed by the Audit and Risk Management Committee in 2016 included the review and, where applicable, approval of:

- the Company's financial statements for the year ended 31 December 2015 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 2016 and the interim results announcement thereof, which were recommended to the Board for approval;
- the audit report and management letter submitted by the external auditors;
- the quarterly risk assessment report submitted by the Chief Risk Officer;
- the quarterly internal audit report submitted by the Internal Audit Department;
- the re-appointment of external auditors, and the audit fees, non-audit fees payable to external auditors for the annual audit and interim review; and
- CEL's internal audit plan and key areas of the internal audit work focus for 2017.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

- to review the systems of financial control, internal control and risk management;
- to discuss the internal control system with Management to ensure that Management has performed its duty to have an effective internal control system. This discussion should include:
 - (a) an annual review of the adequacy of resources, staff qualifications and experience, training programmes and budget of accounting, internal audit and financial reporting function;
 - (b) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and Management's response to these findings of CEL;
 - (c) to review financial and accounting policies and practices. Special meetings may be called at the discretion of the Chairman or the request of Senior Management to review significant control or financial issues;
 - (d) to review the annual general representation letter from the CEO and CFO; and
 - (e) to review the internal audit function and monitor its effectiveness of the Company.

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

Nomination Committee

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Nomination Committee currently has four members: Dr. Lin Zhijun, Mr. Seto Gin Chung, John, Dr. Cai Yunge and Dr. Chung Shui Ming, Timpson. Dr. Lin Zhijun, an INED, is the chairman. The INEDs represent a majority of the committee members. Stability of the Board members, Committees members and senior management was maintained in 2016 and the Nomination Committee held two meetings in the year in relation to the review of the structure, size and composition (including skills, experience and knowledge) of the Board and the Board Committees, assessed the independence of the independent non-executive directors, and discussed and made recommendation to the Board on the re-election of the retiring Directors at the forthcoming 2017 annual general meeting of the Company etc.. The attendance rate of the Nomination Committee meeting is 100%.

Remuneration Committee

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

- to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- to determine, with delegated responsibility, remuneration packages of individual executive directors and senior management; including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
- to assess the performance of executive directors and to approve the terms of executive directors' services contract;
- 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;
- 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 2016 included the review and, where applicable, approval of:

- the performance appraisal of the executive directors and senior management for year 2015;
- the proposal on staff bonus (including the senior management) for year 2015 and salary adjustments for year 2016 for the Company;
- the incentive scheme of the Company; and
- the policies on performance appraisal of the Company's staff (including senior management), annual bonus and annual salary adjustments.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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

The remuneration received by each of the directors in 2016 is listed in note 8(a) to the financial statements in this report. The remuneration received by the senior officers was disclosed in this report according to the band of their remuneration. The fee for the existing directors of the Company, including the expense allowance for acting as member(s) of the Board Committees, is submitted to the general meeting every year for approval. For 2016, the remuneration approved by shareholders at the general meeting is as follows:

The director's fee for the year ended 31 December 2016 is HK\$150,000 for each INED who has served one full year and pro-rated for INED who did not serve one full year. There is no standard fee for INEDs for acting as member(s) of the Remuneration Committee, Audit and Risk Management Committee, Nomination Committee and Strategy Committee. However, an expense allowance was paid to INEDs for attending the following meetings:

- (a) HK\$10,000 for attending a Board meeting;
- (b) HK\$5,000 for attending a meeting of the Remuneration Committee, Nomination Committee and Strategy Committee; and
- (c) HK\$18,000 for the chairman of the Audit and Risk Management Committee attending its meeting and HK\$14,000 for other members.

There is no director's fee for the year ended 31 December 2016 for executive directors/non-executive directors.

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

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

The Remuneration Committee currently has 4 members comprising Mr. Seto Gin Chung, John, Dr. Cai Yunge, Dr. Lin Zhijun and Dr. Chung Shui Ming, Timpson, for which Mr. Seto Gin Chung, John, an INED, is the chairman. The INEDs represent a majority of the members of the Remuneration Committee. A total of 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 2016 is set out below:

Remuneration Bands (HK\$)	Number of persons
Below HK\$500,000	1
HK\$3,500,001 to HK\$4,000,000	1
HK\$5,000,001 to HK\$5,500,000	1
HK\$6,000,001 to HK\$6,500,000	1
HK\$6,500,001 to HK\$7,000,000	1
HK\$7,000,001 to HK\$7,500,000	1
HK\$11,000,001 to HK\$11,500,000	1
HK\$12,500,001 to HK\$13,000,000	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 Company. The Strategy Committee is chaired by Mr. Seto Gin Chung, John, an INED, and currently has 5 members: Mr. Seto Gin Chung, John, Dr. Cai Yunge, Mr. Chen Shuang, Dr. Lin Zhijin and Dr. Chung Shui Ming, Timpson. The Strategy Committee convenes physical meeting regularly each year with a focus to review the strategic positioning and development planning of the Company.

Independent Board Committee

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

Accountability and Audit

CEL aims to ensure disclosures provide meaningful information and do not give a misleading impression. As part of the Company's system of internal control, the Management Decision Committee members will submit a "Representation Letter" to the Board, in which they give their confirmation that "the competence of the accounting records, the compliance of financial reporting, the accuracy of the fair value of the investment projects, the information provide to External Auditors and Board members are full range, complete, correct and without omission, which cover 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, the yearly budget is executed upon approval by the Audit & Risk Management Committee and the Board. The budget implementation will be reviewed periodically by the Board to ensure the effectiveness of budget management and financial reporting.

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

The Company's monitoring structure

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

1st. The risk management of frontline departments

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

2nd. Continuously monitor of middle and back office

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

3rd. The independent review of internal audit

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

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

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

The review of risk management and internal control by the Board

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

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

The Audit and Risk Management Committee and the Board consider that the material aspects of the Company's risk management and internal control systems are reasonably implemented and are able to prevent significant misstatements or losses, whilst safeguarding the Group's assets, maintaining appropriate accounting records and complying with applicable laws and regulations. Such internal control system has basically fulfilled the requirements of the Code as set out in Appendix 14 of the Listing Rules regarding risk management and internal control systems in general.

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

- The Management established an organisational structure with different hierarchies of duties, authorities and responsibilities of personnel; formulated written policies and procedures to check and balance the authorities of different departments; reasonably safeguarded the assets and the implementation of the internal control measures of the Company; and operated in compliance with laws and regulations under effective risk control.
- The Management formulated and continually monitored the implementation of the Company's development strategies, business plans and financial budgets. The accounting and management systems were also in place to provide the basis for evaluating the financial and operational performances.
- The Company formulated various risk management and human resource management policies. Specific units and personnel were responsible for identifying, assessing and managing each of the major risks types. These include reputation, strategic, legal, compliance, credit, market, operation, liquidity and interest rate risk.
- The Chief Risk Officer of the Company is responsible for the routine risk management work of the Company and for supporting and assisting the Management in defining and evaluating the risk exposures of the Company's businesses and conducting the co-ordination thereof. He assesses, identifies and records the risk structure of the Company and ensures the relevant business units are aware of such issues. The Chief Risk Officer regularly reports to the Audit and Risk Management Committee and the Management Decision Committee. The Risk Management Department assists the Chief Risk Officer in carrying out his duties.
- The Audit and Risk Management Committee reviews the letter of recommendation submitted by the external auditors to the Management in connection with the annual audit. The Internal Audit Department is responsible for ensuring that the recommendations are promptly followed, and will also periodically report the status of the implementation thereof to the Audit and Risk Management Committee and keep the Management informed with updated information.

Risk Management

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

Board Evaluation

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

Directors' Securities Transactions

The Company has devised special rules governing securities dealing of directors in the "Code for Securities Transactions by Directors and Relevant Employees", which are no less exacting than the required standards set out in the "Model Code for Securities Transactions by Directors of Listed Issuers" contained in Appendix 10 of the Listing Rules. Having enquired of all directors, the directors confirmed that they have complied with the required standards set out in the said manual and the Model Code throughout the year of 2016.

Constitutional Documents

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

CORPORATE GOVERNANCE REPORT (CONTINUED)

External Auditors

The external auditors of the Company for the year under review were Ernst & Young ("EY"), who was appointed at the annual general meeting of the Company held on 18 May 2016 in place of the retiring auditors, KPMG.

Pursuant to the responsibility delegated by the Board, the Audit and Risk Management Committee had reviewed and monitored the independence, objectivity and effectiveness of 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 2017 annual general meeting, the Board will authorize the Audit and Risk Management Committee to determine the remuneration for EY.

For 2016, the total fee charged by EY for audit services was HK\$10,177,000 and non-audit services was HK\$1,209,000 for the review of the interim financial statements and other services. For 2015, the total fee charged by the then external auditors, KPMG for audit was HK\$9,394,000 and non-audit services was HK\$2,042,000 respectively.

Directors' Responsibilities in respect of Financial Statements

The following statement should be read in conjunction with the auditor's statement of its responsibilities as set out in the Independent Auditor's Report contained in the 2016 Annual Report of the Company. The statement sets out for the shareholders the respective responsibilities of the directors and the auditors in relation to the financial statements.

The directors are required by the Companies Ordinance in Hong Kong to prepare financial statements which give a true and fair view of the state of affairs of the Company. The financial statements should be prepared on a going concern basis unless it is inappropriate to do so. The directors have the responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the requirements of the Companies Ordinance in Hong Kong. The directors also have general responsibilities for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors consider that in preparing the financial statements in the 2016 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 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 that information which is expected to be inside information should be announced immediately is the subject of a decision, the Company has stated in its "Inside Information Policy" that it has a strict prohibition on the unauthorised use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Company's affairs. A member of the Management Decision Committee is identified and authorised to act as the Company's spokesperson and respond to enquiries in allocated areas of issues.

Communication with Shareholders and Shareholders' Rights

Annual General Meeting

The Board attaches a high degree of importance to non-interrupted communications with shareholders, especially direct dialogue with them at the Company's annual general meetings. Shareholders are encouraged to actively participate in such meetings. Members of the Board, including the Deputy Chairman and INEDs, and representatives of KPMG were present at the Company's 2016 annual general meeting held on 18 May 2016 to address to questions and comments raised by shareholders.

In addition, the Company also provided further information on the 2016 annual general meeting in a circular to shareholders. This includes background information to the proposed resolutions and information on the retirement and re-election of directors in order to enable all shareholders to understand their rights at the annual general meeting and to make decisions with sufficient information.

Shareholders' Communication Policy

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

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

Shareholders' Rights

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

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

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

The request –

- (a) must state the general nature of the business to be dealt with at the meeting;
- (b) may include the text of a resolution that may properly be moved and is intended to be moved at the meeting;
- (c) may consist of several documents in like form;

CORPORATE GOVERNANCE REPORT (CONTINUED)

- (d) may be sent in hard copy form or in electronic form to the Company Secretary at the Company's registered office (46th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong) or by way of email to ir@everbright165.com; and
- (e) must be authenticated by the person or persons making it.

Pursuant to Section 567 of the 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@everbright165.com. The Company Secretary will direct enquiries received to appropriate Board member(s) or the Chairman of the Board Committee(s) who is in charge of the areas of concern referred therein for further handling. The Board, assisted by the Company Secretary, would make its best efforts to ensure that all such enquiries are addressed in a timely manner.

Investor Relations and Communication

The Company believes that communicating with the shareholders and investors by electronic means (in particular through the Company's website) is an efficient way of delivering information in a timely and convenient manner. An "Investor Relations" section is available on the Company's website at www.everbright165.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 is posted on the website of the Company as soon as possible once the materials are published. The contents published by the Company regarding to all press releases, corporate profiles, corporate structure, biographical information of the Board and the management team, service philosophy and corporate social responsibility are posted on the website of the Company. Corporate communication is provided to the shareholders in plain language and in both English and Chinese versions to facilitate shareholders' understanding. Web-casting service will be provided on the meetings announcing the interim and final results of the Company.

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

Sustainable Corporate Social Responsibility

The Company attaches great importance to corporate social responsibility. The Board is committed to undertaking corporate social responsibility by strengthening relationship with its stakeholders with a view to contributing to the sustainable development of the economy, society and environment. The Company consistently supports and participates in activities that are beneficial to the community. Please refer to the "Environmental, Social and Governance Report" set out on pages 43 to 65 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 Chief Executive Officer of the Company. The Company's Articles of Association state that the appointment and removal of the Company Secretary is a matter for the Board. Changes and appointment of Company Secretary are dealt with by a physical Board meeting rather than a written resolution.

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

RISK MANAGEMENT REPORT

The Scope of Risk Management & Internal Controls

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

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

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

Risk Management Framework:

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

- The Board and the Management Decision Committee promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner; and
- The over-riding priority is to protect the Company's long-term viability and reputation and produce sustainable, medium to long-term returns.

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

Internal Control Framework:

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

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

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

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

Communication of Risk & Internal Control Review Reports

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

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

RISK MANAGEMENT REPORT (CONTINUED)

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 summarizes the Company's key risks and internal control matters, key risk indicators, and identified any changes to Company's risk and internal control profile (more details on the Company's risk and internal control review, please refer to the relevant page of Corporate Governance Report).

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

Effectiveness of Financial Reporting & Listing Rule Compliance

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

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

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

Process of Assessment and Management of Significant Risks

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

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

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

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

RISK MANAGEMENT REPORT (CONTINUED)

Main Features of Risk Management and Internal Control

Terms of Reference

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

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

Risk Management & Internal Control

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

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

Board Responsibility on Risk Management & Internal Control

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

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

Process of Reviewing the Effectiveness of Risk Management & Internal Control

On behalf of the Board, the Audit and Risk Management Committee carried out the annual assessment of the effectiveness of the risk management and internal control during 2016, 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.

RISK MANAGEMENT REPORT (CONTINUED)

Review of Key Risks

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

Key Risk	Changes in 2016	Mitigating factors
Financial		
Liquidity Risk Risk of failing to meet the Company's contractual or payment obligations in a timely manner.	 The Company has continued to hold sufficient cash balances to fulfill its obligations under normal or stressed environment.	- The Company's cash position, available facilities and forecast cash flows are closely monitored by Finance Department and under the oversight of Risk Management Department. - The Company perform long term forecasts and use of stress tests to assess the Company future liquidity and short term forecasts to closely monitor any change in liquidity need.
Financial Leverage Risk - Key risk that arises from high financial leverage occurs when a company's return on asset does not exceed the interest on the loan, which greatly diminishes a company's return on equity and profitability. - Additionally, high financial leverage may raise the risk of failing to fulfill the relevant requirements form loan covenants (if any) and resulting in technical default.	 Higher financial leverage as a result of the new issue of Panda bonds by the Company and the increasing demand on capital for new investments, yet it is still within a reasonable level.	- The Company has projected the firm-wide cash flows, return and profitability at least annually. After consideration from the perspective on financial control and risk management, the Management advises the Board regarding the optimized financial leverage ratio and relevant limits for approval. - The approved financial leverage ratio and relevant limits are closely monitored by Finance Department and Risk Management Department regularly.

Key:  Risk level increased

 Risk level decreased

 No significant change in risk level

RISK MANAGEMENT REPORT (CONTINUED)

Key Risk	Changes in 2016	Mitigating factors
Foreign Currency Risk Risk that the Company's financial position is exposed to adverse movements in exchange rates.	 Depreciation of RMB during the year has direct or indirect negative impact on the Company's financial position as majority of our assets are invested in RMB.	- Monitor asset exposures by currency regularly and the foreign currency rate movement. - Perform sensitivity analysis on the effect of change in foreign currency rates.
Interest Rate Risk Change of the interest rate will have negative impact on the Company and its relevant portfolios if there is an interest rate mismatch of the assets and liabilities.	 Cost of borrowing increased with the increase in the interest rate of USD/HKD.	- Monitoring on interest rate mismatch and sensitivity test are performed regularly. - The Company has managed to increase the proportion of loans in RMB and Panda bonds to mitigate the impact from the increase in the interest rate of USD/HKD.
Investment		
Market Risk Risk arises from market movements, which can cause a fall in the value of investments.	 Although market volatility for equity market and bond market in China and Hong Kong decreased in 2016, overall market risk did not decrease much due to general increase in uncertainty about the overall financial market.	- Limits on the aggregate amount of seed capital investment and diversification of the assets invested. - The Company actively develops businesses which are fee bases so that our return and profitability are not solely calculated by reference to the market value of investments and AUM.

Key:  Risk level increased

 Risk level decreased

 No significant change in risk level

RISK MANAGEMENT REPORT (CONTINUED)

Key Risk	Changes in 2016	Mitigating factors
Credit Risk - Risk exposed to credit losses if borrowers are unable to repay loans and outstanding interest and fees. - In addition, the Company has exposure to counterparties with which we place deposits or trades, and derivative contracts.	 - The Company's provision on loan in percentage did not have significant change and kept at a reasonable level. - Our counterparty risks are broadly unchanged.	We seek to minimize our credit risk from our lending by:– - Lending on a majorly secured basis with significant emphasis placed on the underlying security. - Manage to maintain consistent and conservative loan to value ratios and short-term tenor. - Operating strong control and governance both within business units and with oversight by Risk Management Department. Our exposures to counterparties are mitigated by:– - Seek to diversify our exposures across different counterparties. - Continuous monitoring of credit quality of our counterparties within approved set limits.
Operational		
Operational Risk Risk of losses through inadequate or failed internal processes, people or systems or through external events.	 The Company has setup an Operations Department since 2015 to enhance continuously the identification, control and management on operational a risks.	- Our control systems are designed to ensure operational risks are mitigated to an acceptable level. - Three lines of defend model abovementioned is key point. - Risk and control assessments are used to identify and assess key operational risks. Associated controls are assessed with regard to their design and performance. Where required, processes and controls are enhanced to improve the control environment. - We manage risk events through identification, reporting and resolution with the aim of preventing risk events from recurring. - Relevant trading/investment management systems are implemented and enhanced continuously to mitigate relevant operational risk.

Key:  Risk level increased

 Risk level decreased

 No significant change in risk level

RISK MANAGEMENT REPORT (CONTINUED)

Key Risk	Changes in 2016	Mitigating factors
Legal and Regulatory Risk - Changes to the existing legal, regulatory and tax environments and failure to comply with existing requirements may materially impact the Company. - Failing to treat customers fairly, safeguard client assets or provide advice/products contrary to clients' best interest may damage our reputation and may lead to legal or regulatory sanctions including litigation and customer redress. This applies to current, past and future business.	 The changes in legal and regulatory requirements in recent years lead to additional reporting requirements, operational complexity and cost to the Company.	- Legal, Compliance and Company Secretarial Department tracks legal and regulatory developments to ensure the Company is prepared for both local and global changes. In addition to developing policies, delivering training and performing monitoring checks, they provide advice to other departments to ensure compliance with legal and regulatory requirements. They also work with project groups to implement key regulatory changes. - Governance and control processes to review and approve new funds/products. - Training for relevant staff regarding the legal and regulatory requirements for running the Company's businesses. - Continuous monitoring of key legal, regulatory and tax developments to anticipate their potential impact.
Information Technology Risk Risk of failure to keep up with changing customer expectations or manage upgrades to existing technology may impact the Company performance.	 The Company continued to invest and upgrade its IT infrastructure and systems, including corporate data warehouse, investment management system and order management system.	- The Company continues to invest in its IT infrastructure, data management system, reporting system and other software/systems. - We have strong governance in place to oversee our major IT projects. - We have in place business continuity and disaster recovery plans.

Key:  Risk level increased

 Risk level decreased

 No significant change in risk level

RISK MANAGEMENT REPORT (CONTINUED)

Key Risk	Changes in 2016	Mitigating factors
Loss of Key Personnel Risk Risk of failure to recruit or retain appropriately skilled and experienced staff may have a material adverse effect on the Company's operations and implementation of its strategy.	 Annual staff turnover generally has no significant change in 2016.	- The Company seeks to encourage performance and maintain loyalty through appropriate remuneration and benefit packages, which includes a significant deferred element. - Appraisals and remuneration are designed to develop, attract, motivate and retain staff. - Succession plans are in place to ensure there is cover for key roles should they become vacant. - Contracts for relevant roles have restrictive covenants and enhanced notice periods are in place for key staff. - Comprehensive training is offered to all staff. - We have teams with complementary skill sets and this team based approach seeks to avoid reliance on any one individual. - The Company's strategy is disseminated through all levels of the organization, so each business area can engage with our targets of growth.
Reputational		
Reputational Risk - Risk that negative publicity regarding the Company will lead to client redemptions and a decline in AUM and revenue. - The risk of damage to the Company's reputation is more likely as a result from one of the other key risks materializing rather than as a standalone risk.	 The Company's brand continued to strengthen in recent years as 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. - Reputational risk is primarily mitigated through the effective mitigation of the other key risks. - Our risk appetite, risk and compliance policies, governance structures and reward mechanism include significant focus on issues and behaviors that could positively affect the Company's reputation.

Key:  Risk level increased

 Risk level decreased

 No significant change in risk level

DIRECTORS' REPORT

The board of directors hereby presents the Annual Report together with the audited financial statements of China Everbright Limited ("the Company") and its subsidiaries (collectively "the Group") for the year ended 31 December 2016.

Principal Activities and Business Review

The Group is principally engaged in investment holdings and the provision of financial services. The principal activities of the subsidiaries are set out in note 16 to the financial statements. Further discussion and analysis of these activities and business review as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 25 to 41, the Risk Management Report set out on pages 88 to 95 respectively of this Annual Report. The discussion on the Group's environmental policies and performance, the Group's key relationships with employees, customers and suppliers, and the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, can be found in the ESG Report set out on pages 43 to 65 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 2016 are set out on page 118 of this Annual Report.

The directors recommend the payment of a final dividend of HK\$0.5 per share for the year ended 31 December 2016 (2015: HK\$0.5 per share).

Major Customers and Suppliers

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

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

Financial Summary

A summary of the results and assets and liabilities of the Group for the past five financial years is set out on page 203 of this Annual Report.

Property, Plant and Equipment and Investment Properties

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

Properties

Particulars of major properties held by the Group as at 31 December 2016 are set out on page 204 of this Annual Report.

Charitable Donations

Charitable donation made by the Group for the year ended 31 December 2016 amounted to HK\$4,466,000.

Subsidiaries, Associates and Joint Ventures

Details of the Company's principal subsidiaries, associates and joint ventures as at 31 December 2016 are set out in notes 16, 17 and 18 to the financial statements respectively.

Bank Loans

Particulars of bank loans of the Group as at 31 December 2016 are set out in note 26 to the financial statements.

Bond Payable

Particulars of bond payable of the Group as at 31 December 2016 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 during the year.

Reserves

Distributable reserves of the Company as at 31 December 2016 as calculated under the Companies Ordinance amounted to HK\$1,424,579,000 (2015: HK\$981,450,000). The movement in the Company's reserves are set out in note 34 to the financial statements.

Borrowings and Interest Capitalised

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

Equity-Linked Agreements

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

Connected Transaction

Connected transactions disclosed in accordance with the Listing Rules on the Stock Exchange are as follows:

1. On 25 February 2016, Pioneer Act Investments Limited ("Pioneer Act"), a wholly owned subsidiary of the Company, and Everbright Real Estate Limited ("EREL") formed a joint venture Profit Plus Global Limited ("PPGL") which is owned as to approximately 16.67% by Pioneer Act and 83.33% by EREL for the purpose of the acquisition (the "Acquisition") of SEA (BVI) Limited, which indirectly holds the entire office building located at No.108 Gloucester Road, Wanchai, Hong Kong, which is currently known as "Dah Sing Financial Centre".

On 25 February 2016, Pioneer Act, EREL and PPGL also entered into a shareholders' agreement (the "Shareholders' Agreement") in relation to, inter alia, the funding for the Acquisition and the management of the affairs of PPGL. Pursuant to the Shareholders' Agreement, each of Pioneer Act and EREL agreed to provide shareholders' loan in the amount of HK\$1,000,000,000 and HK\$5,000,000,000, respectively, to PPGL, in proportion to their respective shareholding in PPGL.

EREL is a wholly owned subsidiary of China Everbright Holdings Company Limited ("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, EREL, being an associate of CE Hong Kong, is a connected person of the Company and the entering into of the Shareholders' Agreement constituted a connected transaction of the Company under the Listing Rules.

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

DIRECTORS' REPORT (CONTINUED)

2. On 15 June 2016, Action Globe Limited ("Action Globe"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "SPA") with Everbright Securities Financial Holdings Limited ("ESFHL"), pursuant to which Action Globe conditionally agreed to sell, and ESFHL conditionally agreed to purchase 49% of the issued share capital of Everbright Securities (International) Limited at a consideration of HK\$930 million.

China Everbright Group Ltd. ("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, as at 15 June 2016, CE Group was, directly and indirectly, interested in approximately 58.84% of the equity interest of Everbright Securities Company Limited ("Everbright Securities"). Accordingly, ESFHL, being a wholly owned subsidiary of Everbright Securities, is a connected person of the Company and the entering into of the SPA constituted a connected transaction of the Company under the Listing Rules.

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

3. On 19 July 2016, the Company and Everbright Securities entered into an underwriting agreement (the "Underwriting Agreement") pursuant to which the Company engaged Everbright Securities as the lead underwriter in respect of the proposed issue of the corporate bonds in the PRC of not more than RMB12.8 billion in principal amount to qualified investors by the Company.

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, as at 19 July 2016, CE Group was, directly and indirectly, interested in approximately 58.84% of the equity interest of Everbright Securities. Accordingly, Everbright Securities is a connected person of the Company and the entering into of the Underwriting Agreement constituted a connected transaction of the Company under the Listing Rules.

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

Continuing Connected Transaction

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

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

(1) Deposit Services

CE Group through its associate China Everbright Bank ("CE Bank"), provides deposit services to the Group, including current and fixed term deposits. The deposit services are subject to the standard terms and conditions of CE Group and its associates. The Company monitors the ongoing transaction amounts of the Deposit Services and setting out that the aggregate maximum daily bank balance maintained with CE Bank to be lower than the annual cap calculated with reference to 5% of the relevant applicable percentage ratios in accordance with the Listing Rules. In particular, the annual cap for the transactions of Deposit Services was calculated daily with reference to 5% of the daily market capitalization of the Company and during the year ended 31 December 2016, none of the daily aggregate bank balance maintained with CE Bank exceed the annual cap calculated at 5% of the relevant applicable percentage ratios.

(2) Other Services

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

(a) Finance Lease Services

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

Material terms:

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

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

DIRECTORS' REPORT (CONTINUED)

(b) Asset Management Services

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

Material terms:

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

The annual cap for the transactions under the Asset Management Services Framework Agreement for the years ended 31 December 2015 and 31 December 2016 and year ending 31 December 2017 are set at HK\$360,000,000, HK\$720,000,000 and HK\$1,200,000,000 respectively. The transaction amount under the Asset Management Services Framework Agreement for the year ended 31 December 2016 was approximately HK\$14,206,000.

(c) Brokerage Services

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

Material terms:

- CE Group and its associates shall provide to the Group for customers of the Group, funds established and/or managed by members of the Group as well as proprietary trading of members of the Group (where such transactions constitute continuing connected transactions of the Company under the Listing Rules) brokerage and ancillary services in accordance with the relevant rules and regulations, and custodianship of the cash, equity and debt securities.
- The brokerage services provided shall be on normal commercial terms which are arrived at upon arm's length negotiations and are no less favourable than those obtained by the Group from independent third parties, and on terms no less favourable than the most favourable terms offered by CE Group and its associates to similar or comparable independent third party customers.
- The brokerage services provided under the Brokerage Services Framework Agreement shall be non-exclusive and the Company is at liberty to obtain brokerage services from third parties.

The annual cap for the transactions under the Brokerage Services Framework Agreement for the years ended 31 December 2015 and 31 December 2016 and year ending 31 December 2017 are all set at HK\$28,000,000. The transaction amount under the Brokerage Services Framework Agreement for the year ended 31 December 2016 was approximately HK\$227,000.

DIRECTORS' REPORT (CONTINUED)

(d) Custodian Services

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

Material terms:

- CE Group and its associates shall provide to the Group custodian services including safekeeping of assets in custodian accounts, monitoring of investment activities, and reporting.
- The custodian services provided shall be on normal commercial terms which are arrived at upon arm's length negotiations and are no less favourable than those obtained by the Group from independent third parties, and on terms no less favourable than the most favourable terms offered by CE Group and its associates to similar or comparable independent third party customers.
- The custodian services provided under the Custodian Services Framework Agreement shall be non-exclusive and the Company is at liberty to obtain custodian services from third parties.

The annual cap for the transactions under the Custodian Services Framework Agreement for the years ended 31 December 2015 and 31 December 2016 and year ending 31 December 2017 are all set at HK\$28,000,000. The transaction amount under the Custodian Services Framework Agreement for the year ended 31 December 2016 was approximately HK\$1,166,000.

Reviewed by independent non-executive directors and the auditor

The independent non-executive directors had reviewed the above continuing connected transactions for the year ended 31 December 2016 and confirmed that the transactions were:

- (a) entered into in the ordinary and usual course of business of the Group;
- (b) conducted on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties; and
- (c) entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

DIRECTORS' REPORT (CONTINUED)

Directors

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

Executive Directors:

Dr. Cai Yunge, Chairman (was appointed as Executive Director and Deputy Chairman on 10 November 2016 and was redesignated as Executive Director and Chairman on 12 December 2016)

Mr. Chen Shuang, Chief Executive Officer

Mr. Tang Chi Chun, Richard, Chief Financial Officer

Dr. Liu Jun, Deputy Chairman (resigned on 10 November 2016)

Mr. Jiang Yuanzhi (resigned on 1 September 2016)

Non-executive Directors:

Mr. Tang Shuangning (redesignated as Non-executive Director on 12 December 2016)

Mr. Wang Weimin (resigned on 12 December 2016)

Independent Non-executive Directors:

Mr. Seto Gin Chung, John

Dr. Lin Zhijun

Dr. Chung Shui Ming, Timpson

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

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

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

In accordance with Articles 120 and 121, Mr. Chen Shuang, Mr. Tang Chi Chun, Richard and Dr. Lin Zhijun, being directors who have been longest in office since their last re-election, shall retire by rotation. In addition, in accordance with Article 87, Dr. Cai Yunge, being a new Director appointed by the Board during the year, will retire and, being eligible, will offer himself for re-election at the Annual General Meeting. All of them being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Director of Subsidiaries

Other than certain directors and senior management named in the section headed "Directors and Senior management" as set out on pages 109 to 112 of this Annual Report, the name of persons who has served on the board of the subsidiaries of the Company during the financial year ended 31 December 2016 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 2016, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares of equity derivatives and debentures of the Company or its associated corporations (as defined by Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under section 352 of the SFO are as follows:

1a. Long position in shares of the Company:

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

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

Name of director	Total	Personal interest	Family interest	Corporate interest	% of total issued Shares
Chen Shuang	480,000	480,000	–	–	0.01

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

Name of director	Total	Personal interest	Family interest	Corporate interest	% of total issued Shares
Chen Shuang	200,000	200,000	–	–	0.03

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

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

Name of directors	Capacity/nature of interest	Number of underlying shares held	Approximately % of issued shares
Chen Shuang	beneficial owner	10,200,000 (Note)	1.55
Tang Chi Chun, Richard	beneficial owner	200,000 (Note)	0.03

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

As at 31 December 2016, save as disclosed herein, none of the directors and chief executives of the Company had interests or short positions in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporation defined under the SFO as recorded in the register of directors' and chief executives' interests and short positions.

DIRECTORS' REPORT (CONTINUED)

Directors' Interests in Transactions, Arrangements or Contracts

Save as disclosed in this Annual Report, no transactions, arrangements or contracts of significance to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company or his connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Service Contracts

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

Directors' Rights to Acquire Shares or Debentures

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

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

The Company has been notified of the following interests in the Company's issued shares at 31 December 2016 amounting to 5% or more of the ordinary shares in issue:

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

Notes:

- (1) Huijin Limited is indirectly wholly-owned by the State Council of the People's Republic of China and holds 55.67% equity interest of China Everbright Group.
- (2) China Everbright Group holds 100% of the issued shares of China Everbright Holdings Company Limited ("CE Hong Kong"). CE Hong Kong holds (1) 100% of the issued shares of Datten Investments Limited ("Datten") which in turn holds 100% of the issued shares of Honorich Holdings Limited ("Honorich") and (2) 100% of the issued shares of Everbright Investment and Management Limited ("EIM"), respectively. Out of the 838,306,207 ordinary shares, 832,273,207 ordinary shares are held by Honorich. The remaining 6,033,000 ordinary shares are held by EIM. Accordingly, China Everbright Group is deemed to be interested in 832,273,207 ordinary shares held by Honorich and 6,033,000 ordinary shares held by EIM.

Save as disclosed above, as at 31 December 2016, the directors were not aware of any other persons who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Permitted Indemnity Provision

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

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

Competing Interest

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

Corporate Governance

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

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

Audit and Risk Management Committee

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

The Audit and Risk Management Committee and the Management have reviewed the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group for the year ended 31 December 2016. The terms of reference of the Audit and Risk Management Committee and a summary of the duties discharged in 2016 have been set out in the section on "Corporate Governance Report".

Retirement Schemes

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

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

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

The Group's total contributions to these schemes charged to the consolidated statement of profit or loss during the year ended 31 December 2016 amounted to approximately HK\$2.7 million.

DIRECTORS' REPORT (CONTINUED)**Sufficiency of Public Float**

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

Auditors

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

Messrs. Ernst & Young was appointed as the auditors of the Company at the 2016 AGM in place of retiring auditors, Messrs. KPMG.

Messrs. Ernst & Young retire and being eligible, offer themselves for reappointment. A resolution for the reappointment of Messrs. Ernst & Young as auditors of the Company is to be proposed at the forthcoming annual general meeting held on 25 May 2017.

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

Other Information**Final Dividend**

The Board has resolved to recommend the payment of a final dividend of HK\$0.5 per share for the year ended 31 December 2016 (2015: HK\$0.5 per share). Together with the interim dividend of HK\$0.25 per share already paid, the aggregate dividend for the year is HK\$0.75 per share (2015: HK\$0.75 per share).

The final dividend, subject to shareholders' approval at the forthcoming annual general meeting, is expected to be paid on Thursday, 22 June 2017 to those shareholders whose names appeared on the register of members of the Company on Monday, 12 June 2017.

Closure of Register of Members

The register of members of the Company will be closed from Friday, 19 May 2017 to Thursday, 25 May 2017, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for attendance of the annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 18 May 2017.

The register of members of the Company will also be closed from Friday, 9 June 2017 to Monday, 12 June 2017, both days inclusive, during which no transfer of shares will be registered. Shareholders are reminded that, in order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged for registration at the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 8 June 2017.

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

On 12 June 2015, the Company entered into a facility letter pursuant to which an independent third party bank agreed to grant a revolving and term loan of up to HK\$1 billion (or its equivalent in the United States dollars or Renminbi) for a period of three years from the signing date of the said facility letter. Under the said facility letter, it will be an event of default if China Everbright Holdings Company Limited ("CEHCL") 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 4 December 2015, 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 an uncommitted term loan of up to HK\$1 billion (or its equivalent in the United States dollars) 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 CEHCL (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 18 December 2015, the Company as borrower entered into a supplemental facility letter with the lender named therein pursuant to which such lender will continue to provide a committed term loan of up to US\$120 million (or its equivalent in Hong Kong dollars) to the Company for a term up to 30 March 2017. Under the said facility letter, it will be an event of default if CEHCL ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 18 December 2015, the Company as borrower entered into a supplemental facility letter with the lender named therein pursuant to which such lender will continue to provide an uncommitted revolving loan of up to US\$150 million (or its equivalent in Hong Kong dollars) to the Company for a term up to 30 March 2017. Under the said facility letter, it will be an event of default if CEHCL ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 18 December 2015, the Company as borrower entered into a supplemental facility letter with the lender named therein pursuant to which such lender will continue to provide an committed revolving loan of up to US\$220 million (or its equivalent in Hong Kong dollars) to the Company for a term up to 19 March 2017. Under the said facility letter, it will be an event of default if CEHCL ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 18 December 2015, the Company as borrower entered into a facility letter with an independent third party bank as lender for an uncommitted revolving loan facility of up to US\$300 million (or in equivalent Hong Kong dollars or Renminbi) for a period of 2 years from the date of acceptance of the said facility letter. Under the said facility letter, it will be an event of default if CEHCL 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.

DIRECTORS' REPORT (CONTINUED)

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

On 15 July 2016, a wholly owned subsidiary of the Company as borrower, the Company as guarantor entered into a facility letter with an independent third party bank as lender for a term loan of up to US\$150,000,000 (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 CEHCL ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

On 22 July 2016, a wholly owned subsidiary of the Company as borrower, the Company as guarantor entered into a facility letter with an independent third party bank as lender for a term loan of up to US\$100,000,000 (or in equivalent Hong Kong dollars or Renminbi) for a period of 36 months from the signing date of the said facility letter. Under the said facility letter, it will be an event of default if CEHCL ceases to be the single largest shareholder of the Company or ceases to maintain management control of the Company. Upon the occurrence of any of the above events, the facilities under the said facility letter together with all accrued interest and any other amounts accrued under the facilities may become immediately due and payable.

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\$200,000,000 (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 CEHCL (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.

As at 31 December 2016, the circumstances giving rise to the obligations under Rules 13.18 of the Listing Rules continued to exist.

By order of the Board
China Everbright Limited
Cai Yunge
Chairman

Hong Kong, 30 March 2017

DIRECTORS AND SENIOR MANAGEMENT

Director

Dr. Cai Yunge

Chairman

Dr. Cai Yunge, aged 45, is the Chairman of the Board of the Group. Dr. Cai is the Deputy General Manager of China Everbright Group Limited, the Vice-chairman and General Manager of China Everbright Holdings Company Limited, and Executive Director and Chairman of China Everbright International Limited (Stock Code: HK 257). Currently he is the Vice Chairman of the Hong Kong Chinese Enterprises Association. He holds a master degree in Business Administration from The University of Warwick, UK and a doctoral degree in Economics from the Financial Research Institute of the People's Bank of China. He holds the title of Senior Economist. Before joining the Company, Dr. Cai has served as the Secretary to the board, the General Manager of Executive Office of China Everbright Bank Company Limited (Stock Code: HK 6818, SH601818), Deputy Chief of the Development and Reform Commission of Guangdong Province, Division Chief of the General Office and Deputy Division Chief of Banking Supervisory Department II of the China Banking Regulatory Commission. He joined the Board in November 2016.

Mr. Chen Shuang

Chief Executive Officer

Mr. Chen Shuang, aged 49, is a member of the Executive Committee and the Strategy Committee of the Board, the Chief Executive Officer and the Chairman of the Management Decision Committee of the Group. He is responsible for the overall operation of the Group. Mr. Chen is also an executive director and deputy general manager of China Everbright Holdings Company Limited and an executive director and Chairman of China Aircraft Leasing Group Holdings Limited (stock code: HK 1848). Mr. Chen was an independent director of Noah Holdings Limited (stock code: NOAH.N) from November 2010 to April 2015, was a director of Everbright Securities Company Limited (stock code: SH 601788, HK 6178) from August 2007 to October 2014, was a supervisor of China Everbright Bank Company Limited (stock code: SH 601818, HK 6818) from December 2007 to October 2014 and was an independent non-executive director of China Nonferrous Mining Corporation Limited (stock code: HK 1258) from June 2012 to August 2014. He is currently a non-official member of Financial Services Development Council, the Honorary Chairman of Chinese Financial Association of Hong Kong, the Vice-Chairman of Chinese Securities Association of Hong Kong, the ninth Rotating Chairman of China Mergers and Acquisitions Association, the Standing Committee Member of the Center for China and Globalization and the visiting professor of East China University of Political Science and Law. Mr. Chen holds a Master of Laws Degree from East China University of Political Science and Law and a Diploma in Legal Studies from the School of Professional and Continuing Education of the University of Hong Kong. He is a qualified lawyer in the PRC and a senior economist. Prior to joining China Everbright Group, Mr. Chen was the Chief of the Legal Department of Bank of Communications. He has over 24 years of extensive experience in commercial banking and investment banking. He joined the Board in August 2004.

Mr. Tang Chi Chun, Richard

Chief Financial Officer

Mr. Tang Chi Chun, Richard, aged 55, is the Chief Financial Officer of the Group. He has overall responsibility for the financial resources planning, allocation and control. Mr. Tang is a member of Executive Committee of the Board. Mr. Tang is a Non-executive director of China Aircraft Leasing Group Holdings Limited (stock code: HK 1848). He was a director of Everbright Securities Company Limited (stock code: SH 601788, HK6178) from February 2008 to January 2011. Mr. Tang is a Certified Public Accountant and is a graduate of the Accountancy Department, Hong Kong Polytechnic (now known as Hong Kong Polytechnic University). He is a member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He is also a founding member of Hong Kong Business Accountants Association. He has over 30 years of experience in audit, investment, accounting and finance. Since 1990, Mr. Tang had been engaged as head of the financial and operational functions of various international financial institutions. He joined the Group in September 2005 and joined the Board in July 2007.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Mr. Tang Shuangning

Non-executive Director

Mr. Tang Shuangning, aged 62, was an Executive Director and Chairman of the Board, has been re-designated as Non-executive Director of the Company since 12 December 2016. Mr. Tang is the representative of the 12th National People's Congress and the Vice-chairman of the Agriculture and Rural Affairs Committee of the 12th National People's Congress. Mr. Tang is also the Chairman of China Everbright Group Ltd., China Everbright Holdings Company Limited and China Everbright Bank Company Limited (stock code: SH 601818, HK 6818). He is also a director of Sun Life Everbright Life Insurance Company Limited and a Non-executive Director of China Everbright International Limited (stock code: HK 257). He also serves as the Vice Chairman of the China Society for Finance and Banking and the China Urban-townization Promotion Council. He is a director of China Economic and Social Council and China Center for International Economic Exchanges. Mr. Tang was a director of Everbright Securities Company Limited (stock code: SH 601788, HK 6178) from September 2009 to February 2017. Prior to joining the China Everbright Group, Mr. Tang was the Vice Chairman of the China Banking Regulatory Commission. He holds a Master's Degree in Economics from China North-east University of Finance & Economics. Mr. Tang has extensive knowledge and experience in finance management. He joined the Board in July 2007.

Mr. Seto Gin Chung, John

Independent Non-executive Director

Mr. Seto Gin Chung, John, aged 68, is an independent non-executive director and the Chairman of the Strategy Committee and Remuneration Committee of the Company. He is also a member of the Audit and Risk Management Committee and Nomination Committee. Mr. Seto is a director of Pacific Eagle Asset Management Limited. He is also an independent non-executive director of Kowloon Development Company Limited (stock code: HK 34) and the chairman and independent non-executive director of Hop Hing Group Holdings Limited (stock code: HK 47). Mr. Seto was a non-executive director of Sateri Holdings Limited (stock code: HK 1768) from 2010 to 2013. He was an independent director of Everbright Securities Company Limited, a company incorporated in PRC, from 2005 to 2007. He was the Chief Executive Officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. He was a non-executive director of Hong Kong Exchanges and Clearing Limited (stock code: HK 388) from 2000 to 2003, a council member of the Stock Exchange of Hong Kong from 1994 to 2000, and was the first vice chairman of the Stock Exchange of Hong Kong from 1997 to 2000. He holds a Master of Business Administration degree from New York University, USA and has over 37 years of experience in the securities and futures industry. Mr. Seto joined the Board in April 2003.

Dr. Lin Zhijun

Independent Non-executive Director

Dr. Lin Zhijun, aged 62, is an independent non-executive director and the Chairman of the Nomination Committee of the Company. He is also a member of the Audit and Risk Management Committee, Remuneration Committee and Strategy Committee. Dr. Lin is the Dean of the School of Business in Macau University of Science and Technology. During August 1998 to December 2014, he was a Professor and Head of the Department of Accountancy and Law in Hong Kong Baptist University. He is also an independent non-executive director of Sinotruk (Hong Kong) Limited (Stock Code: HK 3808), SpringLand International Limited (stock code: HK 1700), Dali Foods Group Company Limited (Stock Code: HK 3799) and CITIC Dameng Holdings Limited (Stock Code: HK1091). Dr. Lin was an independent non-executive director of Zhengzhou Coal Mining Machinery Group Company Limited (stock code: HK 564) from February 2012 to April 2014. All are listed on the Stock Exchange of Hong Kong Limited. Dr. Lin holds a Master's degree in Science in Accounting from University of Saskatchewan in Canada and a Doctorate's degree in Economics (Accounting) from Xiamen University. Dr. Lin worked as a Visiting Professor in The University of Hong Kong and Tenured Professor in the Faculty of Management of Lethbridge University in Canada. Dr. Lin worked at the Toronto office of an international accounting firm (now known as "Deloitte") in 1982-1983. 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.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Dr. Chung Shui Ming, Timpson

Independent Non-executive Director

Dr. Chung Shui Ming, Timpson, aged 65, is a member of the National Committee of the 12th 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: HK 762), Glorious Sun Enterprises Limited (stock code: HK 393), Miramar Hotel and Investment Company, Limited (stock code: HK 71), China Overseas Grand Oceans Group Limited (stock code: HK 81), China Construction Bank Corporation (stock code: HK 939) and Jinmao (China) Hotel Investments and Management Limited (stock code: HK 6139). Dr. Chung is also an Independent Director of China State Construction Engineering Corporation Limited (stock code: SH 601668). From November 2012 to June 2016, Dr. Chung served as an Independent non-executive director of Henderson Land Development Company Limited (stock code: HK 12). Formerly, he was the Chairman of China Business of Jardine Fleming Holdings Limited and the Deputy Chief Executive Officer of BOC International Limited. He was also the Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Council of the City University of Hong Kong, the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of the Hong Kong Special Administrative Region, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority and a member of the Disaster Relief Fund Advisory Committee. Dr. Chung holds a bachelor of science degree from the University of Hong Kong and a master's degree in business administration from the Chinese University of Hong Kong. Dr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Dr. Chung is a fellow member of the Hong Kong Institute of Certified Public Accountants. Dr. Chung joined the Board in August 2012.

Senior Management

Mr. Tsang Sui Cheong, Frederick

Mr. Tsang Sui Cheong, Frederick, aged 57, is the Chief Risk Officer of the Group and a member of the Management Committee. He is in charge of the group's risk matters. Mr. Tsang is a Chartered Financial Analyst and was President of The Hong Kong Society of Financial Analysts Limited from 2012 to 2015. Currently, Mr. Tsang is a member of the Hong Kong Securities and Futures Commission's (SFC) Advisory Committee and was appointed as a member of the Securities and Futures Appeals Tribunal from 2009 to 2015. He is a holder of Bachelor's degree in Arts and Master's degree in Arts, majored in Economics and Finance. Mr. Tsang joined the Group in February 2000. He has over 32 years of experience in the financial industry.

Mr. Yin Lianchen

Mr. Yin Lianchen, aged 51, is the Chief Investment Officer of the Group and a member of the Management Decision Committee. He is also a director of board of Everbright Securities Company Limited (stock code: SH601788, HK 6178) and a member of board of supervisors of China Everbright Bank Company Limited (stock code: SH 601818, HK 6818). Mr. Yin was the Officer of the Beijing Head office of China Everbright Group Limited, prior to joining our Group. He was formerly the Vice President of Beijing Yonder Environment Engineering Company Limited and the Chief Representative of China of Moody's KMV. He was the General Manager of the Human Resource and Corporate Administration Department, the Director of Corporate Communications Department and Managing Director of the Insurance Brokerage Department successively of the Group from 2002 to 2006. He was also worked for several key positions in People's Bank of China Headquarter from 1990 to 2001. Mr. Yin holds a Bachelor Degree of Management and Master Degree of Accounting from Tianjin Nankai University. Mr. Yin has rich experience in financial and corporate management. Mr. Yin joined the Group in March 2011.

DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Ms. Wong Tung Hung

Ms. Wong Tung Hung, aged 48, is the Chief Administration Officer of the Group and a member of Management Decision Committee, mainly responsible for management of human resources, information technology and corporate administration of the Group. She has extensive human resources and administration experience in both China and Hong Kong and has been working in the Group for more than 19 years. Ms. Wong holds a Bachelor degree in Arts from Fudan University. Prior to joining the Group, Ms. Wong worked in several well-known mass media in both China and Hong Kong.

Mr. Yang Ping

Mr. Yang Ping, aged 47, is the Chief Investment Officer and the member of Management Decision Committee of the Company. He is in charge of Asset Management business of Secondary Market Investment. Previously, he was responsible for the establishment, investment and management of Macquarie Everbright Greater China Infrastructure Fund and Everbright Ashmore China Real Estate Fund. Before joining China Everbright Limited, he served as Head of the Research Institute of China Southern Securities Co. Ltd. and a Private Equity fund in China, where he was responsible for macro-industry & company research, investment of the PE fund and achieved excellent performance. The restructuring project Xiang Zhong Yi (now renamed as Hunan Investment) conducted by Mr. Yang was the first ST listed company “whole restructuring” case in China and was ranked Top Ten Influential Restructuring Case by Security News in 1999. He received a PhD degree in Economics from The Shanghai Academy of Social Sciences and Bachelor degree of Law from East China University of Political Science and Law. Mr. Yang has over 20 years’ experience in securities research and asset management. Mr. Yang joined the Group in December 2007.

Mr. Pan Ying

Mr. Pan Ying, aged 47, is the Chief Investment Officer and the member of the Management Decision Committee of the Company. He is responsible for the real estate fund, Everbright – IDG Industrial Fund, CEL – Focus Media’s New Industry Investment Fund, institutional sales and Everbright Prestige Capital business. Prior to joining the Group, he worked for the Foreign Exchange Reserve Department of SAFE (China’s State Administration of Foreign Exchange), and established SAFE Investment Company, Ltd., a wholly owned subsidiary of the People’s Bank of China which had AUM of more than HKD20 billion, based in Hong Kong. Mr. Pan joined Seagate, an asset management company in Los Angeles, in 1998. In 2004, he co-founded SeaBright, where he acted as CEO, with China Everbright. At SeaBright, he set up two funds that focused on investment opportunities in China, which invested more than USD150 million. Mr. Pan has more than 17 years of experience in private equity and investment. He received a BA in Economics from the Management School of Xi’an Jiaotong University in China.

Company Secretary

Mr. Chan Ming Kin, Desmond

Mr. Chan Ming Kin, Desmond, aged 47, is the General Counsel and Company Secretary of the Group and in charge of Legal, Compliance and Company Secretarial Department. He is also a member of Investment Decision Sub-Committee. He is a member of the Board of Directors of Everbright Securities Company Limited (stock code: SH 601788, HK 6178). 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 21 years’ experience in private practice and as an in-house counsel. Mr. Chan is also a Fellow of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

INDEPENDENT AUDITOR'S REPORT



TO THE MEMBERS OF CHINA EVERBRIGHT LIMITED

(Incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of China Everbright Limited (the "Company") and its subsidiaries (the "Group") set out on pages 118 to 202, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for opinion

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

Key audit matters

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)**Key audit matters***Valuation of Level 3 financial investments***How our audit addressed the key audit matters**

Refer to significant accounting policies in note 2(f), accounting estimates and judgements in note 44(a)(i), and disclosures of fair values of financial instruments in note 41 to the financial statements.

We evaluated and tested the design and operating effectiveness of key controls related to the valuation of financial instruments, including independent price verification, independent model validation and approval.

The Group has applied valuation techniques to determine the fair value of financial instruments that are not quoted in active markets. These valuation techniques, in particular those that include significant unobservable inputs, involve management using subjective judgements and assumptions. With different valuation techniques, inputs and assumptions applied, the valuation results can vary significantly.

We focused on the valuation techniques, inputs and assumptions of financial instruments that were classified as Level 3 in the fair value hierarchy for individually significant items. We involved our valuation specialists to assist in evaluating the valuation techniques, inputs and assumptions through comparison with the valuation techniques that are commonly used in the market, and the validation of observable inputs using external market data.

As at 31 December 2016, the Group's financial assets measured at fair value amounted to HK\$33,423,537,000, representing 49.5% of the total assets. Financial instruments which had significant unobservable inputs in the valuation, and hence were categorised within Level 3 of the fair value hierarchy, involved a higher degree of uncertainty in their valuation. As at 31 December 2016, 66.0% of the Group's financial assets measured at fair value were categorised within Level 3.

We assessed the Group's disclosures of the fair value hierarchy and its related disclosures in note 41 to the financial statements.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Key audit matters (continued)**Key audit matters****How our audit addressed the key audit matters***Accounting for unconsolidated structured entities managed by the Group and its affiliates*

Refer to significant accounting policies in note 2(c), critical accounting judgements in applying the Group's accounting policies in note 44(b)(i), and disclosures of involvement with unconsolidated structured entities in note 39 to the financial statements.

We reviewed the legal structures and the relevant constituent documents of these structured entities to assess the power held by the Group in making key operating and financing decisions and its exposure to variable returns from these structured entities.

The Group and its affiliates, acting as the general partners or investment managers of a number of structured entities (such as investment funds and collective investment schemes), have certain power to govern the financing and operating policies of these entities. The Group is also exposed to the variability of returns from the performance of these structured entities, through its entitlement to the management fee, performance fee and also its interests in these entities.

We also assessed whether the Group acted as an agent or a principal, considered any power held by other parties that enable the removal of the Group as the general partners or investment managers and assessed whether such power and rights are substantive.

Whether the Group acts as an agent or a principal in managing these entities requires significant management judgment.

We reviewed whether any substantive rights held by any other parties in the structured entities in combination with the Group's decision-making power and its level of exposure to the variable returns, constituted control by the Group over these structured entities on a case by case basis.

As at 31 December 2016, the carrying value of the interests held by the Group in unconsolidated structured entities managed by the Group and its affiliates amounted to HK\$6,449,877,000, of which HK\$5,808,593,000 and HK\$641,284,000 were recognised in financial assets designated at fair value through profit or loss and available-for-sale securities in the consolidated statement of financial position, respectively.

We assessed the Group's disclosures of the unconsolidated structured entities in note 39 to the financial statements.

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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 HKSAAs 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 HKSAAs, 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
Continuing operations			
Turnover	4	8,069,450	10,411,567
Operating income	4	2,169,815	2,131,905
Other net income	4	5,215,115	807,197
Staff costs	5	(462,295)	(361,783)
Depreciation expenses	15	(23,803)	(22,281)
Impairment losses	6	(614,054)	(604,073)
Other operating expenses		(272,182)	(456,174)
Profit from operations	6	6,012,596	1,494,791
Finance costs	7	(572,182)	(336,947)
Share of profits less losses of associates, as per the associates' financial statements	17(b)	1,227,495	3,205,139
Share of profits less losses of joint ventures, as per the joint ventures' financial statements	18(b)	73,828	(7,702)
Net gain on deemed disposal of interest in associates	17(b)	160,631	1,304,042
Adjustments to share of profits less losses to conform with the Group's accounting policies	2(b)	–	58,000
Profit before taxation		6,902,368	5,717,323
Income tax	9	(1,308,119)	(452,449)
Profit from continuing operations		5,594,249	5,264,874
Discontinued operations			
Profit from disposal group held for sale	10	78,747	56,423
Profit for the year		5,672,996	5,321,297
Profit attributable to equity shareholders of the Company			
Continuing operations		4,012,349	5,087,571
Discontinued operations		62,033	56,423
		4,074,382	5,143,994
Non-controlling interests		1,598,614	177,303
Profit for the year		5,672,996	5,321,297
Basic and diluted earnings per share	14		
Continuing operations		HK\$2.381	HK\$3.019
Discontinued operations		HK\$0.037	HK\$0.033
		HK\$2.418	HK\$3.052

The notes on pages 124 to 202 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 2016

	Note	2016 HK\$'000	2015 HK\$'000
Profit for the year		5,672,996	5,321,297
Other comprehensive income for the year:			
Items that may be reclassified subsequently to profit or loss			
– Net movement in investment revaluation reserve of available-for-sale securities		(3,967,193)	1,733,558
– Share of other comprehensive income of associates, as per the associates' financial statements		(355,835)	(316,245)
– Share of other comprehensive income of joint ventures, as per the joint ventures' financial statements		(80,179)	67,284
– Adjustments to share of other comprehensive income to conform with the Group's accounting policies		–	(15,000)
– Exchange reserve		(1,426,698)	(984,731)
	13	(5,829,905)	484,866
Total comprehensive income for the year		(156,909)	5,806,163
Attributable to:			
Equity shareholders of the Company		(741,388)	5,369,482
Non-controlling interests		584,479	436,681
Total comprehensive income for the year		(156,909)	5,806,163

The notes on pages 124 to 202 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	31 December 2016 HK\$'000	31 December 2015 HK\$'000
Non-current assets			
Property, plant and equipment	15	475,376	494,034
Investment properties	15	78,700	64,000
Amount due from an associate	17(d)	1,000,000	18,448
Amounts due from investee companies	20	276,698	294,147
Investments in associates	17(a)	16,087,252	15,948,829
Investments in joint ventures	18(a)	351,445	625,047
Available-for-sale securities	19	15,113,907	21,753,331
Financial assets designated at fair value through profit or loss	20	16,469,069	8,881,584
Advances to customers	21	572,130	1,438,883
Finance lease receivables	22	20,138	62,314
		50,444,715	49,580,617
Current assets			
Financial assets designated at fair value through profit or loss	20	737,250	2,879,223
Advances to customers	21	1,174,508	2,651,101
Finance lease receivables	22	38,565	38,620
Amount due from an associate	17(d)	1,648,988	16
Amounts due from joint ventures	18(c)	–	6,839
Debtors, deposits and prepayments	23	3,331,336	1,451,643
Trading securities	24	1,103,311	1,070,292
Cash and cash equivalents	25	5,959,534	4,688,256
		13,993,492	12,785,990
Assets classified as held for sale	10	3,057,129	2,914,436
		17,050,621	15,700,426
Current liabilities			
Amounts due to investee companies	20	(211,632)	(238,800)
Amount due to an associate	17(e)	(44,896)	–
Amount due to a joint venture	18(d)	–	(427)
Trading securities	24	(151,826)	(239,144)
Bank loans	26	(4,147,432)	(3,170,845)
Amount due to a fellow subsidiary and shareholder	27	–	(1,000,000)
Creditors, deposits received and accrued charges	28	(1,226,925)	(1,327,476)
Other financial liabilities	29	(2,217,119)	(3,038,933)
Notes payable		(27,000)	(57,000)
Provision for taxation	31(a)	(1,046,821)	(331,057)
		(9,073,651)	(9,403,682)
Liabilities classified as held for sale	10	(955,708)	(1,111,658)
		(10,029,359)	(10,515,340)
Net current assets		7,021,262	5,185,086
Total assets less current liabilities		57,465,977	54,765,703

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2016

	Notes	31 December 2016 HK\$'000	31 December 2015 HK\$'000
Non-current liabilities			
Bank loans	26	(6,387,706)	(10,283,111)
Other financial liabilities	29	(1,443,893)	(513,798)
Notes payable		(30,000)	–
Bond payable	30	(8,998,400)	–
Deferred tax liabilities	31(b)	(1,119,583)	(1,021,285)
		(17,979,582)	(11,818,194)
NET ASSETS		39,486,395	42,947,509
CAPITAL AND RESERVES			
Share capital	32	9,618,097	9,618,097
Reserves		27,591,394	29,748,068
Total equity attributable to equity shareholders of the Company		37,209,491	39,366,165
Non-controlling interests		2,276,904	3,581,344
TOTAL EQUITY		39,486,395	42,947,509

Approved and authorised for issue by the Board of Directors on 30 March 2017 and signed on behalf of the Board by:

Cai Yunge
Director

Chen Shuang
Director

The notes on pages 124 to 202 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Note	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
		Share capital	Option premium reserve	Investment revaluation reserve	Goodwill reserve	Capital reserve	Exchange reserve	Retained earnings		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2015		9,618,097	1,242	10,105,489	(668,499)	182,900	1,735,377	13,999,524	3,216,456	38,190,586
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	(71,793)	(71,793)
Dividend paid	12	-	-	-	-	-	-	(977,447)	-	(977,447)
Profit for the year		-	-	-	-	-	-	5,143,994	177,303	5,321,297
Other comprehensive income for the year		-	-	1,581,350	-	(442,240)	(913,622)	-	259,378	484,866
As at 31 December 2015 and 1 January 2016		9,618,097	1,242	11,686,839	(668,499)	(259,340)	821,755	18,166,071	3,581,344	42,947,509
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	(1,888,919)	(1,888,919)
Dividend paid	12	-	-	-	-	-	-	(1,263,940)	-	(1,263,940)
Share of capital reserve of an associate		-	-	-	-	(151,346)	-	-	-	(151,346)
Profit for the year		-	-	-	-	-	-	4,074,382	1,598,614	5,672,996
Other comprehensive income for the year		-	-	(3,539,167)	-	-	(1,276,603)	-	(1,014,135)	(5,829,905)
As at 31 December 2016		9,618,097	1,242	8,147,672	(668,499)	(410,686)	(454,848)	20,976,513	2,276,904	39,486,395

The notes on pages 124 to 202 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK\$'000	2015 HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	42(a)	(1,244,367)	945,628
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(8,016)	(16,595)
Decrease in deposits pledged		–	722,734
Purchase of available-for-sale securities		(553,184)	(3,293,738)
Purchase of financial assets designated at fair value through profit or loss		(9,543,604)	(6,997,526)
Decrease in other financial liabilities		(1,203,353)	(255,176)
Investment in an associate		(1,749,849)	(824)
Net cash from losing control of subsidiaries		(560,926)	164,114
Purchase of disposal group held for sale		(1,177,283)	(1,392,523)
Payment in obtaining control a subsidiary		(180,081)	–
Loan to disposal group held for sale		–	(310,040)
Investment in a joint venture		(11,248)	(9,244)
Proceeds from disposal of available-for-sale securities		4,709,288	2,464,240
Proceeds from disposal of financial assets designated at fair value through profit or loss		6,543,999	3,022,980
Proceeds from disposal of associates		1,295,626	5,970
Bank interest received		57,110	44,280
Dividend from investments in equity securities		1,053,701	887,203
Dividend from associates		848,637	155,365
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(479,183)	(4,808,780)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(1,723,550)	(3,863,152)
FINANCING ACTIVITIES			
Issue of shares in subsidiaries to non-controlling shareholders		52,196	508,645
Redemption of shares by non-controlling shareholders		(601,551)	–
Proceeds from bank loans		13,565,535	10,701,805
(Repayment)/proceeds from loan from a fellow subsidiary and shareholder		(1,000,000)	500,000
Proceeds from issue of bond payable		8,998,400	–
Repayment of bank loans		(16,338,964)	(5,833,850)
Dividend paid to non-controlling shareholders		(446,638)	(52,418)
Dividend paid		(1,263,940)	(977,447)
NET CASH INFLOW FROM FINANCING ACTIVITIES		2,965,038	4,846,735
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,241,488	983,583
CASH AND CASH EQUIVALENTS			
Beginning of year		4,688,256	3,742,555
Exchange rate adjustments		29,790	(37,882)
End of year	25	5,959,534	4,688,256

The notes on pages 124 to 202 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Principal Activities

China Everbright Limited (the “Company”) is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited. The Company considers Honorich Holdings Limited, a company incorporated in the British Virgin Islands, to be the immediate holding company of the Company and Central Huijin Investment Limited (“Huijin”), to be the ultimate holding company of the Company. Huijin is a state-owned investment company incorporated in accordance with China’s Company Law and wholly-owned subsidiary of China Investment Corporation. No financial statements were prepared by these companies available for public use.

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

2. Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interests in associates and joint ventures.

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

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

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

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

2. Significant Accounting Policies (continued)

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

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

The 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.

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

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

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

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

(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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant Accounting Policies (continued)

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

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

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

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

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as, when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective. Involvement with unconsolidated structured entities is disclosed in note 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)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

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

2. Significant Accounting Policies (continued)

(d) Associates and joint ventures (continued)

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

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

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

(e) Goodwill

Goodwill represents the excess of:

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

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

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

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

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

(f) Other investments in debt and equity securities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant Accounting Policies (continued)**(f) Other investments in debt and equity securities (continued)**

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

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

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

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

(g) Derivative financial instruments

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

(h) Investment properties

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

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

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

2. Significant Accounting Policies (continued)

(i) Other property and equipment

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

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

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

(j) Depreciation

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

- Interest in leasehold land held for own use under operating leases is depreciated over the unexpired terms of leases
- Buildings situated on leasehold land are depreciated over the shorter of the unexpired terms of leases and their estimated useful lives, being not more than 50 years after the date of purchase
- Leasehold improvements 5 years
- Furniture, fixtures and equipment 5 years
- Motor vehicles 5 years

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

(k) Leased assets

(i) Classification of assets leased to the Group

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant Accounting Policies (continued)**(k) Leased assets (continued)****(ii) Finance lease**

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

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

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

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

(iii) Operating lease charges

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

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

2. Significant Accounting Policies (continued)

(I) Impairment of assets

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

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

(I) Impairment of assets (continued)

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

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

(ii) Impairment of other assets

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

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

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

– Calculation of recoverable amount

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

– 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).

2. Significant Accounting Policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

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

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

(m) Accounts receivable and other receivables

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

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

(n) Accounts payable and other payables

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

(o) Cash and cash equivalents

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

(p) Employee benefits

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant Accounting Policies (continued)

(p) Employee benefits (continued)

(ii) Termination benefits

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

(q) Income tax

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

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

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

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

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.

2. Significant Accounting Policies (continued)

(q) Income tax (continued)

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

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

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

(r) Provisions and contingent liabilities

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

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

(s) Revenue recognition

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

- (i) **Consultancy and management fee income**
Consultancy and management fees are recognised when services are rendered.
- (ii) **Sale of trading securities**
Gains or losses on sale of trading securities are recognised on a trade date basis when the relevant transactions are executed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant Accounting Policies (continued)

(s) Revenue recognition (continued)

(iii) Rental income from finance leases

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

(iv) Rental income from operating leases

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

(v) Dividend income

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

(vi) Interest income

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

(t) Translation of foreign currencies

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

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

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

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

2. Significant Accounting Policies (continued)

(u) Borrowing costs

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

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

(i) Non-current assets held for sale

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Significant Accounting Policies (continued)

(w) Related parties

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

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(x) Segment reporting

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

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

3. Changes in accounting policies and disclosure

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operation</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an investor and its Associate or Joint Venture¹</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

¹ Early adoption during the year ended 31 December 2016

Amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to HKFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to HKFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKAS 39 to present the disclosures in respect of investment entities in accordance with HKFRS 12. HKAS 28 (2011) was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interest in its subsidiaries. The amendments have had no impact on the Group as the consolidation exemption does not apply to a listed entity.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments have had no impact on the Group as the Group does not have acquisitions of interest in a joint operation.

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Changes in accounting policies and disclosure (continued)

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no impact on the Group as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments have had no impact on the Group.

The HKAS 27 (2011) Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying HKFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments do not have any material impact on the Group.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The Group has early adopted the amendments to HKFRS 10 and HKAS 28 (2011) and full gain on sale of business is recognised, which does not have any impact to the comparative figures.

Annual Improvements to HKFRSs 2012-2014 Cycle issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendment relevant to the Group is as follows:

- *HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are to be applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Turnover, Operating Income and Other Net Income

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

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

	2016 HK\$'000	2015 HK\$'000
Operating income		
Consultancy and management fee income	811,699	555,204
Interest income on financial assets not at fair value through profit or loss		
– bank deposits	57,110	44,280
– advances to customers	145,426	400,908
– unlisted debt securities	33,591	153,813
Dividend income		
– listed investments	427,589	400,491
– unlisted investments	643,621	439,833
Net realised gain/(loss) on trading securities		
– equity securities	63,686	183,196
– debt securities	6,258	6,771
– derivatives	(669)	(6,212)
Net unrealised gain/(loss) on trading securities		
– equity securities	(56,196)	(67,123)
– debt securities	11,973	(1,035)
– derivatives	(2,879)	4,264
Gross rental income	23,626	6,396
Rental income from finance leases	4,980	11,119
	2,169,815	2,131,905
Other net income		
Net realised gain on disposal of available-for-sale securities	2,594,412	513,432
Net realised gain on disposal of financial assets designated at fair value through profit or loss	1,058,729	873,343
Changes in unrealised profit or loss on financial assets designated at fair value through profit or loss	(1,272,180)	(591,672)
Gain on losing control of subsidiaries	2,307,678	33
Reversal of impairment loss on debtors, deposits and prepayments	572	36,018
Reversal of impairment loss on amount due from an investee company	3,076	4,398
Realised gain on disposal of associates	344,378	1,286
Realised gain on disposal of a joint venture	–	2,537
Net exchange gain/(loss)	118,364	(86,009)
Net surplus/(deficit) on revaluation of investment properties	14,700	(600)
Others	45,386	54,431
	5,215,115	807,197

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. Staff Costs

	2016 HK\$'000	2015 HK\$'000
Salaries, bonuses and allowances	423,796	335,318
Staff welfare and insurance	28,327	14,332
Staff training and recruitment	7,452	9,736
Pension costs – mandatory provident fund and defined contribution plans	2,720	2,397
	462,295	361,783

6. Profit from Operations

Profit from operations is stated after charging the following:

	2016 HK\$'000	2015 HK\$'000
Operating lease rentals in respect of rented premises	25,339	15,216
Auditor's remuneration	10,177	9,394
Impairment losses on goodwill	–	3,606
Impairment losses on:		
– Available-for-sale securities	548,779	407,778
– Amount due from an investee company	10,907	–
– Advances to customer	43,316	–
– Debtors, deposits and prepayments	11,052	–
– Finance lease receivables	–	196,295
	614,054	604,073

7. Finance Costs

	2016 HK\$'000	2015 HK\$'000
Interest on bank loans and other borrowings	572,182	336,947

The effective interest rate of bank loans and other borrowings was approximately 3.35% (2015: 2.82%) per annum as of 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2016

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

For the year ended 31 December 2015

	Directors' fee HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2015 Total HK\$'000
<i>Executive directors</i>					
Tang Shuangning	–	70	–	–	70
Liu Jun	–	90	–	–	90
Chen Shuang	–	2,620	8,100	–	10,720
Tang Chi Chun, Richard	–	2,015	4,100	18	6,133
Jiang Yuanzhi	–	1,708	3,850	–	5,558
<i>Non-executive director</i>					
Wang Weimin	–	130	–	–	130
<i>Independent non-executive directors</i>					
Chung Shui Ming, Timpson	150	239	–	–	389
Seto Gin Chung, John	150	215	–	–	365
Lin Zhijun	150	225	–	–	375
	450	7,312	16,050	18	23,830

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Directors' and Five Highest Paid Individuals' Emoluments (continued)**(b) Five highest paid individuals' emoluments**

	2016 HK\$'000	2015 HK\$'000
Salaries and other emoluments	9,565	9,672
Bonuses	52,515	27,318
Retirement scheme contributions	187	140
	62,267	37,130

	2016	2015
Number of directors	1	2
Number of employees	4	3
	5	5

Their emoluments were within the following bands:

	Number of individuals	
	2016	2015
HK\$5,500,001 to HK\$6,000,000	–	2
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$7,500,001 to HK\$8,000,000	1	–
HK\$8,000,001 to HK\$8,500,000	1	–
HK\$8,500,001 to HK\$9,000,000	–	1
HK\$10,500,001 to HK\$11,000,000	–	1
HK\$11,000,001 to HK\$11,500,000	1	–
HK\$12,500,001 to HK\$13,000,000	1	–
HK\$22,000,001 to HK\$22,500,000	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 (2015: Nil).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Income Tax

The provision for Hong Kong profits tax is calculated at 16.5% (2015: 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:

	2016 HK\$'000	2015 HK\$'000
Continuing operations		
Current taxation		
– Hong Kong profits tax	8,300	17,501
– Overseas taxation	1,155,240	482,612
– Over provision in respect of Hong Kong profits tax in prior years	(21,042)	(152,560)
Deferred taxation		
– Deferred taxation relating to the origination and reversal of temporary differences	165,621	104,896
Income tax	1,308,119	452,449

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

	2016 HK\$'000	2015 HK\$'000
Continuing operations		
Profit before taxation	6,902,368	5,717,323
Calculated at the rates applicable to profits in the tax jurisdictions concerned	1,491,161	1,413,607
Tax effect of income not subject to taxation	(655,553)	(1,230,999)
Tax effect of expenses not deductible for taxation purposes	414,230	338,040
Tax effect of utilisation of previously unrecognised losses	(1,536)	(14,671)
Tax effect of tax losses and other deductible temporary differences not recognised	80,859	99,032
Over provision in respect of prior years	(21,042)	(152,560)
Income tax	1,308,119	452,449

10. Discontinued Operations

On 9 March 2015, the Group acquired 97.85% equity interest in Burke E. Porter Machinery Company ("BEP"), with a view to hold it for resale within one year. BEP is headquartered in the State of Michigan, USA. The principal activities are design, manufacturing, and distribution of automotive testing equipment and manufacture precision machined products for the worldwide automotive manufacturing market. On 30 April 2016, the Group transferred its equity interest in BEP to CEL Global Investment Fund, L.P. (the "Global Investment Fund"), an unconsolidated investment fund managed by the Group.

As at 31 December 2016, the Group classified equity interest in the following investments as disposal group held for sale (the "Disposal Group"), with a view to hold them for resale within one year.

- Lapmaster Group Holdings, LLC ("Lapmaster")
- 北京匯晨養老機構管理有限公司 ("Huichen")
- Tirana International Airport SHPK ("Tirana Airport")

On 6 November 2015, the Group acquired 59% equity interest in Lapmaster, with a view to resell to the Global Investment Fund within one year. Lapmaster is headquartered in Chicago, USA, and is a developer and manufacturer for highly engineered precision surface finishing equipment and consumables with global presence.

On 21 September 2016, the Group acquired 67.27% equity interest in Huichen, with a view to resell to Everbright (Haimen) Senior Healthcare Investment Fund within one year. Huichen is headquartered in Beijing, PRC, and to provide integrated senior health care services including elderly health care, geriatric treatment, rehabilitation and community services. The Group is in the process to set up the Everbright (Haimen) Senior Healthcare Investment Fund.

On 6 October 2016, the Group acquired 100% equity interest in Tirana Airport with a view to resell to Overseas Infrastructure Investments Fund within one year. Tirana Airport is the only officially operated civil airport in Albania. The Group is in the process to set up the Overseas Infrastructure Investments Fund.

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

11. Profit Attributable to Shareholders

Net profit for the year of the Company of approximately HK\$1,707,069,000 (2015: approximately HK\$1,032,058,000) has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

	2016 HK\$'000	2015 HK\$'000
– Interim dividend declared and paid of HK\$0.25 (2015: HK\$0.25) per share	421,313	421,313
– Final dividend proposed after the end of the reporting period date of HK\$0.5 (2015: HK\$0.5) per share	842,627	842,627
	1,263,940	1,263,940

The directors proposed a final dividend of HK\$0.5 per share for the year ended 31 December 2016 (2015: HK\$0.5 per share). The proposed final dividend is not reflected as dividend payable in the financial statements.

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

	2016 HK\$'000	2015 HK\$'000
– Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.5 (2015: HK\$0.33) per share	842,627	556,134

13. Other Comprehensive Income**(a) Tax effects relating to each component of other comprehensive income**

	2016			2015		
	Before tax amount HK\$'000	Tax credit HK\$'000	Net of tax amount HK\$'000	Before tax amount HK\$'000	Tax expense HK\$'000	Net of tax amount HK\$'000
Net movement in investment revaluation reserve of available-for-sale securities	(4,034,516)	67,323	(3,967,193)	2,224,029	(490,471)	1,733,558
Share of other comprehensive income of associates, as per the associates' financial statements	(355,835)	–	(355,835)	(316,245)	–	(316,245)
Share of other comprehensive income of joint ventures, as per the joint ventures' financial statements	(80,179)	–	(80,179)	67,284	–	67,284
Adjustments to share of other comprehensive income of associates and joint ventures to conform with the Group's accounting policies	–	–	–	(15,000)	–	(15,000)
Exchange reserve	(1,426,698)	–	(1,426,698)	(984,731)	–	(984,731)
	(5,897,228)	67,323	(5,829,905)	975,337	(490,471)	484,866

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. Other Comprehensive Income (continued)**(b) Reclassification adjustments relating to components of other comprehensive income**

	2016 HK\$'000	2015 HK\$'000
Available-for-sale securities:		
Changes in fair value recognised during the year	(1,921,560)	1,839,212
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	(2,594,412)	(513,432)
– impairment losses	548,779	407,778
Net movement in investment revaluation reserve during the year recognised in other comprehensive income	(3,967,193)	1,733,558

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 2016 is based on the profit attributable to equity shareholders of the Company for continuing and discontinued operations of HK\$4,012,349,000 and HK\$62,033,000 respectively, (2015: for continuing and discontinued operations of HK\$5,087,571,000 and HK\$56,423,000 respectively) and the weighted average number of 1,685,253,712 shares (2015: 1,685,253,712 shares) in issue during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2015	456,583	76,851	37,386	63,856	634,676	64,600
Additions	–	–	12,116	4,479	16,595	–
Disposals	–	–	(565)	(1,054)	(1,619)	–
Deficit on revaluation	–	–	–	–	–	(600)
Exchange adjustments	–	–	–	(584)	(584)	–
As at 31 December 2015	456,583	76,851	48,937	66,697	649,068	64,000
Representing:						
Cost	456,583	76,851	48,937	66,697	649,068	–
Professional valuation	–	–	–	–	–	64,000
	456,583	76,851	48,937	66,697	649,068	64,000
As at 1 January 2016	456,583	76,851	48,937	66,697	649,068	64,000
Additions	–	–	1,567	6,449	8,016	–
Disposals	–	–	(2,010)	(3,080)	(5,090)	–
Surplus on revaluation	–	–	–	–	–	14,700
Exchange adjustments	–	–	–	(721)	(721)	–
As at 31 December 2016	456,583	76,851	48,494	69,345	651,273	78,700
Representing:						
Cost	456,583	76,851	48,494	69,345	651,273	–
Professional valuation	–	–	–	–	–	78,700
	456,583	76,851	48,494	69,345	651,273	78,700

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2015	51,340	13,678	29,799	39,437	134,254	–
Charge for the year	6,933	1,795	4,925	8,628	22,281	–
Written back on disposal	–	–	(481)	(681)	(1,162)	–
Exchange adjustments	–	–	–	(339)	(339)	–
As at 31 December 2015 and 1 January 2016	58,273	15,473	34,243	47,045	155,034	–
Charge for the year	6,933	1,795	6,056	9,019	23,803	–
Written back on disposal	–	–	–	(2,491)	(2,491)	–
Exchange adjustments	–	–	–	(449)	(449)	–
As at 31 December 2016	65,206	17,268	40,299	53,124	175,897	–
Net book value:						
As at 31 December 2016	391,377	59,583	8,195	16,221	475,376	78,700
As at 31 December 2015	398,310	61,378	14,694	19,652	494,034	64,000

- (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 2016 by RHL Appraisal Limited, an independent professional valuer who has among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued. These properties were appraised on an open market basis and investment properties are carried in the consolidated statement of financial position at market value.

As at 31 December 2016, 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\$1,067,800,000 (2015: HK\$1,089,046,000).

Investment properties of HK\$78,700,000 (2015: HK\$64,000,000) of the Group are rented out under operating leases, of which HK\$14,300,000 (2015: HK\$12,900,000) are rented to a fellow subsidiary.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, Plant and Equipment and Investment Properties (continued)**(c) The analysis of the net book value of properties is as follows:**

	2016 HK\$'000	2015 HK\$'000
Held in Hong Kong		
– on long-term lease	278,598	281,153
– on medium-term lease	67,500	53,000
	346,098	334,153
Held outside Hong Kong		
– on medium-term lease	183,562	189,535
	183,562	189,535
	529,660	523,688

(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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Property, Plant and Equipment and Investment Properties (continued)**(d) Fair value measurement of properties (continued)****(i) Fair value hierarchy (continued)**

	Fair value HK\$'000	Fair value measurements categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	level 3 HK\$'000
Recurring fair value measurement				
Investment properties:				
– Residential – Hong Kong				
As at 31 December 2016	78,700	–	–	78,700
As at 31 December 2015	64,000	–	–	64,000

During the year ended 31 December 2016, there were no transfers into or out of Level 3 (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Information about Level 3 fair value measurements

	Valuation technique(s)	Unobservable input(s)	Range
Investment properties	Direct comparison approach	Premium (discount) on characteristic of the properties	-10% to 15% (2015: -40% to 30%)

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

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

	2016 HK\$'000	2015 HK\$'000
Investment properties – Residential – Hong Kong:		
At 1 January	64,000	64,600
Net surplus/(deficit) on revaluation of investment properties	14,700	(600)
At 31 December	78,700	64,000

Net surplus on revaluation of investment properties is recognised as part of the "other net income" (note 4).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Investments in Subsidiaries

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

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activities
CEL Venture Capital (Shenzhen) Limited	The PRC	Not applicable	HK\$1,670,000,000	100%	Provision of investment advisory services and investment
CEL Management Services Limited	Hong Kong	Ordinary	2 Shares HK\$2	100%	Provision of management services
CEL (Secretaries) Limited	Hong Kong	Ordinary	2 Shares HK\$2	100%	Provision of secretarial services
China Everbright Assets Management Limited	Hong Kong	Ordinary	5,000,000 Shares HK\$5,000,000	100% ¹	Provision of asset management services
Everbright Capital Management Limited	Hong Kong	Ordinary	7,000,000 Shares HK\$7,000,000	100% ¹	Provision of asset management services
China Everbright Finance Limited	Hong Kong	Ordinary	100,000,000 Shares HK\$100,000,000	100% ¹	Money lending
China Everbright Financial Investments Limited	Hong Kong	Ordinary	1,000,000 Shares HK\$1,000,000	100% ¹	Investment
China Everbright Industrial Investment Holdings Limited	Cayman Islands	Ordinary	10,000 Shares US\$10,000	100%	Investment
China Everbright Investment Management Limited	Hong Kong	Ordinary	1,000,000 Shares HK\$1,000,000	100%	Provision of investment management services
China Special Opportunities Fund, L.P.	Cayman Islands	Not applicable	Not applicable	50% ¹	Investment
EBA Investments (Advisory) Limited	Hong Kong	Ordinary	100,000 Shares US\$1,000	65% ¹	Fund management
Everbright Ashmore Investment Management	Cayman Islands	Ordinary	100,000 Shares US\$1,000	51% ¹	Fund management

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Investments in Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activities
Everbright Ashmore Real Estate Partners	Cayman Islands	Ordinary	1,100,000 Shares US\$11,000	51% ¹	Fund management
Everbright Ashmore Services and Consulting Limited	Cayman Islands	Ordinary	100,000 Shares US\$1,000	51% ¹	Fund management
Everbright New Industries Capital Company Limited	The PRC	Not applicable	RMB160,000,000	70%	Project investment
Everbright San Shan Capital Management Company Limited	The PRC	Not applicable	RMB30,000,000	51%	Provision of asset management services
Fortunecrest Investment Limited	British Virgin Islands	Ordinary	1 Share US\$1	100% ¹	Property investment
Goalfield Investments Limited	British Virgin Islands	Ordinary	1 Share US\$1	100% ¹	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
SeaBright Asset Management Limited	Hong Kong	Ordinary	1,000,000 Shares HK\$1,000,000	65%	Asset management
Trycom Management Limited	British Virgin Islands	Ordinary	1 Share US\$1	100%	Investment holding
Windsor Venture Limited	British Virgin Islands	Ordinary	1 Share US\$1	100%	Investment holding
Well Logic Investment Limited	Hong Kong	Ordinary	2 Shares HK\$2	100% ¹	Property investment
深圳市光控投資諮詢有限公司	The PRC	Not applicable	RMB10,000,000	100% ¹	Provision of consultancy services
Everbright Venture Capital Jiangyin Company Limited	The PRC	Not applicable	RMB259,000,000	53.39% ¹	Venture capital
光大匯益偉業投資管理(北京)有限公司	The PRC	Not applicable	RMB125,300,000	100% ¹	Project investment
光大控股(江蘇)投資有限公司	The PRC	Not applicable	US\$100,000,000	100%	Investment

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Investments in Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activities
宜興光控投資有限公司	The PRC	Not applicable	RMB600,000,000	100% ¹	Project investment
重慶光控股權投資管理有限公司	The PRC	Not applicable	RMB100,000,000	100% ¹	Fund management
光控廣域投資(上海)合夥企業(有限合夥)	The PRC	Not applicable	RMB80,000,000	61.09% ¹	Investment
光控(海門)創業投資有限公司	The PRC	Not applicable	US\$18,000,000	100%	Investment
光大控股(青島)投資有限公司	The PRC	Not applicable	US\$78,000,000	100%	Investment
成都光控西部創業投資有限公司	The PRC	Not applicable	RMB180,000,000	100% ¹	Investment
Winning Trend Investments Limited	British Virgin Islands	Ordinary	1 Share US\$1	100% ¹	Investment
上海光控嘉鑫股權投資管理有限公司	The PRC	Not applicable	RMB50,000,000	100% ¹	Fund management
成都光控安鑫股權投資基金管理有限公司	The PRC	Not applicable	RMB10,000,000	100% ¹	Fund management
青島光控低碳新能股權投資有限公司	The PRC	Not applicable	RMB650,000,000	76.92% ¹	Investment
青島光控新產業股權投資管理有限公司	The PRC	Not applicable	RMB10,000,000	100% ¹	Investment
光大控股(青島)融資租賃有限公司	The PRC	Not applicable	US\$30,000,000	100% ¹	Investment
上海光控股權投資管理有限公司	The PRC	Not applicable	RMB600,000,000	100% ¹	Fund management
China Everbright Structured Investment Management Limited	Hong Kong	Ordinary	5,000,000 Shares HK\$5,000,000	100% ¹	Investment
CEL Israel Holdings Limited	British Virgin Islands	Ordinary	1 Share US\$1	100% ¹	Investment holding

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Investments in Subsidiaries (continued)

Name of subsidiary	Place of incorporation/ operation	Class of shares	Particulars of issued and paid up capital	Percentage of equity interest held by the Company	Principal activities
CEL Israel Equity Management Ltd	British Virgin Islands	Ordinary	1 Share US\$1	100% ⁽¹⁾	Investment
Champion Castle Investments Limited	Hong Kong	Ordinary	1 Share HK\$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
Greenhouse Century Limited	British Virgin Islands	Ordinary	1 Share US\$1	100% ⁽¹⁾	Investment
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	51% ⁽¹⁾	Investment
光控投資管理(上海)有限公司	The PRC	Not applicable	RMB200,000,000	100% ⁽¹⁾	Provision of investment management services
光大融資租賃(上海)有限公司	The PRC	Not applicable	US\$50,000,000	100% ⁽¹⁾	Provision of leasing services
CEL Media Investment Limited	Hong Kong	Ordinary	1 Share HK\$1	100% ⁽¹⁾	Investment
Neo Modern Limited	British Virgin Islands	Ordinary	1 Share HK\$1	100% ⁽¹⁾	Investment holding
Diamond Wealth Global Limited	British Virgin Islands	Ordinary	100 Shares US\$100	97% ⁽¹⁾	Investment holding
Pioneer Act Investments Limited	British Virgin Islands	Ordinary	1 Share US\$1	100% ⁽¹⁾	Investment holding

⁽¹⁾ Subsidiaries held indirectly.

The list of subsidiaries above included certain consolidated structured entities of which the Group has capital commitment of HK\$39,605,000 (2015: HK\$361,957,000) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Investments in Associates**(a) Investments in associates**

	2016 HK\$'000	2015 HK\$'000
Share of net assets	16,120,444	16,878,305
Goodwill on acquisition	(33,192)	(591,037)
	16,087,252	16,287,268
Less: impairment loss	–	(338,439)
	16,087,252	15,948,829
Market value of shares listed in mainland China	22,153,488	31,204,468
Market value of shares listed in Hong Kong	1,766,380	1,661,116

(b) As at 31 December 2016, 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)	24.71% (note 2)
China Aircraft Leasing Group Holdings Limited ^{##} ("CALGH")	Cayman Islands	Investment holding (note 3)	31.09%* (note 4)
首譽光控資產管理有限公司 ("Everbright Prestige")	The PRC	Assets management (note 5)	35%*
上海嘉寶實業(集團)股份有限公司 ^{###} ("Jiabao Group")	The PRC	Real estate development/real estate asset management (note 6)	19.27%*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Investments in Associates (continued)**(b) As at 31 December 2016, particulars of the principal associates of the Group are as follows: (continued)**

- # Market value of the listed shares in mainland China as at 31 December 2016 was equivalent to HK\$20,490,040,000 (2015: HK\$31,204,468,000).
- ## Market value of the listed shares in Hong Kong as at 31 December 2016 was HK\$1,766,380,000 (2015: HK\$1,661,116,000).
- ### Market value of the listed shares in mainland China as at 31 December 2016 was equivalent to HK\$1,663,448,000 (2015: Nil).
- * Held indirectly
- Note 1: Everbright Securities is the Group's strategic investment to capitalise on the growth of securities markets in mainland China and Hong Kong.
- Note 2: The Group's equity interest was diluted from 29.16% to 24.71% during the year due to the H-share initial public offering of Everbright Securities. Accordingly, a gain on deemed disposal of interest in associate amounted to HK\$120,157,000 (2015: diluted from 33.33% to 29.16% due to the non-public share issuance with a deemed gain of HK\$1,324,545,000) was credited to the consolidated statement of profit or loss.
- Note 3: CALGH is an associate of the Group to capture multiple opportunities along the aircraft value chain arising from the rapid growth of the aviation industry. CALGH's lease offerings are complemented by fleet planning consultation, structured leasing, aircraft trading and re-marketing and aircraft disassembly.
- Note 4: The Group's equity interest was diluted from 34.27% to 31.09% during the year due to the exercise of share options by other investors of CALGH. Accordingly, a gain on deemed disposal of interest in an associate amounted to HK\$40,474,000 (2015: diluted from 35.33% to 34.27% with a deemed loss of HK\$20,503,000) was credited to the consolidated statement of profit or loss.
- Note 5: Everbright Prestige is one of the Group's assets management platforms that primarily operates in mainland China.
- Note 6: Jiabao Group is the Group's strategic industry investment to capitalise on the growth of real estate development and asset management in mainland China.

On 15 June 2016, the Group entered into the Sale and Purchase Agreement with Everbright Securities Financial Holdings Limited, a wholly-owned subsidiary of Everbright Securities, to sell 49% of the issued share capital of Everbright Securities (International) Limited for a consideration of HK\$930 million. The transaction was completed on 29 June 2016 (the "Completion Date"). Accordingly, a realised gain on disposal of an associate amounting to HK\$343 million was credited to the consolidated statement of profit or loss. Subsequent to the completion of the transaction, the Group has no interest in the Everbright Securities (International) Limited. The Group accounted for the 49% interest in Everbright Securities (International) Limited from 1 January 2016 to the Completion Date.

For the year ended 31 December 2016, Everbright Securities has recorded an after tax profit of RMB3,077 million (2015: RMB7,750 million) and the Group's share of profit as per the associates' financial statements, under the equity accounting method, amounted to HK\$894 million (2015: HK\$3,037 million).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Investments in Associates (continued)**(c) Supplementary financial information of the principal associates**

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

	Everbright Securities	
	2016	2015
	HK\$'000	HK\$'000
Gross amounts of the associate		
Current assets	165,314,089	211,202,689
Non-current assets	33,271,932	24,102,259
Current liabilities	(119,359,093)	(156,292,623)
Non-current liabilities	(24,854,542)	(28,358,528)
Non-controlling interests	(1,610,883)	(2,317,574)
Equity attributable to equity shareholders of the associate	52,761,503	48,336,223
Operating income	10,594,323	20,254,840
Profit from operations	3,556,653	9,468,981
Other comprehensive income	(1,117,409)	1,175,667
Total comprehensive income	2,439,244	10,644,648
Dividend received from the associate	781,981	113,943
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	52,761,503	48,336,223
Group's effective interest	24.71%	29.16%
Group's share of net assets of the associate	13,038,663	14,094,843
Carrying amount as per the associate's financial statements	13,038,663	14,094,843
Adjustments to share of profits less losses to conform with the Group's accounting policies	–	103,911
Carrying amount in the Group's consolidated financial statements	13,038,663	14,198,754

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Investments in Associates (continued)**(c) Supplementary financial information of the principal associates** (continued)

Aggregate information of the associates that are not individually material:

	2016 HK\$'000	2015 HK\$'000
Aggregate carrying amount of associates that are not individually material in the consolidated statement of financial position	3,048,589	1,750,075
Aggregate amounts of the Group's share of those associates' :		
Profit for the year	333,804	167,961
Other comprehensive income	13,980	–
Total comprehensive income	347,784	167,961

(d) Amounts due from associates

Amount due from an associate under non-current assets is unsecured, interest-free and has no fixed terms of repayment.

Amount due from an associate under current assets is unsecured, interest-free and repayable within one year.

(e) Amount due to an associate

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

18. Investments in Joint Ventures**(a) Investments in joint ventures**

	2016 HK\$'000	2015 HK\$'000
Carrying value, net	351,445	625,047

(b) As at 31 December 2016, details of the Group's principal investments in joint ventures are as follows:

Name of joint venture	Place of incorporation/ operation	Principal activities	Particulars of issued capital	Percentage of equity interest held by the Company
Everbright Guolian Capital Company Limited	The PRC	Venture capital and investment advisory services (note 1)	RMB320,000,000	50.0%*
山東高速光控產業投資基金管理有限公司	The PRC	Fund management services (note 2)	RMB200,000,000	48.0%*

* 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.

All of the above joint ventures are unlisted corporate entities whose quoted market prices were not available as at 31 December 2016. They are accounted for using the equity method in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18. Investments in Joint Ventures (continued)

- (b) As at 31 December 2016, details of the Group's principal investments in joint ventures are as follows: (continued)

Aggregate information of joint ventures that are not individually material:

	2016 HK\$'000	2015 HK\$'000
Aggregate carrying amount of joint ventures that are not individually material in the consolidated statement of financial position	351,445	625,047
Aggregate amounts of the Group's share of those joint ventures		
Profit/(loss) for the year	73,828	(7,702)
Other comprehensive income	(80,179)	67,284
Total comprehensive income	(6,351)	59,582

- (c) Amounts due from joint ventures

Amounts due from joint ventures were unsecured, interest-free and had no fixed terms of repayment.

- (d) Amount due to a joint venture

Amount due to a joint venture was unsecured, interest-free and had no fixed terms of repayment.

19. Available-For-Sale Securities

	2016 HK\$'000	2015 HK\$'000
At fair value:		
Listed equity securities		
– in Hong Kong	598,854	1,114,861
– outside Hong Kong	10,231,612	14,079,422
Unlisted equity securities/collective investment schemes		
– in Hong Kong	–	17,148
– outside Hong Kong	3,777,259	5,658,476
Listed debt securities		
– in Hong Kong	–	5,636
– outside Hong Kong	67,213	90,951
Unlisted debt securities	–	241,474
At cost ⁽ⁱ⁾ :		
Unlisted equity securities	438,969	545,363
	15,113,907	21,753,331

- (i) At 31 December 2016, the investments were measured at cost less impairment because the fair value cannot be reliably measured.

The Group's investments in listed equity securities with fair values of HK\$893,195,000 and HK\$431,544,000 are subject to a lock-up provision which restricted the Group from selling the equity securities on or before 7 November 2017 and 19 May 2018 respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Available-For-Sale Securities (continued)

	2016 HK\$'000	2015 HK\$'000
Fair value of available-for-sale securities that were individually determined to be impaired as at 31 December:		
Listed equity securities		
– in Hong Kong	390,893	340,839
– outside Hong Kong	431,544	–
Unlisted equity securities	457,836	308,664
	1,280,273	649,503

As at 31 December 2016, certain of the Group's available-for-sale equity securities were individually determined to be impaired on the basis of a significant or prolonged decline in their fair value below cost.

The Group held the following principal available-for-sale securities as at 31 December 2016:

Company name	Place of incorporation	Principal activities	Effective equity interest held by the Group
China Everbright Bank Company Limited ⁽ⁱ⁾ ("Everbright Bank")	The PRC	Banking operations	3.37%

(i) At 31 December 2016, the carrying value of interests in Everbright Bank exceeded 10% of the total assets of the Group.

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

	2016 HK\$'000	2015 HK\$'000
Non-current assets		
At fair value:		
Listed equity securities		
– in Hong Kong	66,018	82,945
– outside Hong Kong	475,975	1,733,860
Unlisted equity securities/collective investment schemes		
– outside Hong Kong	13,251,988	4,658,166
Unlisted convertible preference shares		
– outside Hong Kong	1,013,743	939,183
Unlisted debt securities – outside Hong Kong	1,661,345	1,467,430
	16,469,069	8,881,584
Current assets		
At fair value:		
Unlisted equity securities/collective investment schemes		
– outside Hong Kong	737,250	2,494,863
Unlisted debt securities and derivatives – outside Hong Kong	–	384,360
	737,250	2,879,223

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

As at 31 December 2016, the Group's listed and unlisted equity securities amounting to a fair value of HK\$10,892,302,000 (2015: HK\$6,302,378,000) were investments in associates and joint ventures. The Group was exempted from applying the equity method to these investments and they were recognised as financial assets designated at fair value through profit or loss.

As at 31 December 2016, balances of HK\$276,698,000 (2015: HK\$294,147,000) were due from these investee companies, which were associates recognised as financial assets designated at fair value through profit or loss. The amounts due from these investee companies are unsecured, interest free and have no fixed terms of repayment except for an amount of HK\$44,800,000 (2015: Nil) due from an investee company is unsecured, interest bearing and has no fixed terms of repayment.

As at 31 December 2016, balances of HK\$211,632,000 (2015: HK\$238,800,000) were due to these investee companies which were recognised as financial assets designated at fair value through profit or loss. The amounts due to investee companies are unsecured, interest free and have no fixed terms of prepayment.

In 2016, the Group purchased certain unlisted financial assets designated at fair value through profit or loss at a purchase price which was below the fair value at inception that would be determined at that date using a valuation technique. According to the Group's accounting policy, the difference yet to be recognised in profit or loss at the beginning and the end of the year is as follows:

	2016 HK\$'000	2015 HK\$'000
As at 1 January	784,743	544,939
Additions for the year	220,806	294,888
Released during the year	(286,361)	–
Exchange adjustment	(2,364)	(55,084)
As at 31 December	716,824	784,743

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Advances to Customers

	2016 HK\$'000	2015 HK\$'000
Non-current assets		
Term loans to customers		
– secured	572,130	730,609
– unsecured	–	708,274
	572,130	1,438,883
Current assets		
Term loans to customers		
– secured	1,155,772	2,612,346
Less: impairment loss	(43,316)	–
	1,112,456	2,612,346
– unsecured	62,052	38,755
	1,174,508	2,651,101

Certain term loans to customers are secured by listed and unlisted securities or leasehold land in mainland China with third parties guarantees (note 40 (a)).

Except for the above, there were no other significant receivables, that were aged, requiring impairment provision as of 31 December 2016 and 2015.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22. Finance Lease Receivables

The total minimum lease payments receivables under finance leases, and their present values are as follows:

	2016 HK\$'000	2015 HK\$'000
Within 1 year	230,591	164,345
After 1 year but within 5 years	58,465	189,559
Gross investment in leases	289,056	353,904
Unearned finance income	(27,889)	(38,050)
Net investment in leases	261,167	315,854
Less: accumulated allowance	(202,464)	(214,920)
Finance lease receivables – net	58,703	100,934

The present values of future payments receivables are as follows:

	2016 HK\$'000	2015 HK\$'000
Within 1 year	38,565	38,620
After 1 year but within 5 years	20,138	62,314
	58,703	100,934

23. Debtors, Deposits and Prepayments

	2016 HK\$'000	2015 HK\$'000
Accounts receivable, net	2,876,215	880,445
Deposits, prepayments, interest and other receivables	466,173	571,198
Less: allowance for doubtful debts	3,342,388 (11,052)	1,451,643 –
	3,331,336	1,451,643

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

As at 31 December 2016, the Group's receivable of HK\$11,052,000 (2015: Nil) was individually determined to be impaired.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Trading Securities

	2016 HK\$'000	2015 HK\$'000
Current assets		
At fair value:		
Listed equity securities		
– in Hong Kong	259,807	268,270
– outside Hong Kong	234,903	344,832
Listed debt securities		
– in Hong Kong	113,268	72,946
– outside Hong Kong	458,591	348,747
Unlisted debt securities	33,018	27,192
Derivatives		
– listed	–	45
– unlisted	3,724	8,260
	1,103,311	1,070,292
Current liabilities		
At fair value:		
Listed equity securities		
– in Hong Kong	(34,677)	(43,197)
– outside Hong Kong	(39,527)	(125,228)
Listed debt securities		
– outside Hong Kong	(71,052)	(63,287)
Derivatives		
– listed	(62)	(434)
– unlisted	(6,508)	(6,998)
	(151,826)	(239,144)

25. Cash and Cash Equivalents

	2016 HK\$'000	2015 HK\$'000
Cash on hand, savings and current accounts	3,201,857	3,129,784
Fixed deposits with banks	2,757,677	1,558,472
Cash and cash equivalents in the consolidated statement of financial position and the consolidated statement of cash flows	5,959,534	4,688,256

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. Bank Loans

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

	2016 HK\$'000	2015 HK\$'000
Within 1 year	4,147,432	3,170,845
After 1 year but within 5 years	6,387,706	10,283,111
	10,535,138	13,453,956

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

	2016 HK\$'000	2015 HK\$'000
Bank loans		
– secured	–	42,060
– unsecured	10,535,138	13,411,896
	10,535,138	13,453,956

27. Amount Due to a Fellow Subsidiary and Shareholder

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

The whole amount has been fully repaid during 2016.

28. Creditors, Deposits Received and Accrued Charges

	2016 HK\$'000	2015 HK\$'000
Creditors, deposits received and accrued charges	1,226,925	1,327,476

As at 31 December 2016 and 2015, creditors, deposits received and accrued charges included bonus payable to staff.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Other Financial Liabilities

	Note	2016 HK\$	2015 HK\$
Current:			
Financial liabilities due to an associate	36(b)	1,891,976	3,038,933
Financial liabilities to third party investors	(a)	325,143	–
		2,217,119	3,038,933
Non-current:			
Financial liabilities to third party investors	(a)	1,443,893	513,798

- (a) As 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. Bond Payable

On 8 June 2016, the Board resolved to approve the proposed issue of the corporate bonds with aggregate principal amount of not more than RMB12,800 million. On 25 July 2016, the Company completed the issue of the first tranche of unsecured corporate bonds with an aggregate principal amount of RMB4,000 million (the "First Tranche Corporate Bonds"), of which RMB1,000 million was issued as the "Type 1 Bonds" at a coupon rate of 2.92% per annum, and RMB3,000 million was issued as the "Type 2 Bonds" at a coupon rate of 3.24% per annum, both payable annually in arrears and will mature on 22 July 2021.

Type 1 Bonds of the First Tranche Corporate Bonds was issued at par, the Company has the option to adjust the coupon rate and the investors have the option to sell back to the Company after 22 July 2019. Type 2 bonds of First Tranche Corporate Bonds was issued at par.

On 24 November 2016, the Company completed the issue of the second tranche of unsecured corporate bonds with an aggregate principal amount of RMB4,000 million (the "Second Tranche Corporate Bonds"), of which RMB2,000 million was issued as the "Type 1 Bonds" at a coupon rate of 3.22% per annum, and RMB2,000 million was issued as the "Type 2 Bonds" at a coupon rate of 3.37% per annum, both payable annually in arrears and will mature on 23 November 2022 and 23 November 2023, respectively.

Type 1 Bonds of the Second Tranche Corporate Bonds was issued at par, the Company has the option to adjust the coupon rate and the investors have the option to sell back to the Company after 23 November 2019. Type 2 Bonds of the Second Tranche Corporate Bonds was issued at par, the Company has the option to adjust the coupon rate and the investors have the option to sell back to the Company after 23 November 2020.

Both the First Tranche Corporate Bonds and the Second Tranche Corporate Bonds are listed in the Shanghai Stock Exchange. As at 31 December 2016, the notional amount of the outstanding bond were HK\$8,998 million (RMB8,000 million) with amortised cost of HK\$8,998 million in consolidated statement of financial position.

31. Income Tax in the Consolidated Statement of Financial Position**(a) Current taxation in the consolidated statement of financial position represents:**

	2016 HK\$'000	2015 HK\$'000
Provision for Hong Kong profits tax for the year	8,300	17,501
Provision for PRC tax for the year	973,699	351,347
Provisional profits tax paid	(31,373)	(56,593)
	950,626	312,255
Balance of profits tax provision relating to prior years	96,195	18,802
	1,046,821	331,057

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. Income Tax in the Consolidated Statement of Financial Position (continued)**(b) Deferred taxation**

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

	Fair value adjustment for available- for-sale securities		Withholding tax on subsidiaries' and associates' profit		Total	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
At 1 January	(768,958)	(278,487)	(252,327)	(147,431)	(1,021,285)	(425,918)
Charged to profit or loss	–	–	(165,621)	(104,896)	(165,621)	(104,896)
Reversed from/(charged to) reserve	67,323	(490,471)	–	–	67,323	(490,471)
At 31 December	(701,635)	(768,958)	(417,948)	(252,327)	(1,119,583)	(1,021,285)

In accordance with the accounting policy set out in note 2(q), the Group has not recognised deferred tax assets, in respect of tax losses of approximately HK\$3,697 million (2015: approximately HK\$2,877 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**

	2016		2015	
	No. of shares (‘000)	HK\$’000	No. of shares (‘000)	HK\$’000
Ordinary shares issued and fully paid:				
At 1 January	1,685,254	9,618,097	1,685,254	9,618,097
At 31 December	1,685,254	9,618,097	1,685,254	9,618,097

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, bond payable, and amount due to a fellow subsidiary and shareholder) 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 2016 and 2015 was as follows:

	2016 HK\$'000	2015 HK\$'000
Current liabilities		
Bank loans	4,147,432	3,170,845
Amount due to a fellow subsidiary and shareholder	–	1,000,000
Notes payable	27,000	57,000
	4,174,432	4,227,845
Non-current liabilities		
Bank loans	6,387,706	10,283,111
Notes payable	30,000	–
Bond payable	8,998,400	–
Total debt	19,590,538	14,510,956
Add: Proposed dividend	842,627	842,627
Less: Cash and cash equivalents	(5,959,534)	(4,688,256)
Adjusted net debt	14,473,631	10,665,327
Total equity	39,486,395	42,947,509
Less: Proposed dividend	(842,627)	(842,627)
Adjusted capital	38,643,768	42,104,882
Adjusted net debt-to-capital ratio	37%	25%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32. Share Capital (continued)**(b) Capital management** (continued)

As at 31 December 2016, the Group's liquidity remained healthy. The addition of financial resources is mainly attributable to fruitful returns, through divestment and dividends, from investments. During the year, the Group has also made ongoing investment over advances to customers, trading securities, available-for-sale securities and financial assets designated at fair value through profit or loss. To enhance shareholder returns, the Group continues to seek new investment opportunities while maintaining a healthy capital structure.

The Company is not subject to externally imposed capital requirements. Certain subsidiaries of the Company are subject to regulatory imposed capital and liquid capital requirements (see also note 40(b)). These subsidiaries have complied with those requirements at all time during both the current and prior financial years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33. Statement of Financial Position of the Parent Company

	Notes	31 December 2016 HK\$'000	31 December 2015 HK\$'000
Non-current assets			
Property, plant and equipment		2	8
Investments in subsidiaries	16	3,585,424	3,558,366
Amounts due from subsidiaries		15,311,510	9,510,871
Investment in an associate		1,784,192	1,784,192
Available-for-sale securities		6,899,152	7,962,070
		27,580,280	22,815,507
Current assets			
Amounts due from subsidiaries		7,435,598	8,449,371
Debtors, deposits and prepayments		57,070	37,745
Cash and cash equivalents		925,162	77,640
		8,417,830	8,564,756
Current liabilities			
Amounts due to subsidiaries		(5,379,309)	(4,119,310)
Bank loans		(2,937,332)	(2,812,645)
Creditors, deposits received and accrued charges		(85,270)	(9,759)
		(8,401,911)	(6,941,714)
Net current assets		15,919	1,623,042
Total assets less current liabilities		27,596,199	24,438,549
Non-current liabilities			
Bank loans		(1,745,212)	(7,031,794)
Bond payable		(8,998,400)	–
Deferred tax liabilities		(317,948)	(252,327)
		(11,061,560)	(7,284,121)
NET ASSETS		16,534,639	17,154,428
CAPITAL AND RESERVES			
Share capital	32	9,618,097	9,618,097
Reserves	34	6,916,542	7,536,331
TOTAL EQUITY		16,534,639	17,154,428

Approved and authorised for issue by the Board of Directors on 30 March 2017 and signed on behalf of the Board by:

Cai Yunge
Director

Chen Shuang
Director

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Reserves

(a) The movements in the Parent Company's reserves during the year are as follows:

	Note	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 January 2015		9,618,097	8,151,003	926,839	18,695,939
Dividend paid	12	–	–	(977,447)	(977,447)
Profit for the year		–	–	1,032,058	1,032,058
Other comprehensive income for the year		–	(1,596,122)	–	(1,596,122)
As at 31 December 2015 and 1 January 2016		9,618,097	6,554,881	981,450	17,154,428
Dividend paid	12	–	–	(1,263,940)	(1,263,940)
Profit for the year		–	–	1,707,069	1,707,069
Other comprehensive income for the year		–	(1,062,918)	–	(1,062,918)
As at 31 December 2016		9,618,097	5,491,963	1,424,579	16,534,639

34. Reserves (continued)**(b) Nature and purpose of reserves**

- (i) **Investment revaluation reserve**
The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(f).
- (ii) **Exchange reserve**
The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investments in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(t).
- (iii) **Goodwill reserve**
The goodwill reserve comprises goodwill on acquisitions that occurred prior to 1 January 2001. The reserve is dealt with in accordance with the accounting policies set out in note 2(e).
- (iv) **Capital reserve**
The capital reserve comprises specific allocation of amounts transferred from retained earnings due to regulatory requirements. It also includes the share of statutory reserves of associates.
- (v) **Distributability of reserves**
As at 31 December 2016, 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\$1,424,579,000 (2015: HK\$981,450,000). After the end of the reporting period, the directors proposed a final dividend of HK\$0.5 per share (2015: HK\$0.5 per share), amounting to HK\$842,627,000 (2015: HK\$842,627,000) (note 12). This dividend has not been recognised as a liability at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2016

	Indefinite HK\$'000	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Total HK\$'000
Assets							
– Advances to customers	37,353	194,472	62,054	880,629	572,130	–	1,746,638
– Finance lease receivables	–	–	9,443	29,122	20,138	–	58,703
– Trading securities	498,424	–	604,887	–	–	–	1,103,311
– Available-for-sale securities	15,046,694	–	–	–	67,213	–	15,113,907
– Financial assets designated at fair value through profit or loss	16,469,069	–	–	737,250	–	–	17,206,319
– Cash and cash equivalents	–	3,201,857	2,757,677	–	–	–	5,959,534
	32,051,540	3,396,329	3,434,061	1,647,001	659,481	–	41,188,412
Liabilities							
– Bank loans	–	–	(1,075,772)	(3,071,660)	(6,387,706)	–	(10,535,138)
– Other financial liabilities	–	(1,891,976)	–	(325,143)	(230,422)	(1,213,471)	(3,661,012)
– Trading securities	(80,774)	–	(71,052)	–	–	–	(151,826)
– Bond payable	–	–	–	–	(4,499,200)	(4,499,200)	(8,998,400)
– Notes payable	–	(27,000)	–	–	(30,000)	–	(57,000)
	(80,774)	(1,918,976)	(1,146,824)	(3,396,803)	(11,147,328)	(5,712,671)	(23,403,376)

As at 31 December 2015

	Indefinite HK\$'000	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Total HK\$'000
Assets							
– Advances to customers	–	228,937	1,285,719	1,136,445	1,438,883	–	4,089,984
– Finance lease receivables	–	–	9,453	29,167	62,314	–	100,934
– Trading securities	595,419	–	466,198	8,675	–	–	1,070,292
– Available-for-sale securities	21,622,813	–	–	–	130,518	–	21,753,331
– Financial assets designated at fair value through profit or loss	6,836,743	–	967,140	1,912,083	2,044,841	–	11,760,807
– Cash and cash equivalents	–	3,129,784	1,558,472	–	–	–	4,688,256
	29,054,975	3,358,721	4,286,982	3,086,370	3,676,556	–	43,463,604
Liabilities							
– Bank loans	–	–	–	(3,170,845)	(10,283,111)	–	(13,453,956)
– Amount due to a fellow subsidiary and shareholder	–	–	(1,000,000)	–	–	–	(1,000,000)
– Other financial liabilities	–	(3,038,933)	–	–	(457,371)	(56,427)	(3,552,731)
– Trading securities	(175,857)	–	(63,287)	–	–	–	(239,144)
– Notes payable	–	(27,000)	–	(30,000)	–	–	(57,000)
	(175,857)	(3,065,933)	(1,063,287)	(3,200,845)	(10,740,482)	(56,427)	(18,302,831)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Material Related Party Transactions

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

	2016 HK\$'000	2015 HK\$'000
Management fee received from:		
– a joint venture	4,090	2,829
– associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss	243,206	5,924
Loan interest income from:		
– associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss	20,145	2,837
Consultancy and other service income from:		
– an associate	14,206	35,971
Bank interest income from a fellow subsidiary/a related party bank	10,645	14,080
Interest expense to a fellow subsidiary and shareholder	4,597	24,965
Interest expense to a fellow subsidiary/a related party bank	17,923	1,302
Consultancy fee to associates	6,699	2,202
Dividend income from:		
– associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss	357,096	49,471
– a fellow subsidiary/a related party bank	349,290	365,720
Remuneration of key management personnel (including the Company's directors) which is included in "staff costs":		
– short-term employee benefits	53,079	47,388
– retirement scheme contributions	347	245

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

	2016 HK\$'000	2015 HK\$'000
Amounts due from associates (included in debtors, deposits and prepayments)	295,098	50,522
Amounts due from associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss (included in debtors, deposits and prepayments)	74,883	44,130
Loans to associates exempted from applying the equity method and was recognised as a financial asset designated at fair value through profit or loss (included in advances to customers)	209,262	247,869
Bank deposit with a fellow subsidiary/a related party bank	1,451,293	899,106
Bank loan from a fellow subsidiary/a related party bank	(775,650)	(775,100)
Other financial liabilities due to an associate	(1,891,976)	(3,038,933)
Interests in collective investment schemes issued by an associate (included in available-for-sale securities)	633,680	806,475
Interests in collective investment schemes issued by an associate (included in financial assets designated at fair value through profit or loss)	2,552,544	3,001,716

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	2016 HK\$'000	2015 HK\$'000
Guarantee given by the Company to financial institutions in respect of banking facilities granted to subsidiaries	i	4,490,425	2,550,200

Note:

- i. The Group's subsidiaries have utilised these banking facilities of HK\$4,103,530,000 as at 31 December 2016 (2015: HK\$2,015,260,000).

38. Commitments**(a) Capital commitment**

As at 31 December 2016, the Group had capital commitments as follows:

	2016 HK\$'000	2015 HK\$'000
Contracted but not provided for	6,851,527	3,110,124

The amounts included capital commitment to consolidated structured entities and unconsolidated structured entities as disclosed in note 16 and note 39 to the financial statement respectively.

(b) Operating lease commitments

As at 31 December 2016, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2016 HK\$'000	2015 HK\$'000
Not later than one year	7,226	7,674
Later than one year but not later than five years	296	7,542
	7,522	15,216

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38. Commitments (continued)**(c) Future operating lease arrangements**

As at 31 December 2016, the Group had future aggregate minimum lease receipts under non-cancellable operating leases for investment properties as follows:

	2016 HK\$'000	2015 HK\$'000
Not later than one year	654	989
Later than one year but not later than five years	131	238
	785	1,227

(d) Off-balance sheet exposure

The fair values and the contractual or notional amounts of the Group's trading equity derivatives outstanding at 31 December 2016 are detailed as follows:

	Fair value assets/(liabilities)		Contractual/ notional amounts	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Assets derivative contracts	3,724	124,570	179,003	530,572
Liabilities derivative contracts	(6,570)	(7,432)	338,047	330,979

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 • Investments held in the form of limited partnership 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 2016, the carrying values of interests held by the Group in unconsolidated structured entities amounted to HK\$8,956,481,000 (2015: HK\$4,673,855,000) and HK\$1,683,969,000 (2015: HK\$1,898,646,000), which were recognised in financial assets designated at fair value through profit or loss and available-for-sale securities in the consolidated statement of financial position, respectively. In addition, as at 31 December 2016, HK\$5,808,593,000 (2015: HK\$1,315,070,000) and HK\$641,284,000 (2015: HK\$814,529,000) recognised as financial assets designated at fair value through profit or loss and available-for-sale securities are managed by the Group and its affiliates. The maximum exposure to loss is the carrying value of the assets held. Other than the invested amounts above, the Group also has capital commitment of HK\$6,216,601,000 (2015: HK\$1,836,644,000) to these unconsolidated structured entities. Other than the committed capital, the Group has no intention to provide financial or other support to these 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 objective is to maximise shareholders' value and to reduce volatility in earnings while maintaining risk exposures within acceptable limits.

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

(a) Credit risk

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40. Financial Instruments (continued)**(a) Credit risk (continued)**

The Group has well defined policies in place on the setting and approval of trading, credit and investment position limits in order to manage its credit risk exposure and concentration. As at the end of the reporting period, the Group did not have a significant concentration of credit risk.

The maximum exposure to credit risk without taking into account any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, at the end of the reporting period, deducting any impairment allowance.

(b) Liquidity risk

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

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

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

	2016				2015			
	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year HK\$'000	Carrying amount HK\$'000	Total contractual undiscounted cash flow HK\$'000	Within 1 year or on demand HK\$'000	More than 1 year HK\$'000
Creditors, deposits received and accrued charges	1,226,925	1,226,925	1,226,925	-	1,327,476	1,327,476	1,327,476	-
Bank loans	10,535,138	11,137,481	4,395,491	6,741,990	13,453,956	14,099,640	3,498,560	10,601,080
Notes payable	57,000	60,552	28,994	31,558	57,000	59,503	31,558	27,945
Bond payable	8,998,400	10,668,883	290,423	10,378,460	-	-	-	-
Trading securities	151,826	151,826	151,826	-	239,144	239,144	239,144	-
Other financial liabilities	3,661,012	3,661,012	2,217,119	1,443,893	3,552,731	3,552,731	3,038,933	513,798
Amount due to a joint venture	-	-	-	-	427	427	427	-
Amount due to an associate	44,896	44,896	44,896	-	-	-	-	-
Amounts due to investee companies	211,632	211,632	211,632	-	238,800	238,800	238,800	-
Amount due to a fellow subsidiary and shareholder	-	-	-	-	1,000,000	1,026,762	1,026,762	-
	24,886,829	27,163,207	8,567,306	18,595,901	19,869,534	20,544,483	9,401,660	11,142,823

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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. Except for the bond payable which is on a fixed rate basis, most of the Group's interest-bearing assets and liabilities are on a floating rate basis with maturity of one to five years.

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

The Group is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In respect of the Group's interest-bearing financial instruments, the Group's policy is to mainly transact in financial instruments that mature or reprice in the short to mid 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 2016, a general increase/decrease of 0.5% in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after tax and retained earnings, by HK\$23,848,541/HK\$30,068,025 (2015: decrease/increase of HK\$40,343,893/HK\$47,485,940 for increase/decrease of 0.5% in the interest rate).

The above increase or decrease in the interest rate represents management's assessment of a reasonable change in interest rates over the period until the next annual balance sheet date. It is also assumed that all other variable remains constant. The analysis was performed on the same basis for 2015.

	2016		2015	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
Assets				
Advances to customers	–	–	6.33%	979,559
Cash and cash equivalents	2.49%	5,959,534	1.20%	4,688,256
Total interest bearing assets		5,959,534		5,667,815
Liabilities				
Bank loans	2.73%	10,197,698	2.67%	12,522,636
Amount due to a fellow subsidiary and shareholder	–	–	2.68%	1,000,000
Notes payable	3.50%	57,000	3.50%	57,000
Total interest bearing liabilities		10,254,698		13,579,636

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40. Financial Instruments (continued)**(d) Currency risk**

The Group's exposure to currency risk primarily stems from holdings of monetary assets and liabilities denominated in foreign currencies, other than Hong Kong dollars and net investment in foreign operations. As most of the Group's monetary assets and liabilities and net investment in foreign operations are denominated in Hong Kong dollars, Renminbi, United States dollars and Singapore dollars, management is aware of the likely increase in volatility in these currencies and takes a balanced view when considering the management of currency risk.

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

As at the end of the reporting period, the Group's exposure to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate is shown in the table below:

	2016			2015		
	In USD HK\$'000	In RMB HK\$'000	In SGD HK\$'000	In USD HK\$'000	In RMB HK\$'000	In SGD HK\$'000
Available-for-sale securities	968,869	9,232,820	-	1,061,452	12,464,037	-
Financial assets designated at fair value through profit or loss	6,152,099	616,076	97,720	3,217,542	2,037,622	-
Advances to customers	1,195,485	-	-	1,961,700	-	-
Amounts due from investee companies	207,266	-	-	257,670	-	-
Amounts due from associates	-	1,648,988	-	-	-	-
Debtors, deposits and prepayments	671,007	133,193	-	333,541	95,588	-
Trading securities	-	158,252	-	-	84	-
Cash and cash equivalents	348,278	1,551,229	5,179	209,280	1,398,109	24,043
Disposal group held for sale	880,064	-	-	1,802,778	-	-
Bank loans	(7,860,395)	(1,239,363)	-	(6,986,709)	(931,320)	(821,670)
Bond payable	-	(8,998,400)	-	-	-	-
Other financial liabilities	21,312	-	-	(513,798)	-	-
Creditors, deposits received and accrued charges	(343,941)	(36,739)	-	(507,472)	-	-
Net exposure arising from recognised assets and liabilities	2,240,044	3,066,056	102,899	835,984	15,064,120	(797,627)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

	2016			2015		
	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%	(61,668)	92,328	1%	26,001	124,640
	(1%)	61,668	(92,328)	(1%)	(26,001)	(124,640)

The above analysis assumes the change in the Renminbi's exchange rate had occurred at the end of the reporting period and had been applied to each of the Group entities' exposure to currency risk in existence at that date while all other variables remain constant. The stated changes also represent management's assessment of reasonably possible changes in exchange rates until the next annual balance sheet date. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The Hong Kong dollar is pegged to the United States dollar and it is assumed that this situation will stay materially unaffected by any fluctuation of the United States dollar against other currencies. The analysis was performed on the same basis for 2015.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 24), available-for-sale securities (see note 19) and financial assets designated as fair value through profit or loss (see note 20). Other than unlisted securities held for medium to long-term strategic purposes, all of these investments are listed.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2015:

	Increase/ (decrease) in equity price	2016 Effect on profit before tax and retained profits HK\$'000	Effect on other components of equity HK\$'000	Increase/ (decrease) in equity price	2015 Effect on profit before tax and retained profits HK\$'000	Effect on other components of equity HK\$'000
Listed equity investments	10% (10%)	141,074 (145,929)	1,038,222 (1,033,367)	10% (10%)	226,148 (260,232)	1,411,645 (1,377,561)
Unlisted equity investments	5% (5%)	697,123 (698,786)	206,903 (205,240)	5% (5%)	365,079 (377,266)	311,049 (298,862)

(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 2016					
Trading securities	714,353	–	714,353	(148,884)	565,469
Debtors, deposits and prepayments	219,084	–	219,084	–	219,084
As at 31 December 2015					
Trading securities	785,798	–	785,798	(229,124)	556,674
Debtors, deposits and prepayments	368,221	–	368,221	–	368,221

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2016					
Trading securities	151,826	–	151,826	(148,884)	2,942
Creditors, deposits received and accrued charges	276,491	–	276,491	–	276,491
As at 31 December 2015					
Trading securities	239,144	–	239,144	(229,124)	10,020
Creditors, deposits received and accrued charges	85,384	–	85,384	–	85,384

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

Financial assets	Net amount HK\$'000	Carrying amounts in the consolidated statement of financial position HK\$'000	Financial assets not in scope of offsetting disclosure HK\$'000	Note
As at 31 December 2016				
Trading securities	714,353	1,103,311	388,958	24
Debtors, deposits and prepayments	219,084	3,331,336	3,112,252	23
As at 31 December 2015				
Trading securities	785,798	1,070,292	284,494	24
Debtors, deposits and prepayments	368,221	1,451,643	1,083,422	23

Financial liabilities	Net amount HK\$'000	Carrying amounts in the consolidated statement of financial position HK\$'000	Financial liabilities not in scope of offsetting disclosure HK\$'000	Note
As at 31 December 2016				
Trading securities	151,826	151,826	–	24
Creditors, deposits received and accrued charges	276,491	1,226,925	950,434	28
As at 31 December 2015				
Trading securities	239,144	239,144	–	24
Creditors, deposits received and accrued charges	85,384	1,327,476	1,242,092	28

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

In addition to the above valuer, the Group also takes reference to the valuation reports performed by other professional valuers to ascertain the fair values of certain investments with underlying interests in real estate investment and some other private equity investments.

As at 31 December 2016

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurement				
Assets				
Available-for-sale securities	9,572,940	141,696	5,399,271	15,113,907
Financial assets designated at fair value through profit or loss	541,993	–	16,664,326	17,206,319
Trading securities	1,066,568	36,743	–	1,103,311
	11,181,501	178,439	22,063,597	33,423,537
Liabilities				
Trading securities	(145,257)	(6,569)	–	(151,826)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41. Fair Values of Financial Instruments (continued)

As at 31 December 2015

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurement				
Assets				
Available-for-sale securities	15,290,870	138,168	6,324,293	21,753,331
Financial assets designated at fair value through profit or loss	1,816,805	–	9,944,002	11,760,807
Trading securities	720,563	349,729	–	1,070,292
	17,828,238	487,897	16,268,295	34,584,430
Liabilities				
Trading securities	(232,146)	(6,998)	–	(239,144)

All financial instruments were stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2016 and 2015.

As at 31 December 2016, available-for-sale securities with a fair value of HK\$431,545,000 was previously using an unadjusted quoted price in the active market. As an unadjusted quoted price is no longer available in the active market and unobservable inputs were applied to the valuation technique, accordingly the investments were transferred from Level 1 to Level 3 of the fair value hierarchy.

As at 31 December 2015, three of the available-for-sale securities with a fair value of HK\$2,816,286,000, HK\$416,136,000 and HK\$792,648,000 respectively were previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As an unadjusted quoted price is available in the active market, the fair value measurement of these equity securities were accordingly transferred from Level 3 to Level 1 of the fair value hierarchy.

As at 31 December 2015, one of the available-for-sale securities with a fair value of HK\$132,864,000 was previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As observable inputs were obtained and applied to the valuation technique, accordingly the investment was transferred from Level 3 to Level 2 of the fair value hierarchy.

As at 31 December 2015, one of the available-for-sale securities with a fair value of HK\$5,305,000 was previously using an unadjusted quoted price in the active market. As an unadjusted quoted price is no longer available in the active market and observable inputs were obtained and applied to the valuation technique, accordingly the investment was transferred from Level 1 to Level 2 of the fair value hierarchy.

As at 31 December 2015, one of the financial assets designated at fair value through profit or loss with a fair value of HK\$82,945,000 was previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As unadjusted quoted price is available in active market, the fair value measurement of these equity securities were accordingly transferred from Level 3 to Level 1 of the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41. Fair Values of Financial Instruments (continued)**Valuation techniques and inputs used in level 2 fair value measurements**

The fair value of listed and unlisted debt securities and derivatives in level 2 is determined using broker quotes and applying discount on the quoted price in the active market.

Information about Level 3 fair value measurements

As at 31 December 2016

Valuation techniques	Significant unobservable inputs	Range	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss HK\$'000	Favourable/ (unfavourable) impact on other comprehensive income HK\$'000
Market comparable companies	Discount for lack of marketability	20% to 30%	5%	(24,105)	(17,383)
			(5%)	24,105	17,383
	Market multiples	2.2 to 43.9	5%	59,295	48,188
			(5%)	(59,295)	(48,188)
Binomial model and equity allocation model	Discount rate	4.27% to 18.56%	5%	(32,174)	–
			(5%)	32,152	–
	Volatility	35.23% to 96.50%	5%	11,373	–
			(5%)	(12,768)	–
Discounted transaction price	Control premium	20%	5%	(16,600)	–
			(5%)	16,600	–

As at 31 December 2015

Valuation techniques	Significant unobservable inputs	Range	Increase/ (decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss HK\$'000	Favourable/ (unfavourable) impact on other comprehensive income HK\$'000
Market comparable companies	Discount for lack of marketability	20% to 45%	5%	(24,133)	(61,415)
			(5%)	24,133	61,415
	Market multiples	1 to 26	5%	37,460	124,085
			(5%)	(37,460)	(124,085)
Term and reversion approach	Adjusting factor on characteristic of the properties	0.76 to 0.87	5%	–	10,868
			(5%)	–	(10,868)
Market approach	Adjusting factor on characteristic of the properties	0.89 to 1.16	5%	–	18,328
			(5%)	–	(18,328)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41. Fair Values of Financial Instruments (continued)**Information about Level 3 fair value measurements (continued)**

The fair value of unquoted equity investments is estimated using an appropriate combination of:

- (1) 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.

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

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

	Available-for-sale securities HK\$'000	Financial assets designated at fair value through profit or loss HK\$'000
At 1 January 2015	6,889,233	5,528,414
Purchased	2,604,978	6,454,997
Net unrealised gain or loss recognised in other comprehensive income	2,787,025	–
Net unrealised gain or loss recognised in profit or loss	–	(167,730)
Sold	(2,028,702)	(1,559,041)
Reclassification	(3,928,241)	(312,638)
At 31 December 2015 and 1 January 2016	6,324,293	9,944,002
Purchased	774,472	11,355,761
Net unrealised gain or loss recognised in other comprehensive income	1,641,278	–
Net unrealised gain or loss recognised in profit or loss	–	552,526
Sold	(3,474,866)	(5,485,415)
Reclassification	134,094	297,452
At 31 December 2016	5,399,271	16,664,326

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42. Notes to the Consolidated Statement of Cash Flows**(a) Reconciliation of profit before taxation to net cash (outflow)/inflow from operating activities:**

	2016 HK\$'000	2015 HK\$'000
Profit before taxation	6,981,115	5,773,746
Interest income on bank deposits	(57,110)	(44,280)
Interest expenses	572,182	336,947
Dividend income	(1,071,210)	(840,324)
Share of profits less losses of joint ventures	(73,828)	7,702
Share of profits less losses of associates	(1,227,495)	(3,263,139)
Gain on deemed disposal of interests in associates	(160,631)	(1,304,042)
Depreciation expenses	23,803	22,281
Realised gain on disposal of a joint venture	–	(2,537)
Realised gain on disposal of an associate	(344,378)	(1,286)
Net realised gain on disposal of financial assets designated at fair value through profit or loss	(1,058,729)	(873,343)
Net unrealised loss on financial assets designated at fair value through profit or loss	1,272,180	591,672
Gain on losing control of subsidiaries	(2,307,678)	(33)
Net realised gain on disposal of available-for-sale securities	(2,594,412)	(513,432)
Net (surplus)/deficit on revaluation of investment properties	(14,700)	600
Impairment loss on available-for-sale securities	548,779	407,778
Impairment loss on finance lease receivables	–	196,295
Impairment loss on amount due from an investee company	10,907	–
Impairment loss on advances to customers	43,316	–
Impairment loss on debtors, deposits and prepayments	11,052	–
Reversal of impairment loss on amount due from an investee company	(3,076)	(4,398)
Reversal of impairment loss on debtors, deposits and prepayments	(572)	(36,018)
Impairment loss of goodwill	–	3,606
Profit from disposal group held for sale	(78,747)	(56,423)
Cash inflow before working capital changes	470,768	401,372
Decrease in advances to customers	2,343,346	801,753
Decrease/(increase) in finance lease receivables	42,231	(297,229)
Increase in debtors, deposits and prepayments	(2,213,765)	(392,963)
Decrease/(increase) in amounts due from joint ventures	6,839	(2,844)
(Increase)/decrease in amounts due from associates	(1,147,117)	857
(Increase)/decrease in trading securities	(120,337)	199,133
Decrease in amounts due from investee companies	10,159	233,006
Increase in creditors, deposits received and accrued charges	205,171	406,856
Increase in an amount due to an associate	44,896	–
Decrease in an amount due to a joint venture	(427)	(67)
(Decrease)/increase in amount due to an investee company	(13,328)	159,831
Hong Kong profits tax refunded/(paid)	10,424	(867)
Overseas profits tax paid	(383,774)	(226,154)
Interest paid	(499,453)	(337,056)
Net cash (outflow)/inflow from operating activities	(1,244,367)	945,628

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

42. Notes to the Consolidated Statement of Cash Flows (continued)**(b) Losing control of subsidiaries**

During the year, the Group lost control of two subsidiaries. The fair values of the assets and liabilities disposed of were as follows:

	2016 HK\$'000	2015 HK\$'000
Proceeds from losing control of subsidiaries	–	196,071
Less: Cash of subsidiaries	(560,926)	(31,957)
Net cash (outflow)/inflow from losing control of subsidiaries	(560,926)	164,114
Less: Available-for-sale securities	–	(181,943)
Less: Other debtors and prepayment	(396,859)	(89,126)
Add: Creditors, deposits received and accrued charges	378,451	106,988
	(579,334)	33
Add: Amount due from an associate (note i)	1,559,015	–
Add: Associates exempted from applying the equity method and were recognised as a financial assets designated at fair value through profit or loss (note ii)	1,327,997	–
Gain on losing control of subsidiaries	2,307,678	33

Note i On 2 November 2016, the Group entered into a sale and purchase agreement with an associate to sell 51% equity interests in two subsidiaries of the Group. The transaction was completed on 30 December 2016. As at 31 December 2016, the net consideration of HK\$1,559,015,000 was included as part of the amount due from an associate.

Note ii Following the disposal of the 51% controlling equity interests in the above-mentioned two subsidiaries, the Group classified its remaining 49% interest as financial assets designated at fair value through profit or loss with a fair value of HK\$1,327,997,000.

43. Segment Information

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

Fund Management Business

Fund management business refers that the Group raises funds from external investors and deploys the Group's seed capital specific clients, applies its 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, Everbright Prestige and Multi-Strategy Alternative Investment Fund.

- Primary market investment includes:
 - Private equity funds – investment in unlisted equity securities and/or equity derivatives with meaningful equity position for participating in the ongoing management of these companies, and with an ultimate objective of capital gain on investee's equity listing or through other exit channels;
 - Venture capital funds – invest primarily in companies at the start-up and development stage, or companies which are still in the business planning stage. The investment goal is to achieve a higher return assuming manageable and higher risk by providing investee companies with assistance in investment, financing, management and listing in order to enhance the development of such companies;
 - Sector focus funds – focus specifically on long-term equity investment in specific industries or merger and acquisition opportunities. The investment areas include real estate, infrastructure, medical and healthcare, resources assets (including low carbon and new energy industries), manufacturing, technology, media and telecom ("TMT") as well as merger and acquisition opportunities;
 - Mezzanine funds – focus on private equity investment, pre-IPO financing and structured financing for listed companies and major shareholders of listed companies. It uses foreign currencies and/or renminbi flexibly to fulfill the onshore and offshore financial needs of its target companies. The investment team follows clear, uncomplicated investment philosophies by adopting a conservative, diversified and flexible investment approach that aims for above-market returns on investment with below-average levels of business risk; and
 - Overseas investment funds – The Group's overseas investment funds leverage on the Group's business resources and networks, and expect to provide value-added support for investee companies outside China. In particular, the overseas investment funds plan to introduce its portfolio companies' products and technologies to the enormous Chinese market so as to create and enhance the value of the portfolio companies, and ultimately create investment returns to investors.
- Secondary market investment – provides a diversified range of financial services, including asset management, investment management and investment advisory activities. Products include absolute return funds, bond funds and equity funds.
- Everbright Prestige – Everbright Prestige 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, onshore insurance companies and other institutions which are set up and operate according to the law. Everbright Prestige has become an important carrier and business platform for the Group's asset management business in mainland China, demonstrating its value in four areas including assets under management ("AUM") contribution, product creation and design, distribution channels and client consolidation, and the creation of more "Everbright" synergy.
- Multi-strategy Alternative Investment Fund ("Fund of Funds" or "FoF") – FoF invested in 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. Segment Information (continued)**Principal Investment**

The Group fully utilises its proprietary capital to achieve three goals: (1) nurture investment teams and developing high quality financial products to promote and support fund management business; (2) invest in the Group's or external projects, funds or products to maximise returns within controlled risk levels and contribute to steady long-term revenue, (3) improve cash flow by treasury management.

Strategic Investment

This represents strategic investment in Everbright Securities and Everbright Bank.

Others

Those which do not meet the threshold to be reportable and include the Group's investment in properties and other corporate activities.

(a) Business segments

For the year ended 31 December 2016:

	Continuing operations									Discontinued operations	Total HK\$'000
	Fund Management Business									Principal Investment HK\$'000	
	Primary Market HK\$'000	Secondary Market HK\$'000	Fund of Funds HK\$'000	Everbright Prestige HK\$'000	Principal Investment HK\$'000	Strategic Investment HK\$'000	Reportable segments	Others HK\$'000	Sub-total HK\$'000		
							total HK\$'000				
INCOME											
Operating income from external customers	985,435	341,775	5,482	–	437,528	349,290	2,119,510	50,305	2,169,815	–	2,169,815
Other net income from external customers	4,324,004	20,271	56,098	–	126,818	343,032	4,870,223	344,892	5,215,115	–	5,215,115
Total operating income and other net income	5,309,439	362,046	61,580	–	564,346	692,322	6,989,733	395,197	7,384,930	–	7,384,930
RESULTS AND RECONCILIATION OF SEGMENT RESULTS											
Segment results before non-controlling interests	4,823,984	279,990	61,580	–	51,083	691,790	5,908,427	298,869	6,207,296	78,747	6,286,043
Unallocated head office and corporate expenses											(766,882)
Share of profits less losses of associates, as per the associates' financial statements	33,025	–	–	32,582	212,025	896,012	1,173,644	53,851	1,227,495	–	1,227,495
Share of profits less losses of joint ventures, as per the joint ventures' financial statements	73,828	–	–	–	–	–	73,828	–	73,828	–	73,828
Net gain on deemed disposal of interest in associates	–	–	–	–	40,474	120,157	160,631	–	160,631	–	160,631
Profit before taxation											6,981,115
Less: non-controlling interests	(1,573,967)	4,927	–	–	(13,036)	–	(1,582,076)	176	(1,581,900)	(16,714)	
Segment results	3,356,870	284,917	61,580	32,582	290,546	1,707,959	5,734,454	352,896	6,087,350	62,033	
Interest income	65,459	23,280	–	–	125,216	–	213,955	22,172	236,127	–	236,127
Finance costs	1,303	8,244	–	–	62,534	–	72,081	500,101	572,182	–	572,182
Depreciation expenses	1,730	1,502	–	–	3,259	–	6,491	17,312	23,803	–	23,803
Impairment loss on available-for-sale securities	209,708	–	–	–	298,515	–	508,223	40,556	548,779	–	548,779

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. Segment Information (continued)**(a) Business segments (continued)**

For the year ended 31 December 2015 (Restated):

	Continuing operations									Discontinued operations	Total HK\$'000
	Fund Management Business										
	Primary Market HK\$'000	Secondary Market HK\$'000	Fund of Funds HK\$'000	Everbright Prestige HK\$'000	Principal Investment HK\$'000	Strategic Investment HK\$'000	Reportable	Others HK\$'000	Sub-total HK\$'000	Principal Investment HK\$'000	
							segments total HK\$'000				
INCOME											
Operating income from external customers	610,726	205,964	–	–	944,449	365,720	2,126,859	5,046	2,131,905	–	2,131,905
Other net income from external customers	834,574	(6,989)	–	–	(62,798)	87,978	852,765	(45,568)	807,197	–	807,197
Total operating income and other net income	1,445,300	198,975	–	–	881,651	453,698	2,979,624	(40,522)	2,939,102	–	2,939,102
RESULTS AND RECONCILIATION OF SEGMENT RESULTS											
Segment results before non-controlling interests	945,529	118,423	–	(1,769)	184,996	444,247	1,691,426	(44,511)	1,646,915	56,423	1,703,338
Unallocated head office and corporate expenses											(489,071)
Share of profits less losses of associates, as per the associates' financial statements	(36,650)	–	–	29,546	136,434	3,075,809	3,205,139	–	3,205,139	–	3,205,139
Share of profits less losses of joint ventures, as per the joint ventures' financial statements	(7,702)	–	–	–	–	–	(7,702)	–	(7,702)	–	(7,702)
Net gain on deemed disposal of interest in associates	–	–	–	–	(20,503)	1,324,545	1,304,042	–	1,304,042	–	1,304,042
Adjustments to share of profit less losses to conform with the Group's accounting policies	42,000	–	–	–	–	16,000	58,000	–	58,000	–	58,000
Profit before taxation											5,773,746
Less: non-controlling interests	(192,051)	3,586	–	–	10,977	–	(177,488)	185	(177,303)	–	
Segment results	751,126	122,009	–	27,777	311,904	4,860,601	6,073,417	(44,326)	6,029,091	56,423	
Interest income	57,768	20,872	–	–	521,710	–	600,350	(1,349)	599,001	–	599,001
Finance costs	898	5,342	–	–	80,775	–	87,015	249,932	336,947	–	336,947
Depreciation expenses	1,462	1,630	–	–	3,363	–	6,455	15,826	22,281	–	22,281
Impairment loss on available-for-sale securities	197,083	–	–	–	210,695	–	407,778	–	407,778	–	407,778

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. Segment Information (continued)**(a) Business segments** (continued)

Other Information

As at 31 December 2016

	Continuing operations									Discontinued operations	Total HK\$'000
	Fund Management Business									Principal Investment HK\$'000	
	Primary Market HK\$'000	Secondary Market HK\$'000	Fund of Funds HK\$'000	Everbright Prestige HK\$'000	Principal Investment HK\$'000	Strategic Investment HK\$'000	Reportable segments		Sub-total HK\$'000		
							total HK\$'000	Others HK\$'000			
Segment assets	18,608,286	2,308,516	618,507	-	15,434,343	6,899,152	43,868,804	774,282	44,643,086	3,057,129	47,700,215
Investments in associates	-	-	-	115,945	949,301	13,038,663	14,103,909	1,983,343	16,087,252	-	16,087,252
Investments in joint ventures	351,445	-	-	-	-	-	351,445	-	351,445	-	351,445
Amounts due from investee companies	186,040	-	-	-	90,658	-	276,698	-	276,698	-	276,698
Amounts due from associates	-	-	-	-	-	-	-	2,648,988	2,648,988	-	2,648,988
Unallocated head office and corporate assets	-	-	-	-	-	-	-	430,738	430,738	-	430,738
Total assets											67,495,336
Segment liabilities	2,381,840	178,254	-	-	2,583,869	-	5,143,963	290,632	5,434,595	955,708	6,390,303
Amount due to an associate	-	-	-	44,896	-	-	44,896	-	44,896	-	44,896
Amounts due to investee companies	-	-	-	-	211,632	-	211,632	-	211,632	-	211,632
Unallocated head office and corporate liabilities	-	-	-	-	-	-	-	19,195,706	19,195,706	-	19,195,706
Provision for taxation											1,046,821
Deferred tax liabilities											1,119,583
Total liabilities											28,008,941

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43. Segment Information (continued)**(a) Business segments (continued)****Other Information (continued)**

As at 31 December 2015 (Restated):

	Continuing operations									Discontinued operations	Total HK\$'000
	Fund Management Business						Reportable segments			Principal Investment	
	Primary Market HK\$'000	Secondary Market HK\$'000	Fund of Funds HK\$'000	Everbright Prestige HK\$'000	Principal Investment HK\$'000	Strategic Investment HK\$'000	total HK\$'000	Others HK\$'000	Sub-total HK\$'000	HK\$'000	
Segment assets	17,454,623	3,058,613	-	-	16,179,759	7,962,070	44,655,065	673,388	45,328,453	2,914,436	48,242,889
Investments in associates	338,927	-	-	87,044	738,836	14,784,022	15,948,829	-	15,948,829	-	15,948,829
Investments in joint ventures	625,047	-	-	-	-	-	625,047	-	625,047	-	625,047
Amounts due from investee companies	221,527	-	-	-	72,620	-	294,147	-	294,147	-	294,147
Amounts due from associates	18,448	-	-	16	-	-	18,464	-	18,464	-	18,464
Amounts due from joint ventures	6,839	-	-	-	-	-	6,839	-	6,839	-	6,839
Unallocated head office and corporate assets	-	-	-	-	-	-	-	144,828	144,828	-	144,828
Total assets											65,281,043
Segment liabilities	1,342,344	245,393	-	-	4,778,365	-	6,366,102	18,288	6,384,390	1,111,658	7,496,048
Amount due to a joint venture	-	-	-	-	427	-	427	-	427	-	427
Amounts due to investee companies	-	-	-	-	238,800	-	238,800	-	238,800	-	238,800
Unallocated head office and corporate liabilities	-	-	-	-	-	-	-	13,245,917	13,245,917	-	13,245,917
Provision for taxation											331,057
Deferred tax liabilities											1,021,285
Total liabilities											22,333,534

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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, 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 2016			For the year ended 31 December 2015		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Segment revenue						
Operating income	632,107	1,537,708	2,169,815	891,476	1,240,429	2,131,905
Other net income	729,746	4,485,369	5,215,115	591,918	215,279	807,197
	1,361,853	6,023,077	7,384,930	1,483,394	1,455,708	2,939,102

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Specified non-current assets	1,365,573	15,627,200	16,992,773	1,882,135	15,249,775	17,131,910

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 available-for-sale securities and other non-trading securities are significantly affected by the combination of valuation methodologies employed, the parameters used and, if required, the related comparable companies chosen. The valuation methodologies and the source of parameters adopted by the Group are discussed in note 41.

(ii) Advances to customers

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

(iii) Tax provision

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

(b) Critical accounting judgements in applying the Group's accounting policies**(i) Structured entities managed by the Group and its affiliates**

The Group and its affiliates, acting as the general partners or investment managers to a number of structured entities (investment funds and collective investment schemes), has provided seed capital for the set up of these structured entities. When determining whether the Group controls these structured entities, usually the level of aggregate economic interests of the Group in these funds and the level of investors' rights to remove the general partners or investment managers are considered. The Group determines that it has no control over some structured entities since the level of aggregate economic interests of the Group in those structured entities is not so significant that it gives the Group control over the structured entities, or the Group cannot control the general partners or investment managers, after taking into consideration the level of investors' rights to remove the general managers or investment managers and the power of other investors over the general partners or investment managers. The Group determines that it has control over some structured entities and has consolidated them. Further details of unconsolidated structured entities are set out in note 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

45. Banking Facilities and Pledge of Assets

Aggregate banking facilities of the Group as at 31 December 2016 amounted to HK\$15,453 million (2015: HK\$16,996 million). The Group has utilised HK\$10,535 million (2015: HK\$13,454 million) of these facilities.

As at 31 December 2016, no fixed deposits (2015: Nil) were pledged to secure banking facilities.

Pursuant to the prime brokerage agreements entered with the prime brokers of a fund held by the Group, cash and securities deposited with the prime brokers are secured against liabilities to the prime brokers. As at 31 December 2016, assets deposited with the prime brokers include HK\$640 million (2015: HK\$636 million) and HK\$75 million (2015: HK\$276 million) which form part of the Group's trading securities and debtors respectively.

46. Approval of Financial Statements

The financial statements on pages 118 to 202 were approved and authorised for issue by the Board of Directors on 30 March 2017.

47. Issued But Not Yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	<i>Financial Instruments</i> ²
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i> ²
HKFRS 16	<i>Leases</i> ³
Amendments to HKAS 7	<i>Disclosure Initiative</i> ¹
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ¹
Annual improvements 2014-2016 Cycle	<i>Amendments to a number of HKFRSs</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

47. 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 as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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 recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

47. Issued But Not Yet Effective Hong Kong Financial Reporting Standards (continued)

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

FINANCIAL SUMMARY

Results

	For the years ended 31 December				
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Turnover	4,050,657	8,157,205	6,622,673	10,411,567	8,069,450
Operating profit after finance costs	1,412,858	1,556,452	1,577,972	1,157,844	5,440,414
Gain on deemed disposal of interest in a joint venture	–	–	139,654	–	–
Net gain on deemed disposal of interests in associates	–	–	–	1,304,042	160,631
Share of adjusted profits less losses of associates and joint ventures	168,701	243,188	1,254,541	3,255,437	1,301,323
Profit before taxation	1,581,559	1,799,640	2,972,167	5,717,323	6,902,368
Income tax	(213,837)	(51,742)	(88,896)	(452,449)	(1,308,119)
Profit from continuing operations	1,367,722	1,747,898	2,883,271	5,264,874	5,594,249
Discontinued operations	–	–	–	56,423	78,747
Profit for the year	1,367,722	1,747,898	2,883,271	5,321,297	5,672,996
Attributable to:					
Equity shareholders of the Company	1,141,555	1,346,548	2,559,688	5,143,994	4,074,382
Non-controlling interests	226,167	401,350	323,583	177,303	1,598,614
	1,367,722	1,747,898	2,883,271	5,321,297	5,672,996
Earnings per share (HK\$)	0.663	0.783	1.514	3.052	2.418

Assets and Liabilities

	As at 31 December				
	2012 HK\$'000	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000
Total assets	32,258,079	37,054,770	52,634,371	65,281,043	67,495,336
Total liabilities	(2,301,800)	(5,325,857)	(14,443,785)	(22,333,534)	(28,008,941)
Non-controlling interests	(1,844,277)	(3,024,926)	(3,216,456)	(3,581,344)	(2,276,904)
Shareholders' fund	28,112,002	28,703,987	34,974,130	39,366,165	37,209,491

PARTICULARS OF MAJOR PROPERTIES

Location	Site area/Gross floor area	Tenure	Use
Hong Kong			
46th Floor, Far East Finance Centre, 16 Harcourt Road	Gross floor area of 10,800 sq. ft.	Government lease for 75 years from 23rd July 1980, renewable for another 75 years	Commercial
40th Floor, Far East Finance Centre, 16 Harcourt Road	Gross floor area of 10,800 sq. ft.	Government lease for 75 years from 23rd July 1980, renewable for another 75 years	Commercial
Flat A, 27/F, 1 Star Street, Wanchai	Gross floor area of 655 sq. ft.	Government lease for 75 years from 22nd August 1928 (extended for another 75 years)	Residential
Flat H, 6th Floor, Tower 10, South Horizons, Ap Lei Chau	Gross floor area of 1,096 sq. ft.	Government lease from 28th January 1988 to 31st March 2040	Residential
Flat H, 22nd Floor, Tower 21, South Horizons, Ap Lei Chau	Gross floor area of 1,107 sq. ft.	Government lease from 28th January 1988 to 31st March 2040	Residential
Car Parking Space Nos. 230 and 241 on Podium Level 1, Phase II, Car Parking Space No. 9 on Podium Level 2, Phase III, South Horizons, Ap Lei Chau	Not applicable	Government lease from 28th January 1988 to 31st March 2040	Carpark
Mainland China			
Units 1-17, 8th Floor, Industrial Bank Building, 4013 Shennan Road, Futian District, Shenzhen	Gross floor area of 1,241.25 sq.m.	Land use rights for 50 years from 27th December 2000	Commercial
Unit 1300, Level 13, China Overseas International Center, 28 Ping'anli West Street, Xicheng District, Beijing	Gross floor area of 1,474.42 sq.m.	Land use rights for 50 years from 7th March 2004	Commercial
Level 25, 21 Century Center, No. 210 Century Road, Pudong New District, Shanghai	Gross floor area of 1,976.23 sq.m.	Land use rights for 50 years from 25th February 1997	Commercial

CORPORATE INFORMATION

Board of Directors

Cai Yunge	Chairman
Chen Shuang	Chief Executive Officer
Tang Chi Chun, Richard	Chief Financial Officer
Tang Shuangning#	
Seto Gin Chung, John*	
Lin Zhijun*	
Chung Shui Ming, Timpson*	

Non-executive Director

* Independent Non-executive Directors

Company Secretary

Chan Ming Kin, Desmond

Registered Office

46th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal Bankers

China Everbright Bank Company Limited
Industrial and Commercial Bank of China (Asia) Limited
Agricultural Bank of China Limited
Bank of Communications Company, Limited
China Construction Bank Corporation
Shanghai Pudong Development Bank Company, Limited

Legal Advisors

Grandall Legal Group (Shanghai) Office

Share Registrars

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

Auditors

Ernst & Young

Website Address

<http://www.everbright165.com>

Investor Relations Contact

ir@everbright165.com

Stock Code: 165



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