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**Everbright Securities Company Limited**  
**光大證券股份有限公司**

*(A joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 6178)**

**ANNOUNCEMENT OF ANNUAL RESULTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

The board of directors (the “**Board**”) of Everbright Securities Company Limited (the “**Company**”) hereby announces the audited annual results of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2016. This announcement, containing the full text of the 2016 annual report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results.

The Group’s final results for the year ended December 31, 2016 have been reviewed by the audit committee of the Company.

This results announcement will be published on the website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company’s website ([www.ebscn.com](http://www.ebscn.com)). The Company’s 2016 annual report will be dispatched to the holders of H shares of the Company and published on the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

By order of the Board  
**Everbright Securities Company Limited**  
**Xue Feng**  
*Chairman, President*

Shanghai, the PRC  
March 29, 2017

*As at the date of this announcement, the Board comprises Mr. Gao Yunlong (Non-executive Director), Mr. Ge Haijiao (Non-executive Director), Mr. Xue Feng (Chairman, Executive Director, President), Mr. Yin Lianchen (Non-executive Director), Mr. Chan Ming Kin (Non-executive Director), Mr. Yang Guoping (Non-executive Director), Mr. Zhu Ning (Independent Non-executive Director), Mr. Xu Jingchang (Independent Non-executive Director), Mr. Xiong Yan (Independent Non-executive Director), Mr. Li Zheping (Independent Non-executive Director) and Mr. Au Sing Kun (Independent Non-executive Director).*

## CONTENTS

|              |  |     |
|--------------|--|-----|
| Section I    | Definitions and Warning of Material Risks                                | 3   |
| Section II   | Company Profile and Key Financial Indicators                             | 7   |
| Section III  | Summary on the Business of the Company                                   | 19  |
| Section IV   | Report of the Board  | 23  |
| Section V    | Significant Events   | 47  |
| Section VI   | Changes in Ordinary Shares and<br>Particulars about Shareholders         | 62  |
| Section VII  | Particulars about Directors,<br>Supervisors, Senior Management and Staff | 72  |
| Section VIII | Corporate Governance   | 90  |
| Section IX   | Relevant Information on Corporate Bonds                                  | 121 |
| Section X    | Financial Report   | 125 |

## IMPORTANT NOTICE

- I. The Board, the Supervisory Committee, Directors, Supervisors and senior management of the Company warrant that this annual report is true, accurate and complete and does not contain any false records, misleading statements or material omission and jointly and severally take full legal responsibility as to the contents herein.
- II. This report was reviewed and passed at the 28<sup>th</sup> meeting of the fourth session of the Board of the Company. The number of Directors that should attend the Board meeting was 11 and the number of Directors having voted at the Board meeting was 11.

Mr. Xu Jingchang and Mr. Zhu Ning were authorized by Mr. Yang Guoping and Mr. Li Zheping to exercise their rights of voting, respectively. None of the Directors or Supervisors has made any objection to this report.

- III. Unless otherwise specified, the financial data disclosed in this report are prepared in accordance with the International Financial Reporting Standards and have been audited by KPMG, whom then issued a standard unqualified audit report thereon. Unless otherwise stated, the financial data set out in this report are denominated in RMB.
- IV. Mr. Xue Feng, the person-in-charge of the Company, Mr. Wang Yong, the person-in-charge of accounting affairs, and Mr. He Mannian, the head of accounting department, declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this annual report.
- V. The profit distribution proposal or proposal on transfer of capital reserve into share capital reviewed by the Board for the Reporting Period is as follows:

On the basis of a total share capital of 4,610,787,639 A Shares and H Shares in issue as of December 31, 2016, cash dividend of RMB2.00 per 10 shares (inclusive of tax) will be distributed to all holders of A Shares and H Shares, with total cash dividend amounting to RMB922,157,527.80. The above distribution proposal will be proposed at the general meeting of the Company for consideration and is subject to the approval by the Company's shareholders at the general meeting before the execution thereof.

- VI. Forward-looking statements included in this report, including future plans and development strategies, do not constitute actual commitment of the Company to investors. Investors should be reminded of the risks of investment.
- VII. There was no appropriation of funds on a non-recurring basis by the Company's controlling shareholders or their related parties during the Reporting Period.
- VIII. The Company has not provided any external guarantees in violation of the prescribed decision-making procedures during the Reporting Period.
- IX. The Company prepared this annual report in both English and Chinese versions. In the event of any discrepancies in interpretation between the English version and Chinese version, the Chinese version shall prevail.

## SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

### I. Definitions

In this annual report, unless the context otherwise requires, the following terms and expressions shall have the meanings set forth below:

|   |   |
|---|---|
| Company, our Company or Everbright Securities | Everbright Securities Company Limited (光大證券股份有限公司)  |
| Everbright Group                              | China Everbright Group Ltd. (中國光大集團股份有限公司), the largest shareholder of the Company  |
| Everbright Limited                            | China Everbright Limited (中國光大控股有限公司), the second largest shareholder of the Company  |
| Everbright Capital                            | Everbright Capital Investment Co., Ltd. (光大資本投資有限公司), a wholly-owned subsidiary of the Company  |
| Everbright Fortune                            | Everbright Fortune Investment Co., Ltd. (光大富尊投資有限公司), a wholly-owned subsidiary of the Company  |
| Everbright Futures                            | Everbright Futures Co., Ltd. (光大期貨有限公司), a wholly-owned subsidiary of the Company   |
| Everbright Asset Management                   | Shanghai Everbright Securities Asset Management Co., Ltd. (上海光大證券資產管理有限公司), a wholly-owned subsidiary of the Company                                |
| EBSHK   | Everbright Securities Financial Holdings Limited (光大證券金融控股有限公司), a wholly-owned subsidiary of the Company   |
| Everbright Pramerica                          | Everbright Pramerica Fund Management Co., Ltd. (光大保德信基金管理有限公司), a controlling subsidiary of the Company   |
| Everbright Leasing                            | Everbright Fortune International Leasing Co., Ltd. (光大幸福國際租賃有限公司), a subsidiary of the Company  |
| Everbright Eascreate                          | Everbright Eascreate Network Technology Co., Ltd. (光大易創網絡科技股份有限公司)  |
| Everbright Yunfu                              | Everbright Yunfu Internet Co., Ltd. (光大雲付互聯網股份有限公司)   |
| ESIL  | Everbright Securities (International) Limited (光大證券(國際)有限公司), a wholly-owned subsidiary of EBSHK  |
| SHKFGL  | Sun Hung Kai Financial Group Limited (新鴻基金融集團有限公司), whose equity interest is held 70% and 30% by EBSHK and Sun Hung Kai & Co. Limited, respectively |

## SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

|   |   |
|---|---|
| Dacheng Fund                            | Dacheng Fund Management Co., Ltd. (大成基金管理有限公司), a joint venture of the Company  |
| Reporting Period                        | the year of 2016 (January 1, 2016 to December 31, 2016)   |
| Directors                               | the directors of the Company  |
| Board, Board of Directors               | The board of Directors of the Company   |
| Supervisors                             | the supervisors of the Company  |
| Supervisory Committee                   | The supervisory committee of the Company  |
| NEEQ                                    | National Equities Exchange and Quotations (全國中小企業股份轉讓系統)  |
| MOF                                     | Ministry of Finance of the PRC (中華人民共和國財政部)   |
| Huijin                                  | Central Huijin Investment Ltd. (中央匯金投資有限責任公司)   |
| PBOC                                    | People's Bank of China, the central bank of the PRC   |
| SAFE                                    | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)  |
| PB                                      | Prime brokerage   |
| PPP                                     | Public-private Partnership  |
| FICC                                    | Fixed-income, Currencies and Commodities  |
| QFII                                    | Qualified foreign institutional investor  |
| securitization, ABS                     | financing through issuance of tradable securities backed by specific asset portfolios or cash flows   |
| margin financing and securities lending | provision of collateral by investors to securities firms to borrow funds for securities purchases (margin financing) or to borrow and sell securities (securities lending)  |
| maintenance margin ratio                | the ratio of all the collateral from the clients of margin financing and securities lending business (including the amount of cash and the market value of securities held in margin securities account) to the margin balance of clients (the sum of the amount of margin loans purchased, the latest market value of securities lent and any accrued interest and fees) |

## SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

|   |  |
|---|--|
| collateralized stock repurchase                 | a transaction in which a qualified borrower pledges his shares or other securities held as collaterals to obtain financing funds from a qualified lender, and agrees to repay the funds on a future date to release the pledge   |
| security transactions with repurchase agreement | a transaction in which a qualified client sells the subject securities at an agreed price to the securities firm which is the custodian of such securities, and agrees to purchase the subject securities from the securities firm at another agreed price on a future date, and the securities firm will return the relevant yields generated by the subject securities during the period pending for repurchase to the client pursuant to the agreement signed with the client |
| stock index futures                             | a financial futures contract using stock price index as the subject matter, that is, a standard form of contract to be entered into by both parties which stipulates the performance of a transaction on stock price index at an agreed price on a specific date in future, and in which the stock price index of a stock market is the subject matter of the transaction  |
| Group, our Group                                | the Company and its subsidiaries   |
| Articles of Association                         | articles of association of the Company   |
| CSRC  | China Securities Regulatory Commission (中國證券監督管理委員會)   |
| SSE   | Shanghai Stock Exchange  |
| SZSE  | Shenzhen Stock Exchange  |
| Hong Kong Stock Exchange                        | The Stock Exchange of Hong Kong Limited  |
| Hong Kong Listing Rules                         | The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited   |
| SFC   | the Securities and Futures Commission of Hong Kong   |
| SFO   | the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)   |
| related party transaction(s)                    | has the meaning ascribed to it under the SSE Listing Rules currently in effect and as amended from time to time, unless otherwise stated   |
| connected transaction(s)                        | has the meaning ascribed to it under the Hong Kong Listing Rules currently in effect and as amended from time to time  |
| A Shares  | domestic shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Shanghai Stock Exchange and traded in RMB  |

## SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

|   |  |
|---|--|
| H Shares                                | foreign shares of the Company, with a nominal value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars  |
| Renminbi or RMB                         | RMB, the lawful currency of the PRC. Amounts are in RMB unless otherwise indicated in this report  |
| HK\$ or Hong Kong dollars or HK dollars | Hong Kong dollars, the lawful currency of Hong Kong  |
| AUM                                     | asset under management   |
| IFRS                                    | the International Financial Reporting Standards, which include standards, amendments and interpretations promulgated by International Accounting Standards Board, and interpretation issued by the International Accounting Standards Committee (IASC) |
| PRC GAAP                                | the PRC Accounting Standards for Business Enterprises  |
| Hong Kong                               | the Hong Kong Special Administrative Region of the PRC   |
| China or PRC                            | the People's Republic of China, and for the purposes of this report, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan  |

*In this report, some total figures may be slightly deviated in the last digit from the sum of direct aggregation of all amounts. Such discrepancy is due to the rounding up calculation of decimal places.*

## II. Warning of Material Risks

During the Reporting Period, the Company has no matters that involve significant risks. The Company has described in detail of the risks that it may be exposed to in this report. Please refer to the relevant statements in “III. Management Discussion and Analysis on the Future Development of the Company – (IV) Potential risk exposure” of Section IV “Report of the Board” for details.

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### I. Company Information

|  |                                       |
|--|---------------------------------------|
| Chinese name of the Company                            | 光大證券股份有限公司                            |
| Short name of the Company in Chinese                   | 光大證券                                  |
| English name of the Company                            | Everbright Securities Company Limited |
| Abbreviated name of A Shares of the Company in English | EBSCN                                 |
| Abbreviated name of H Shares of the Company in English | EB SECURITIES                         |
| Legal representative of the Company                    | Mr. Xue Feng                          |
| President of the Company                               | Mr. Xue Feng                          |
| Secretary to the Board                                 | Ms. Zhu Qin                           |
| Company Secretary                                      | Dr. Ngai Wai Fung                     |
| Authorized representatives                             | Mr. Xue Feng and Dr. Ngai Wai Fung    |

#### Registered capital and net capital of the Company:

RMB Yuan

|                    | <b>As of December 31,<br/>2016</b> | As of December 31,<br>2015 |
|--------------------|------------------------------------|----------------------------|
| Registered capital | <b>4,610,787,639.00</b>            | 3,906,698,839.00           |
| Net capital        | <b>39,747,165,134.28</b>           | 38,614,468,985.73          |

Note: Upon the completion of issuance of H Shares by the Company, the total number of shares increased from 3,906,698,839 to 4,610,787,639, and the registered capital was changed to RMB4,610,787,639.00, for which the change of business registration was completed.

The net capital and the relevant proportions as of the end of 2015 have been restated in accordance with the Administrative Measures on the Risk Control Indicators of Securities Companies (2016 Revision) (《證券公司風險控制指標管理辦法》(2016年修訂版)).

#### Business scope of the Company:

Securities brokerage, securities investment consulting, financial advisory relating to securities trading and securities investment, securities underwriting and sponsorship, proprietary trading of securities, intermediary introduction business for futures companies, proxy sale of securities investment funds, margin financing and securities lending business, proxy sale of financial products, market making of stocks and options and other businesses approved by the CSRC.



## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### Qualification of each of the businesses of the Company:

Business qualifications Securities brokerage; securities investment consulting; financial advisory relating to securities trading and securities investment; securities underwriting and sponsorship; proprietary trading of securities; intermediary introduction business for futures companies; proxy sale of securities investment funds; margin financing and securities lending business; proxy sale of financial products; market making of stocks and options; interbank market interest swap; security transactions with repurchase agreement; pilot business of stock returns swap; pilot business qualification of clients' securities funds consumption payment services; custodial of private funds; securities transactions of collateralized stock repurchase transactions; agency as precious metal spot contract (such as gold) and proprietary trading of gold spot contract, stock exchange fixed income platform market maker, quoted transfer, stock transfer agency, underwriting of SME private placement bonds, qualification of outsourcing services for private funds, pilot scheme of financing-oriented option exercise with respect to share incentive schemes, participant of option transactions; transaction qualification of southbound business in A share trading unit; qualifications for listing, brokerage and market maker, member of national interbank lending market; underwriting of short-term financing bonds; proprietary trading and leasing of gold; member of book-entry government bond underwriting syndicates; Class A clearing participant of China Central Depository Clearing Co., Ltd.; licence for operating foreign exchange operation for securities business (foreign currency negotiable securities brokerage, foreign-currency negotiable securities underwriting and entrusted foreign-exchange asset management business); qualified underwriter team of policy bank; qualifications for stock index futures trading in proprietary trading business; qualifications for treasury bond futures trading in proprietary trading business; pilot operation of refinancing business; qualifications for account opening agency institutions; participation in multilateral net amount guarantee settlement; qualifications for digital certificate service agency; agency business of securities pledge registration; settlement of options; qualifications for principal underwriter for debt financing instruments of non-financial enterprise, etc.

Qualifications of Everbright Futures (a wholly-owned subsidiary of the Company): futures brokerage license, qualifications for financial futures brokerage business, general clearing membership of China Financial Futures Exchange, qualification for IB business of stock index futures, qualification for asset management business.

Qualifications of Everbright Asset Management (a wholly-owned subsidiary of the Company): qualification for asset management business by a securities firm, qualification for entrusted management of insurance funds.

Qualification of Everbright Capital (a wholly-owned subsidiary of the Company): qualification for direct investment business.

Qualification of EBSHK (a wholly-owned subsidiary of the Company): qualification for Renminbi Qualified Foreign Institutional Investor.

Qualification of Everbright Pramerica (a controlling subsidiary of the Company): qualification for fund management.

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

## II. Contact Person and Information

## Secretary to the Board and Representative of Securities Affairs

|                 |   |
|-----------------|---|
| Name            | Zhu Qin   |
| Contact address | No.1508 Xinzha Road,<br>Jing'an District, Shanghai, China |
| Telephone       | 021-22169914  |
| Facsimile       | 021-22169964  |
| Email address   | ebs@ebscn.com   |

## III. Basic Information

|   |  |
|---|--|
| Registered address of the Company                       | No.1508, Xinzha Road, Jing'an District, Shanghai, China                          |
| Postal code of the registered address of the Company    | 200040   |
| Office address of the Company                           | No.1508, Xinzha Road, Jing'an District, Shanghai, China                          |
| Postal code of the office address of the Company        | 200040   |
| Company website   | <a href="http://www.ebscn.com">http://www.ebscn.com</a>                          |
| E-mail address  | ebs@ebscn.com  |
| Principal place of business in Hong Kong of the Company | 24 <sup>th</sup> Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong |

## IV. Information Disclosure and Place of Inspection

|   |  |
|---|--|
| Media designated by the Company for A Share information disclosure                  | China Securities Journal, Shanghai Securities News, Securities Times, Securities Daily |
| Website designated by the CSRC for publication of the annual report                 | <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>                              |
| Website designated by Hong Kong Stock Exchange for publication of the annual report | <a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a>                            |
| Place where the annual report of the Company is available for inspection            | No.1508, Xinzha Road, Jing'an District, Shanghai, China                                |

## V. Information on the Company's Shares

| Type of shares | Places of listing        | Stock name            | Stock code |
|----------------|--------------------------|-----------------------|------------|
| A Share        | SSE                      | Everbright Securities | 601788     |
| H Share        | Hong Kong Stock Exchange | EB SECURITIES         | 6178       |

## VI. Changes in Registration during the Reporting Period

On June 23, 2016, the Company renewed the business licence for three-in-one licence with the united social credibility code of 91310000100019382F.

On November 10, 2016, the Company obtained the new business license and the registered share capital changed from RMB3,906,698,839 to RMB4,610,787,639.

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### VII. Other Information of the Company

History of the Company, including the reform and restructuring, capital injections in the previous years:

On June 21, 1995, the PBOC approved the establishment of Everbright Securities Limited by China Everbright Group Limited based on the reform of its original securities brokerage (business) department by issuing He Fa Yin Fu [1995] No. 214 “Reply on the Preparation to Establish Everbright Securities Limited”. On March 8, 1996, the PBOC approved the establishment of Everbright Securities Limited and its articles of association by issuing He Fa Yin Fu [1996] No. 81 “Reply on the Establishment of Everbright Securities Limited”. On April 23, 1996, Everbright Securities Limited was registered at the State Administration of Industry and Commerce. China Everbright Group Limited contributed RMB157 million (including USD10 million) and held 62.8% of the equity interest. China Everbright International Trust and Investment Company contributed RMB93 million and held 37.2% of the equity interest.

On April 26, 1997, with the approval of the PBOC by issuing Yin Fu [1997] No. 180 “Reply on the Equity Change and Other Matters of Everbright Securities Limited”, the registered capital of Everbright Securities Limited was increased from RMB250 million to RMB500 million, and the registered address was changed from Beijing to Shanghai. The additional capital was totally contributed by China Everbright Group Limited. After the capital increase, China Everbright Group Limited held 81.4% of the equity interest, while China Everbright International Trust and Investment Company held 18.6% of the equity interest.

In June 1999, with the approval by the CSRC by issuing Zheng Jian Fa Zi [1998] No. 324 “Reply on Approving the Acquisition of 49% of the Equity Interest in Everbright Securities Limited by China Everbright Limited”, and by the Ministry of Finance by issuing Cai Guan Zi [1999] No. 134 “Reply on Approving the Transfer of the Equity Interest in Everbright Securities Limited”, China Everbright Group Limited transferred its 49% of the equity interest of Everbright Securities Limited to China Everbright Limited, a subsidiary of China Everbright Holdings Company Limited. In August 2000, China Everbright Group Limited signed an equity transfer agreement with China Everbright International Trust and Investment Company, pursuant to which China Everbright International Trust and Investment Company transferred its 18.6% of the equity interest of Everbright Securities Limited to China Everbright Group Limited. On January 21, 2002, by issuing Zheng Jian Ji Gou Zi [2002] No. 29 “Reply on Approving the Change of Equity of Everbright Securities Limited”, the CSRC approved the transfer of the 49% of the equity interest from China Everbright Group Limited to China Everbright Limited, and the transfer of 18.6% of the equity interest from China Everbright International Trust and Investment Company to China Everbright Group Limited. Upon the completion of the transfer, China Everbright Group Limited held 51% of the equity interest, while China Everbright Limited held 49% equity interest.

On April 8, 2002, by issuing Zheng Jian Ji Gou Zi [2002] No. 90 “Reply on the Increase in Capital and Shares of Everbright Securities Limited”, the CSRC approved the increase of the registered capital of Everbright Securities Limited from RMB500 million to RMB2.6 billion, where RMB984.66 million was converted from the capital reserve fund and retained profits, and the rest was contributed by China Everbright Group Limited and China Everbright Limited in the form of cash. Upon the completion of the increase in capital and share, the shareholding structure of Everbright Securities Limited remained unchanged.

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

On July 14, 2005, with the approval by the MOF by issuing Cai Jin Han [2004] No. 170 “Reply on the Scheme of Converting Everbright Securities Limited into a Joint Stock Company” on December 26, 2004, by the Ministry of Commerce by issuing Shang Zi Yi Pi [2004] No. 250 “Reply of Ministry of Commerce on Approving the Capital Increase of Everbright Securities Limited and Its Change into a Foreign Investment Joint Stock Company” on April 29, 2004 and by issuing Shang Zi Pi [2005] No. 366 “Reply on Approving the Contribution Reduction, Change of Name and Exit by the Shareholders of Everbright Securities Limited” on March 14, 2005, and by the CSRC by issuing Zheng Jian Ji Gou Zi [2005] No. 54 “Reply on Approving the Restructuring and Reduction of Registered Capital of Everbright Securities Limited” on May 10, 2005, China Everbright Group Limited and China Everbright Limited contributed the audited net assets of RMB2,325 million as of June 30, 2004, the three new shareholders Xiamen Xinshiji Group Co., Ltd. (“Xiamen Xinshiji”), Dongguan City Lianjing Industrial Investment Co., Ltd. (“Dongguan Lianjing”) and Nanjing Xinding Investment Development Co., Ltd. (“Nanjing Xinding”) contributed RMB100 million, RMB10 million and RMB10 million respectively in the form of cash to establish Everbright Securities Company Limited, with the net assets of RMB2,445 million converted into 2,445 million shares at the conversion rate of 1:1. When Everbright Securities Limited was restructured into a joint stock company, the registered capital of the Company was changed from RMB2,600 million to RMB2,445 million.

On May 29, 2007, with the approval by the MOF by issuing Cai Jin Han [2007] No. 37 “Reply on Approving the Capital Injection Scheme of Everbright Securities Company Limited” on March 1, 2007, by the CSRC by issuing Zheng Jian Ji Gou Zi [2007] No. 70 “Reply on Approving the Capital Injection of Everbright Securities Company Limited” on March 19, 2007, and by the Ministry of Commerce by issuing Shang Zi Pi [2007] No. 702 “Reply on Approving the Capital Injection of Everbright Securities Company Limited” on April 16, 2007, the Company issued 453 million shares in total to the three promoters, Xiamen Xinshiji, Dongguan Lianjing and Nanjing Xinding, and other eight new entities including Jiayuguan Hongfeng Industrial Co., Ltd. at the offering price of RMB2.75 per share, which were subscribed by cash. Upon the completion of the capital injections, the registered capital of the Company was increased from RMB2,445 million to RMB2,898 million.

On August 4, 2009, with the approval by the CSRC by issuing Zheng Jian Xu Ke [2009] No. 684 “Reply on Approving the Initial Public Offering by Everbright Securities Company Limited”, the Company issued 520 million A Shares at the offering price of RMB21.08 per share by way of initial public offering and raised RMB10,961.6 million in total. After the initial public offering, the registered capital of the Company was changed to RMB3.418 billion. The shares of the Company were listed and traded on the SSE on August 18, 2009.

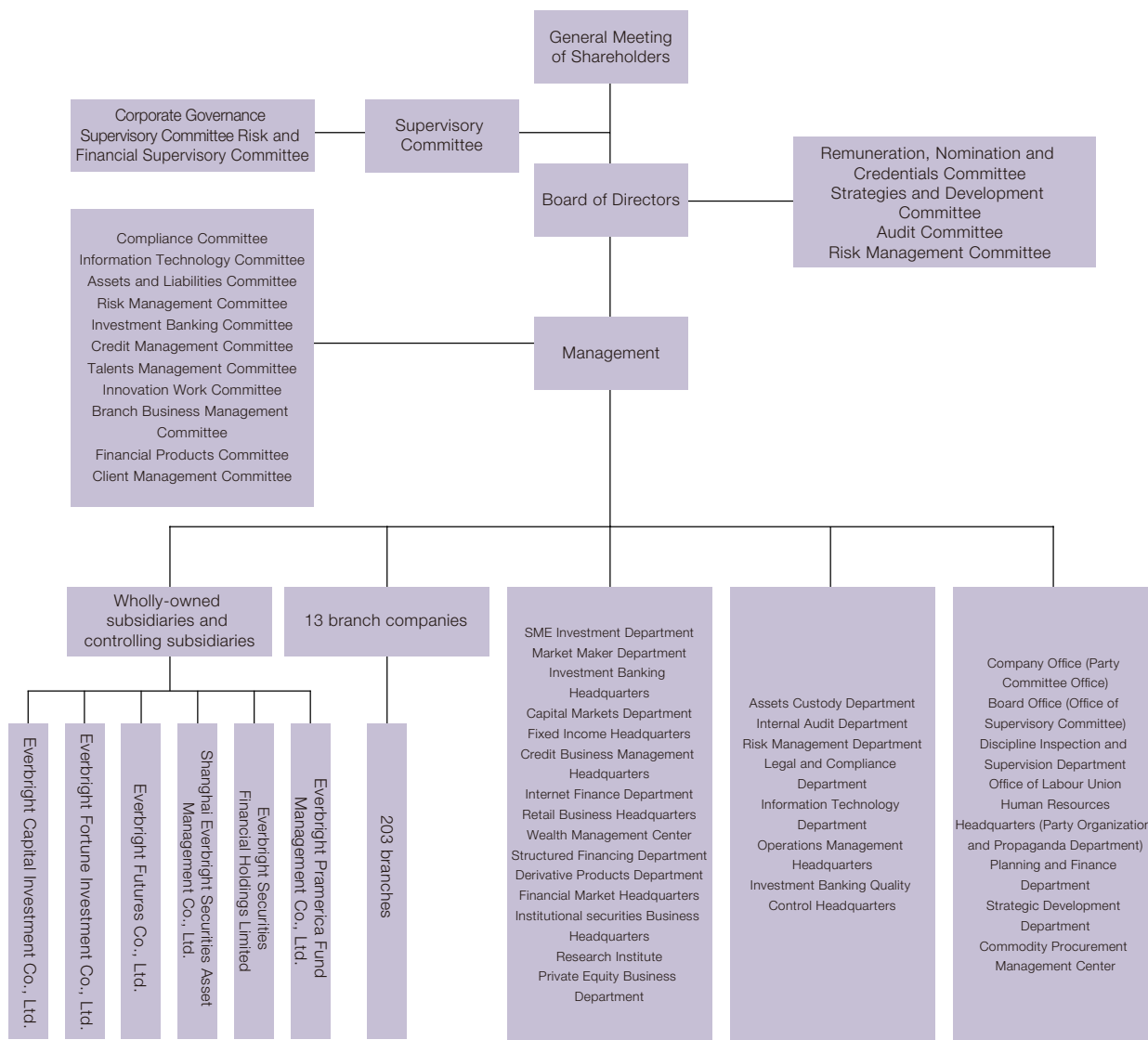
With the approval by the CSRC by issuing Zheng Jian Xu Ke [2015] No. 1833 “Reply on Approving the Private Placement of Shares of Everbright Securities Company Limited”, the Company completed the change of registration procedures for securities sold in a private placement to certain investors on September 1, 2015. In this private placement, 488,698,839 A Shares were issued to seven target investors at an offering price of RMB16.37 per share, and a net amount of RMB7,968,538,346.52 was raised. Upon the completion of this private placement, the total shares of the Company were increased from 3,418,000,000 A Shares before the issuance to 3,906,698,839 A Shares after the issuance. The registered capital was increased from RMB3,418,000,000 before the issuance to RMB3,906,698,839 after the issuance.

With the approval by the CSRC by issuing Zheng Jian Xu Ke [2016] No. 1547 “Reply on Approving the Issuance of Overseas Listed Foreign Shares by Everbright Securities Company Limited”, and by the Hong Kong Stock Exchange, the Company issued 704,088,800 shares of overseas listed foreign shares (H Shares) and these shares were listed on the Main Board of the Hong Kong Stock Exchange on August 18, 2016. The total shares of the Company were changed from 3,906,698,839 to 4,610,787,639, and the registered capital was changed from RMB3,906,698,839 to RMB4,610,787,639.

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

ORGANIZATION STRUCTURE

1. Organizational chart



Note: The above organizational chart is the organization structure as of the date of this report and only contains the first-level controlling subsidiaries of the Company.

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

## 2. Information about the first-level onshore and offshore subsidiaries of the Company

| No. | Nature of the Subsidiary                     | Name of the Subsidiary                                    | Registered Address  | Date of Establishment | Registered Capital | Person in Charge       | Contact Number |
|-----|--|---|---|-----------------------|--------------------|------------------------|----------------|
| 1   | First-level onshore wholly-owned subsidiary  | Everbright Capital Investment Co., Ltd.                   | 8 <sup>th</sup> Floor, No. 1508, Xinzha Road, Jing'an District, Shanghai, China                   | November 7, 2008      | 2 billion (RMB)    | Dai Weiguo<br>(代衛國)    | 021-61061914   |
| 2   | First-level onshore wholly-owned subsidiary  | Everbright Futures Co., Ltd.                              | 6 <sup>th</sup> Floor, No. 729 Yanggao South Road, Free Trade Experimental Zone (Shanghai), China | April 8, 1993         | 1 billion (RMB)    | Tian Yalin<br>(田亞林)    | 021-80212222   |
| 3   | First-level onshore wholly-owned subsidiary  | Shanghai Everbright Securities Asset Management Co., Ltd. | 17 <sup>th</sup> Floor, No. 1508, Xinzha Road, Jing'an District, Shanghai, China                  | February 21, 2012     | 200 million (RMB)  | Xiong Guobing<br>(熊國兵) | 021-22169999   |
| 4   | First-level onshore wholly-owned subsidiary  | Everbright Fortune Investment Co., Ltd.                   | Room. 801-803, No. 1508, Xinzha Road, Jing'an District, Shanghai, China                           | September 26, 2012    | 2 billion (RMB)    | Wang Zhong<br>(王忠)     | 021-22169999   |
| 5   | First-level offshore wholly-owned subsidiary | Everbright Securities Financial Holdings Limited          | 24/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong                                    | November 19, 2010     | 2 billion (HK\$)   | Xue Feng<br>(薛峰)       | 852-21068101   |
| 6   | First-level onshore controlling subsidiary   | Everbright Pramerica Fund Management Co., Ltd.            | 6-10 <sup>th</sup> Floor, Tower One, BFC, No. 558 Zhongshan East Second Road Shanghai, China      | April 22, 2004        | 160 million (RMB)  | Lin Chang<br>(林昌)      | 021-80262888   |

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

### 3. The number and geographical location of the branch companies and securities brokerage branches of the Company

As of the date of this report, the Company has 13 branch companies and 203 securities brokerage branches located nationwide in 109 cities (including county-level cities) of 30 provinces and autonomous regions.

## VIII. Other Relevant Information

|  |   |   |
|--|---|---|
| <b>Accounting firm engaged by the Company (Domestic):</b>      | Name  | KPMG Huazhen LLP (Special General Partnership)                                |
|  | Business address  | 8/F, KPMG Building, Oriental Plaza, No.1 East Chang'an Street, Beijing, China |
|  | Name of signatory accountants:  | Huang Xiaoyi (黄小熠), Shui Qing (水青)  |
| <b>Accounting firm engaged by the Company (International):</b> | Name  | KPMG  |
|  | Business address  | 8/F, Prince's Building<br>10 Chater Road<br>Central<br>Hong Kong              |
|  | Name of signatory accountants:  | Eric Pang (彭成初)   |
| <b>Domestic legal adviser:</b>                                 | King & Wood Mallesons   |   |
| <b>International legal advisor:</b>                            | Latham & Watkins  |   |
| <b>Compliance advisor:</b>                                     | CMB International Capital Limited   |   |
| <b>A Share Registrar:</b>                                      | China Securities Depository and Clearing Corporation Limited, Shanghai Branch |   |
| <b>H Share Registrar:</b>                                      | Computershare Hong Kong Investor Services Limited                             |   |

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

## IX. Key Accounting Information and Financial Indicators for the Last Three Years

## (I) Key accounting information and financial indicators

(Unless otherwise stated, the accounting information and financial indicators set out in this report have been prepared in accordance with the IFRS)

| Item   | 2016<br>(RMB'000) | 2015<br>(RMB'000) | Variance as compared to the last corresponding period | 2014<br>(RMB'000) |
|--|-------------------|-------------------|---|-------------------|
| <b>Operating results</b>                               |                   |                   |   |                   |
| Revenue and other income                               | 13,868,529        | 23,292,729        | (40.46)%  | 8,561,561         |
| Profit before income tax                               | 3,991,458         | 9,846,289         | (59.46)%  | 2,849,432         |
| Net profit attributable to shareholders of the Company | 3,013,019         | 7,646,516         | (60.60)%  | 2,068,307         |
| Net cash used in operating activities                  | (891,693)         | (32,124,448)      | N/A   | (1,535,185)       |
|  | (RMB/share)       | (RMB/share)       |   | (RMB/share)       |
| <b>Earnings per share</b>                              |                   |                   |   |                   |
| Basic earnings per share                               | 0.74              | 2.14              | (65.42)%  | 0.61              |
| Diluted earnings per share                             | 0.74              | 2.14              | (65.42)%  | 0.61              |
| <b>Index of profitability</b>                          |                   |                   |   |                   |
| Weighted average returns on net assets (%)             | 7.3               | 23.1              | decreased by 15.8 percentage points                   | 8.5               |

Note: The share capital of the Company increased by 704,088,800 H shares during the Reporting Period and 488,698,839 A shares in the last year. The weighted average returns on net assets and earnings per share were calculated based on the International Accounting Standards.



## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

| Item   | As of<br>December 31,<br>2016<br>(RMB'000) | As of<br>December 31,<br>2015<br>(RMB'000) | Variance as<br>compared<br>to the last<br>corresponding<br>period | As of<br>December 31,<br>2014<br>(RMB'000) |
|--|--|--|---|--|
| <b>Scale indices</b>   |  |  |   |  |
| Total assets   | 177,637,259                                | 197,072,821                                | (9.86)%   | 114,944,786                                |
| Total liabilities  | 129,000,595                                | 154,649,205                                | (16.59)%  | 88,324,472                                 |
| Accounts payable to<br>brokerage clients   | 55,343,327                                 | 71,102,044                                 | (22.16)%  | 40,497,386                                 |
| Equity attributable to<br>shareholders of the Company                              | 47,195,712                                 | 40,482,599                                 | 16.58%  | 25,809,062                                 |
| Total equity of owners   | 48,636,664                                 | 42,423,616                                 | 14.65%  | 26,620,314                                 |
| Total share capital ('000 shares)  | 4,610,788                                  | 3,906,699                                  | 18.02%  | 3,418,000                                  |
| Net assets per share<br>attributable to shareholders<br>of the Company (RMB/share) | 10.24                                      | 10.36                                      | (1.16)%   | 7.55                                       |
| Gearing ratio (%) <sup>(Note)</sup>  | 60.23%                                     | 66.32%                                     | decreased by<br>6.1 percentage<br>points                          | 64.24%                                     |

Note : Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)

The net profit for 2016 and 2015 and the net assets as of December 31, 2016 and December 31, 2015 as stated in the consolidated financial statements of the Company prepared in accordance with the IFRS are consistent with those prepared in accordance with PRC GAAP.

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

## (II) Net capital and risk control indicators of the parent company

| Item   | As of<br>December 31,<br>2016<br>(RMB'000) | As of<br>December 31,<br>2015<br>(RMB'000) |
|--|--|--|
| Net capital  | 39,747,165                                 | 38,614,469                                 |
| Net assets   | 46,660,184                                 | 39,327,888                                 |
| Risk coverage (%)  | 352.65                                     | 272.66                                     |
| Capital leverage ratio (%)   | 35.14                                      | 27.53                                      |
| Liquidity coverage ratio (%)   | 235.85                                     | 194.11                                     |
| Net stable funding ratio (%)   | 152.59                                     | 123.45                                     |
| Net capital/Net assets (%)   | 85.18                                      | 98.19                                      |
| Net capital/Liabilities (%)  | 74.25                                      | 58.64                                      |
| Net assets/Liabilities (%)   | 87.16                                      | 59.72                                      |
| Value of proprietary trading of equity securities and equity derivatives/Net capital (%) | 28.36                                      | 40.35                                      |
| Value of proprietary trading of equity securities and equity derivatives/Net capital (%) | 53.53                                      | 48.09                                      |

Note: The above data were prepared based on the PRC GAAP but not on a consolidated basis. The ratios of net capital and risk control indicators are calculated in accordance with the Administrative Measures on the Risk Control Indicators of Securities Companies (2016 Revision) (《證券公司風險控制指標管理辦法》) (2016年修訂版). The relevant indicators at the end of last year have been restated.

## (III) Key accounting information and financial indicators for the last four years

## 1. Profitability information

RMB: million

|   | 2016     | 2015     | 2014    | 2013    |
|---|----------|----------|---------|---------|
| Revenue and other income                      | 13,868.5 | 23,292.7 | 8,561.6 | 5,179.4 |
| Total expenses                                | 9,936.5  | 13,520.0 | 5,773.1 | 4,751.3 |
| Profit before income tax                      | 3,991.5  | 9,846.3  | 2,849.4 | 486.4   |
| Profit for the year                           | 3,013.0  | 7,646.5  | 2,068.3 | 205.8   |
| – attributable to shareholders of the Company |          |          |         |         |

## SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

## 2. Asset information

RMB: million

|  | As of<br>December 31,<br>2016 | As of<br>December 31,<br>2015 | As of<br>December 31,<br>2014 | As of<br>December 31,<br>2013 |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Total assets   | 177,637.3                     | 197,072.8                     | 114,944.8                     | 53,852.2                      |
| Total liabilities  | 129,000.6                     | 154,649.2                     | 88,324.5                      | 30,246.2                      |
| Accounts payable<br>to brokerage clients                 | 55,343.3                      | 71,102.0                      | 40,497.4                      | 21,652.3                      |
| Equity attributable<br>to shareholders of<br>the Company | 47,195.7                      | 40,482.6                      | 25,809.1                      | 22,836.2                      |
| Share capital  | 4,610.8                       | 3,906.7                       | 3,418.0                       | 3,418.0                       |

## 3. Key financial indicators

|  | 2016  | 2015  | 2014 | 2013 |
|--|-------|-------|------|------|
| Basic earnings<br>per share (RMB)  | 0.74  | 2.14  | 0.61 | 0.06 |
| Diluted earnings<br>per share (RMB)  | 0.74  | 2.14  | 0.61 | 0.06 |
| Weighted average returns<br>on net assets (%)  | 7.3   | 23.1  | 8.5  | 0.9  |
| Gearing ratio (%) <sup>(Note)</sup>  | 60.2  | 66.3  | 64.2 | 26.7 |
| Net assets per<br>share attributable<br>to shareholders of<br>the Company<br>(RMB/share) | 10.24 | 10.36 | 7.55 | 6.68 |

Note: Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)

The Group's financial statements for 2012 and before were prepared in accordance with the PRC GAAP and were not prepared in accordance with the IFRS. If the investor needs relevant information, please visit the website of the SSE at <http://www.sse.com.cn/>.

## SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

### I. The Company's Main Businesses, Operation Model, and Industrial Description for the Reporting Period

According to the data of the Securities Association of China, as of December 31, 2016, China had 129 securities firms, the businesses of which primarily include brokerage, margin financing and securities lending, investment banking, proprietary trading, assets and fund management, private equity investment and management, and alternative investment, etc. and the industrial total assets and net assets were RMB5.79 trillion and RMB1.64 trillion respectively.

#### (I) The Company's Principal Business Model:

**Brokerage and wealth management:** The Company provides brokerage and investment consulting services for retail clients to earn fee and commission, holds cash on behalf of clients to earn interest income, and sells the financial products developed by the Group and other financial institutions to earn commission fee.

**Credit business:** The Company earns interest income from margin financing and securities lending, collateralized stock repurchase transactions, trading in securities under repurchase agreement and stock option financing for listed companies, and also income from financial leasing business carried out by Everbright Lease.

**Institutional securities service business:** The Company earns fee and commission by providing underwriting, financial advisory, investment research and prime brokerage services to corporate and other institutional clients, and also investment income and interest income from proprietary trading and market making services.

**Investment management:** The Company earns management and consulting fees by providing asset management, fund management, and private equity investment management services to clients, and gains investment income from private equity investments and alternative investments.

**Overseas business:** The Company earns fee and commission, interest income and investment gains through Hong Kong business.

#### (II) Description of Industrial Situation during the Reporting Period

In 2016, global political and economic patterns were complicated, and uncertain factors in the market were greatly increased. From the perspective of domestic situation, China was experiencing the growth shifting and structure adjustment period, supply-side reform and financial reform were continuously deepened. Capital markets were in the adjustment and recovery period after abnormal fluctuations in 2015, and the aggregate stock and fund trading volume of the SSE and SZSE was RMB139 trillion, decreased by 48.72% compared to the previous year; SSE Index and SZSE Component Index dropped by 12.31% and 19.64%, respectively, Growth Enterprise Index dropped by 27.71%, and China Bond Total Net Price Index dropped by 2.4%.

## SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

In 2016, under the background of tightening of monetary policy and macroeconomic deleveraging, industrial operation performance dropped back greatly compared to the previous year. According to the data publicized by the Securities Association of China, by the end of 2016, the entire industry achieved revenue of RMB328 billion and net profit of RMB123.4 billion, dropped by 43% and 50% compared to the previous year, respectively; the securities firms' total assets were RMB5.79 trillion, dropped by 10% compared to the previous year, and net assets of the securities firms were RMB1.64 trillion, increased by 13% compared to the previous year.

### II. Descriptions of the Material Changes in the Major Assets of the Company During the Reporting Period

The major assets of the Company include monetary assets, clearing settlement funds, margin accounts, and financial assets at fair value through profit or loss, financial assets held under resale agreements, available-for-sale financial assets and long-term equity investment. For details of the changes in the major assets during the Reporting Period, please refer to "II. Business Review – (I) Analysis of the principal businesses – 4. Analysis on principal components of consolidated statement of financial position" in Section IV "Report of the Board".

Overseas assets reached RMB24,803,629,935, representing 13.96% of the Group's total assets.

Overseas assets arose from the investment in EBSHK, a subsidiary in Hong Kong, details of which are set out in "II. Business Review – (V) Analysis on principal subsidiaries and controlled companies" of Section IV "Report of the Board."

## SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

## III. Analysis on Core Competitive Strengths During the Reporting Period

**(I) Core financial services platform of Everbright Group, benefiting from synergies within the Group and the “Everbright” brand recognition**

Contributed and established by the State Council, the Company's controlling shareholder, Everbright Group, is a financial conglomerate directly owned by the MOF and Huijin. It is one of the most recognized and influential conglomerates in China and a Fortune Global 500 firm. Leveraging the Everbright Group's brand recognition and the role of the Company as the core platform of the whole group for the provision of financial services, the Company has carried out abundant collaboration with subsidiaries of Everbright Group, realizing significant synergies with the group. In the meanwhile, by virtue of the extensive platform and enormous resources of Everbright Group, the Company has managed to further broaden its horizon and gain an insight into the upcoming changes in the industry and in-depth understanding of client needs, all of which will provide strong support for Everbright Securities' business expansion and establishment of a sustainable development strategy.

The year 2016 is the first year in the five-year plan period of Everbright Group for 2016 to 2020, and in order to practically propel the achievement of linkage effect, Everbright Group organized and established certain linkage working group. As the core enterprise within Everbright Group engaged in investment banking business, the Company became the leader of the linkage working groups for major investment banking business, and will enjoy more support from Everbright Group and its subsidiaries in the future.

**(II) Strong core business platform generating high synergies across business lines**

As one of the comprehensive financial service providers with full business licenses, the Company is able to offer a full range of financial products and services to meet the diverse needs of clients, including brokerage and wealth management, credit business, institutional securities services, investment management, and overseas business. The Company has achieved balanced growth across all its business lines and leading industry positions for its core businesses, thereby generating diversified and stable sources of revenue.

**(III) Leading integrated onshore and offshore financial services platform**

The Company has been expanding its overseas business strategically. The Company acquired 51% equity interest of ESIL in 2011 and 70% equity interest of SHKFGL in 2015. During the Reporting Period, the Company further acquired the remaining 49% equity interest of ESIL on the basis of the 51% equity interest already held therein, making ESIL a wholly-owned subsidiary of the Company in Hong Kong, which will be integrated with SHKFGL.

After the listing of the H Shares, the Company has become a comprehensive financial service provider with full coverage on the value chain for investment and financing services and integrated domestic and overseas businesses. The Company's domestic and overseas teams worked closely together to meet domestic clients' demand for financing and M&A advisory services in overseas market. With the inclusion of RMB in the Special Drawing Rights basket, the development of offshore RMB market, the “One Belt One Road” Initiatives and the “Going Global” Strategy, there will be a closer link between the onshore and offshore markets as well as more frequent interactions in financial industry. The Company will make full use of its cross-border platform to capture future development opportunities.

## SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

### (IV) Industry pioneer with strong innovation capabilities

As one of the first three securities companies licensed to engage in “innovative business”, the Company has been one of the first batch of securities companies to obtain the business qualifications in various new business areas, covering brokerage business, credit business, asset management and investment banking businesses, benefiting from which, the Company is well positioned to capture new opportunities in the market, gain first-mover advantages and keep strong growth. Meanwhile, the Company has been continuously focusing on innovation of commercial models, and is among the first PRC securities firms to set up a finance leasing company and jointly establish an Internet finance platform with Internet enterprises. Through the business platforms including the comprehensive Internet financial service platform “Fu Chun” (富尊), the securities trading platform “Golden Sunshine” (金陽光) and Everbright Eascreate’s “Lima Wealth Management” (立馬理財), the Company has made every effort to offer more diversified financial services to its clients.

During the Reporting Period, PPP finance was an important attempt and innovation of the Company in further exploring into regional markets and serving the real economy, as a result of which, a PPP financial service model represented by shanty town renovation in Kunming, consortium of central enterprises and purchase in lieu of construction was established. The Company cooperated closely with a number of large central enterprises, with service coverage on over ten provinces including Yunnan, Zhejiang, Jiangsu, Shaanxi and Anhui and various service projects in many business areas including regional development, communications and transportation and water conservancy projects.

### (V) Prudent risk management and internal control

The Company has established a comprehensive risk management system. By including risk planning in the Company’s strategies, centralizing the risk data, optimizing the risk management policies, techniques and systems and full coverage to its subsidiaries, the Company has set up a strong risk prevention system. The Company is one of the first securities firms with comprehensive risk management strategy. The Company took strict precautions to safeguard the line of defense for compliance, and was rated “Grade A Category AA” in the regulatory rating of the securities firms for 2016.

### (VI) Experienced management team and high-quality and stable workforce

The senior managers of the Company have an average of over 20 years of management experience in the securities and financial services industry. Some members of the Company’s senior management have extensive working experience in regulatory authorities and have deep knowledge on the current national affairs, the trends of securities and financial industries, enabling them to identify and capture the market trend. Meanwhile, the Company has an effective talent system and maintains a high-quality and stable workforce.

## SECTION IV REPORT OF THE BOARD

The Board hereby presents the annual report and the audited consolidated financial statements of the Group for the year ended December 31, 2016. All relevant sections of this report referred to in this Report of the Board form part of this Report of the Board.

### I. Discussion and Analysis on Business Operation

In 2016, in the face of complicated and changing market environment, according to determined strategic layout, the Company persisted with the core concepts of “demarketization layout, conversion cycle management, and full-value chain development”, actively promoted comprehensive business layout and institutional reform, and obtained a series of achievements. The Company restored Grade A Category AA rating, and became one of the only eight Category AA securities firms. The H Shares of the Company were successfully listed on the Main Board of Hong Kong Exchange, and the Company made its overall debut in international market. In 2016, for the first time, the Company was elected into the Fortune’s China Top 500 Enterprises, Asian Top 500 Brands, China Top 500 Brands, appeared again on “Hurun Financial Brand Value List” and continued to be “Annual Best Securities Company”, becoming the only securities firm obtaining this special honor for two consecutive years. The Company has successfully completed the expected objective of “second entrepreneurship” in three years, with a total asset scale of up to RMB177.6 billion, 3.3 times that of three years ago, completely got rid of the influences of “August 16 Event” and realised new development<sup>(Note)</sup>.

Note: The industry data of this report is sourced from SSE, SZSE, Wind Info, the membership system of Securities Association of China, the membership system of Asset Management Association of China and others.

### II. Business Review

In 2016, the Company recorded total revenue and other income of RMB13.87 billion and net profit attributable to the parent company of RMB3.01 billion. As of the end of December 2016, the Company’s total asset amounted to RMB177.64 billion and total equity amounted to RMB48.64 billion.

#### (I) Analysis of the principal businesses

##### 1. Segment revenue, segment expenses, segment profit margin and statement of changes between two years

**Table 1 Table of the principal businesses by segments**

Unit: RMB’000

| Item                                     | 2016            |            |                  |            | 2015            |            |                  |            |
|--|-----------------|------------|------------------|------------|-----------------|------------|------------------|------------|
|  | Segment revenue |            | Segment expenses |            | Segment revenue |            | Segment expenses |            |
|  | Amount          | Percentage | Amount           | Percentage | Amount          | Percentage | Amount           | Percentage |
| Brokerage and wealth management business | 4,129,883       | 30%        | 2,485,881        | 25%        | 9,607,251       | 41%        | 4,533,392        | 34%        |
| Credit business                          | 2,985,811       | 22%        | 1,602,098        | 16%        | 4,658,086       | 20%        | 3,238,964        | 24%        |
| Institutional securities services        | 2,149,762       | 16%        | 1,432,612        | 14%        | 4,520,645       | 19%        | 1,128,962        | 8%         |
| Investment management business           | 2,512,241       | 18%        | 1,526,144        | 15%        | 2,390,715       | 10%        | 970,090          | 7%         |
| Overseas business                        | 1,223,816       | 9%         | 1,284,220        | 13%        | 872,011         | 4%         | 913,946          | 7%         |

The Company’s principal businesses comprise brokerage and wealth management, credit business, institutional securities services, investment management and overseas business.



## SECTION IV REPORT OF THE BOARD

### 1. *Brokerage and wealth management*

The brokerage and wealth management segment includes securities brokerage business, wealth management business and futures brokerage business.

In terms of securities brokerage business, relying on the reform of branches and client service system, the Company established matrix management system of branches and made full efforts to set up retail outlets on the one hand; and on the other hand, sticking to the concept of “being client-oriented”, the Company planned and adjusted client service system, and improved the management of client classification and grading. By the end of 2016, the Company had 13 domestic branch companies and 203 securities branches, filling up the blank of outlets in key regions. Promoted by the reform, the branches were more active in business development, more initiative in differentiation development, and realized more optimized business structure. In 2016, the Company’s stock and fund trading volume reached up to RMB6.8 trillion, representing a market share of 2.45%.

In terms of wealth management business, the Company took high-net-worth clients as key breakthrough, and improved the construction of service system for high-net-worth clients in virtue of CRM system. Through combination of the acquisition of incremental clients and the maintenance of existing clients, the Company had acquired nearly 3,000 high-net-worth clients. Meanwhile, the Company constantly explored the wealth management innovation model, and established the high-end investment consulting think tank to serve high-net-worth clients. In 2016, the Company was named by Securities Times as “2016 China Best Wealth Management Institution”.

In terms of futures brokerage business, facing the trading restrictions on various types of securities including stock index futures and commodity futures, Everbright Futures enlarged cross-border cooperation and explored business innovation. The scale of clients deposit was still maintained at a relatively high level, and the average daily margin scale amounted to RMB13.7 billion, representing a year-on-year increase of 29%. In 2016, Everbright Futures was awarded “AA”, the highest regulatory rating, for the third consecutive year, ranked sixth for two years successively in terms of comprehensive performance, was selected as “China Best Futures Company” by the industrial authoritative media once again. Additionally, Everbright Futures was elected as “Futures Company of the Year” in CBN Financial Value Ranking.

In 2016, brokerage and wealth management segment realized revenue of RMB4.1 billion, accounting for 30% of the Group’s total revenue.

## SECTION IV REPORT OF THE BOARD

2. *Credit business*

The credit business segment includes margin financing and securities lending, collateralized stock repurchase transactions and financial leasing.

The credit business insisted on the strategic vision of promoting conversion cycle management and focusing on high-net-worth clients, persisted with simultaneous “business expansion” and “risk control”. Besides, it endeavoured to enhance innovation capacity and refine risk control measures. The Company grasped the development opportunity of the sustained growth of securities firms’ collateralized stock repurchase business, vigorously developed collateralized stock repurchase business, and meanwhile, put forth effort to maintain the market shares of margin financing and securities lending. The balance of collateralized stock repurchase transactions amounted to RMB30.4 billion as of the end of 2016, representing a significant growth of 133% over the beginning of the year and ranking No. 15 among the PRC securities firms, up three positions as compared to the beginning of 2016. The balance of margin financing and securities lending amounted to RMB30.4 billion, representing a market share of 3.24% and ranking No. 10 among the PRC securities firms.

In terms of financial leasing, Everbright Leasing persisted with professional operation, and pushed forward the development of financial leasing, asset management and industrial investment consulting services by relying on the powerful and comprehensive strength of shareholders in terms of finance, aviation and local government. Surrounding three business platforms including traditional business, professional business and external cooperation, Everbright Leasing prompted the businesses of financial leasing, asset management and industrial investment advisory service as adopting its “one-entity-two-wings” approach with internationalized vision and market-oriented mechanism. In 2016, Everbright Leasing maintained the stable growth of traditional businesses, achieved breakthrough and innovation in the fields such as general aviation industry, macro medical health industry, etc., realizing the balance of accounts receivable for financial leasing of RMB4.1 billion at the end of 2016.

In 2016, the credit business segment realized revenue of RMB3 billion, accounting for 22% of the Group’s total income.

3. *Institutional securities services business*

The institutional securities services segment includes investment banking, sales and trading, investment research and proprietary trading businesses.

In terms of investment banking business, the Company proactively responded to the changes in market and regulatory environment in 2016, leveraged on the advantage of comprehensive financial services, integrated comprehensively the resources of asset end and capital end, and delved into clients full value chain demand. During the Reporting Period, the Company completed ten equity underwriting projects with an aggregate underwritten amount of RMB15 billion, representing a year-on-year growth of 6%. The Company grasped the opportunities of bond market, strengthened business development and completed 146 bond underwriting projects with an aggregate underwritten amount of RMB165.3 billion, representing a year-on-year growth of 87%. The Company was ranked fifth in terms of the amount of corporate bonds underwritten. The bond underwriting business model was also constantly innovated, and the Company successively completed the innovative projects such as the first collective entrusted loan securitization project and first issuance of green enterprise bond by central enterprises. Meanwhile, the Company constantly enhanced investment research capabilities and market-making quality, strived to make NEEQ business the reserve pool of high-quality projects, and completed 88 NEEQ projects over the year.

## SECTION IV REPORT OF THE BOARD

In terms of sales and trading business, taking client service system restructure as the pivot of reform. The Company focused on three types of clients, firstly mutual funds, secondly institutional clients as insurance asset management companies and commercial banks etc, thirdly overseas clients. The Company innovated marketing model, continuously developed strategic clients and integrated resources to carry out specific activities. In the Reporting Period, the Company's market share of trading volume form mutual funds amounted to 3.6% and the new PB business scale reached RMB69.8 billion.

In terms of investment research business, the Company continuously strengthened team construction, actively pushed forward the full coverage of major industry sectors and key breakthrough of advantaged industries surrounding the objective of "raising market influences". In 2016, the Company added nine new industry research groups, and its overseas investment research team achieved outstanding performance. In 2016, the Company obtained the first place of "Best Overseas Research Institution", the third place of "Best Overseas Sales Service Team" and the third place of "Best Textile & Clothing Research Team" as elected by New Fortune.

In terms of securities proprietary trading, the Company constantly enhanced its investment capabilities, reasonably controlled risks, actively enriched product lines, and explored diversified profit models. In 2016, the Company issued a variety of beneficiary certificate and further improved product systems among which the Guangxin series is the first rebar-linked beneficiary certificate in the domestic market. As a principal market maker of SSE 50ETF options, the Company was rated Grade A in the annual rating. The Company vigorously developed FICC business, expanded the transaction channels of derivatives, and moderately enlarged the scale of gold leasing transactions.

In 2016, the institutional securities services segment realized revenue of RMB2.1 billion, accounting for 16% of the Group's total income.

#### 4. *Investment Management*

The investment management segment includes asset management, fund management, private equity investment and alternative investment.

In terms of asset management business, during the Reporting Period, Everbright Asset Management firmly grasped the market trends, expanded sales channels, took institutional clients as the breakthrough, and realized the improvement in both "quality" and "quantity" of active management business. By the end of 2016, the AUM of Everbright Asset Management reached RMB269.6 billion, representing an increase of 15% over the beginning of this year, and meanwhile, the AUM of the active management products reached RMB114.2 billion, twice that of the beginning of this year. The scale of the collective asset management scheme ranked sixth among securities dealers and the net income from asset management ranked seventh among securities dealers.

## SECTION IV REPORT OF THE BOARD

In terms of fund management business, the Company consistently took investment performance as the core value, constantly strengthened investment and sales coordination, continuously optimized client and business structure, realized orderly development of various businesses while maintaining a stable growth of AUM. By the end of 2016, the AUM of Everbright Pramerica reached RMB126.8 billion, representing an increase of 42% over the beginning of this year, and ranked the top one-third of the whole industry in terms of the performance of active management products.

In terms of private equity investment business, the Company took the initiative to focus on national strategy and emerging industries, achieved obvious progresses in terms of fund establishment, project investment and exit and market influences, continuously enlarged industrial funds and buyout funds and innovated business models, thereby stably enhancing its brand influences. During the Reporting Period, Everbright Capital accumulatively participated in the establishment of 17 fund management companies and 34 funds with a total AUM of RMB28.7 billion and had 22 ongoing equity investment projects. Everbright Capital's acquisition of MP & Silva, a top-ranking international sports media services company, represents an important breakthrough whereby the financial capital and industrial capital cooperated together to go global. As such, the Company was awarded "The Best Media M&A Award (最佳傳媒併購大獎)" by TMT Finance in the United Kingdom. For the "2016 China Private Equity Investment Funds Ranking (2016年中國私募股權投資基金排行榜)" announced at the 2016 Private Equity Funds Summit, Everbright Capital ranked no. 17, which was No. 1 among the private equity investment subsidiaries established by PRC securities firms.

In terms of alternative investment business, the Company's alternative investments achieved stable performance with distinctive characteristics, and became an important part of the Company's comprehensive financial layout. In 2016, Everbright Fortune participated in the artwork underwriting and investment business for the first time. It also invested in the porcelain artwork trading platform business of Shanghai Culture Assets and Equity Exchange, and obtained initial success in the field of artwork investment.

In 2016, the investment management business segment realized revenue of RMB2.5 billion, accounting for 18% of the Group's total revenue.

### 5. *Overseas Business*

In terms of overseas business, taking EBSHK as the overseas platform, the Company provided comprehensive financial services in Hong Kong including brokerage and sales, investment banking, asset management and research service for clients. In 2016, the Company's subsidiaries in Hong Kong stably ranked the first tier among securities firms in Hong Kong with PRC background in terms of comprehensive strength. It made steady progresses in brokerage business, and completed 11 IPO projects, 7 share placing projects, 13 bond underwriting projects and 13 financial advisory projects in total. The Company also greatly improved its ability of derivatives transaction service. The Hong Kong subsidiary obtained the first prize of "Hong Kong Stock Exchange Outstanding Trader (港交所優秀交易商獎)" in the Third Global Derivatives Trading Contest. It also obtained QFII business qualification for asset management business, and its AUM reached HKD3.9 billion. The Company stepped into a new stage for domestic and overseas integrated development.

In 2016, overseas business segment realized revenue of RMB1.2 billion, accounting for 9% of the Group's total revenue.

## SECTION IV REPORT OF THE BOARD

## 6. Other Businesses

In 2016, the Company achieved rapid growth of Internet financial business. The Company constantly promoted the deepening Internet services for its existing clients and broadening services for new clients. Internally, the Company laid a solid foundation for the basic functions of Internet Securities, established the Internet business center, integrated high-quality resources to promote online and offline integration. Externally, the Company actively developed cooperation resources and enhanced Internet service capabilities. The market responded actively to the financial products sold on “Lima Wealth Management (立馬理財)”, the Internet finance platform launched by the Company’s subsidiary Everbright Eascreate. The platform ranked top ten among the safe Internet wealth management platforms.

In 2016, PPP finance, an important exploration and innovation for the Company to develop regional markets and serve the real economy, and was highly appraised by the regulatory authorities. The Company formed the PPP financial service model represented by shanty town renovation in Kunming, consortium of central enterprises and purchase in lien of construction, and closely cooperated with a number of large central enterprises. Its service area covered various provinces like Yunnan, Zhejiang, Jiangsu, Shaanxi, Anhui, etc., and various service projects in many business areas including regional development, communications and transportation and water conservancy projects. Over the year, the Company realized project implementation scale of more than RMB15 billion, and the scale of pipeline projects of more than RMB100 billion.

## 2. Analysis of the major items of the consolidated statement of profit or loss

Table 2. Major revenue items

*Unit: RMB'000*

| Item                                  | 2016              |             | 2015              |             | Increase/decrease  |              |
|---------------------------------------|-------------------|-------------|-------------------|-------------|--------------------|--------------|
|                                       | Amount            | Composition | Amount            | Composition | Amount             | Percentage   |
| Fee and commission income             | 7,358,470         | 53%         | 12,334,172        | 53%         | (4,975,702)        | (40)%        |
| Interest income                       | 4,867,387         | 35%         | 6,839,323         | 29%         | (1,971,936)        | (29)%        |
| Net investment gains                  | 972,261           | 7%          | 3,970,777         | 17%         | (2,998,516)        | (76)%        |
| Other income and gains                | 670,411           | 5%          | 148,457           | 1%          | 521,954            | 352%         |
| <b>Total revenue and other income</b> | <b>13,868,529</b> |             | <b>23,292,729</b> |             | <b>(9,424,200)</b> | <b>(40)%</b> |

## SECTION IV REPORT OF THE BOARD

Total revenue and other income of the Company for 2016 amounted to RMB13.87 billion, representing a year-on-year decrease of 40%. In particular, fee and commission income amounted to RMB7.36 billion, representing a year-on-year decrease of 40%, which was mainly due to the significant drop in stock and fund trading volume in the market and thus the corresponding decrease in commission fee. Interest income amounted to RMB4.87 billion, representing a year-on-year decrease of 29%, which was mainly due to a decrease in interest income as a result of the decreased scale of the business of margin financing and securities lending. Net investment gains amounted to RMB972.3 million, representing a year-on-year decrease of 76%, which was mainly due to a significant decrease in gains from investment of financial assets as a result of the volatility of the securities market. Income from other business amounted to RMB670.4 million, representing a year-on-year increase of 352%, which was mainly due to an increase in government grants and exchange gains.

Table 3 Major Expenditure Items

Unite: RMB'000

| Item                                   | 2016             | 2015              | Increase/decrease  |              |
|--|------------------|-------------------|--------------------|--------------|
|  |                  |                   | Net amount         | Percentage   |
| Fee and commission expenses            | 1,265,215        | 2,071,865         | (806,650)          | (39)%        |
| Interest expenses                      | 3,271,665        | 4,619,505         | (1,347,840)        | (29)%        |
| Staff costs                            | 3,037,902        | 4,109,700         | (1,071,798)        | (26)%        |
| Depreciation and amortisation expenses | 394,680          | 421,282           | (26,602)           | (6)%         |
| Tax and surcharges                     | 214,309          | 971,218           | (756,909)          | (78)%        |
| Other operating expenses               | 1,417,457        | 1,336,877         | 80,580             | 6%           |
| Provision for impairment losses        | 335,242          | (10,437)          | 345,679            | N/A          |
| <b>Total</b>                           | <b>9,936,470</b> | <b>13,520,010</b> | <b>(3,583,540)</b> | <b>(27)%</b> |

Total expenses for 2016 amounted to RMB9.94 billion, representing a year-on-year decrease of 27%. Fee and commission expenses amounted to RMB1.27 billion, representing a year-on-year decrease of 39%, which was mainly due to a decrease in stock and fund trading volume in brokerage business, leading to a decrease in expenses arising from securities brokerage and advisory business. Interest expenses amounted to RMB3.27 billion, representing a year-on-year decrease of 29%, which was mainly due to the decrease in financing scale. Staff costs amounted to RMB3.04 billion, representing a year-on-year decrease of 26%, which was mainly due to a decrease in staff costs linked with income and profit. Tax and surcharges amounted to RMB214.3 million, representing a year-on-year decrease of 78%, which was mainly due to a decrease in taxable income and no business tax is payable following the implementation of "Replacing Business Tax with Value-added Tax" since May 2016.

## SECTION IV REPORT OF THE BOARD

### 3. Cash flows

In 2016, the cash and cash equivalents of the Company recorded a net decrease of RMB4.37 billion, of which:

- (1) net cash used in operating activities amounted to RMB890 million, mainly due to the decrease of RMB15.76 billion in accounts payable to brokerage clients and the decrease of RMB12.27 billion in financial assets sold under repurchase agreements, which were partly offset by the decrease of RMB18.75 billion in cash held on behalf of brokerage clients and the increase of RMB8.61 billion in placements from other financial institutions.
- (2) net cash used in investing activities amounted to RMB5.29 billion, mainly due to the increase of RMB3.46 billion in investments classified as receivables and other investments, the increase of RMB880 million in the investment in associates and joint ventures and the increase of RMB790 million in non-controlling interests shareholding in a subsidiary.
- (3) net cash generated from financing activities amounted to RMB1.81 billion, mainly due to the net cash inflow of RMB7.44 billion from the issuance of H shares by the Company during the Reporting Period, which was offset by the net cash outflow of RMB3.22 billion from the repayment of debt instruments and the distribution of cash dividends of RMB2.41 billion.

## SECTION IV REPORT OF THE BOARD

## 4. Analysis on principal components of consolidated statement of financial position

Unit: RMB'000

| Item  | December 31, 2016  |             | December 31, 2015 |             | Increase/decrease |            |
|---|--------------------|-------------|-------------------|-------------|-------------------|------------|
|   | Amount             | Composition | Amount            | Composition | Amount            | Percentage |
| <b>Non-current assets</b>                             | <b>29,762,089</b>  |             | 20,186,145        |             | 9,575,944         | 47%        |
| Property and equipment                                | 860,227            | 0.48%       | 879,372           | 0.45%       | (19,145)          | (2)%       |
| Goodwill  | 1,506,746          | 0.85%       | 1,411,783         | 0.72%       | 94,963            | 7%         |
| Other intangible assets                               | 761,860            | 0.43%       | 885,817           | 0.45%       | (123,957)         | (14)%      |
| Interest in associates and joint ventures             | 1,737,404          | 0.98%       | 874,763           | 0.44%       | 862,641           | 99%        |
| Held-to-maturity investments                          | 159,340            | 0.09%       | 129,531           | 0.07%       | 29,809            | 23%        |
| Available-for-sale financial assets                   | 10,409,409         | 5.86%       | 7,864,984         | 3.99%       | 2,544,425         | 32%        |
| Financial assets held under resale agreements         | 4,208,468          | 2.37%       | 1,344,690         | 0.68%       | 2,863,778         | 213%       |
| Refundable deposits                                   | 5,784,187          | 3.26%       | 3,995,018         | 2.03%       | 1,789,169         | 45%        |
| Deferred income tax assets                            | 509,005            | 0.29%       | 79,969            | 0.04%       | 429,036           | 537%       |
| Finance lease receivables                             | 2,740,139          | 1.54%       | 2,450,900         | 1.24%       | 289,239           | 12%        |
| Other non-current assets                              | 1,085,304          | 0.61%       | 269,318           | 0.14%       | 815,986           | 303%       |
| <b>Current assets</b>                                 | <b>147,875,170</b> |             | 176,886,676       |             | (29,011,506)      | (16)%      |
| Accounts receivable                                   | 2,484,480          | 1.40%       | 2,069,298         | 1.05%       | 415,182           | 20%        |
| Finance lease receivables                             | 1,318,855          | 0.74%       | 1,450,942         | 0.74%       | (132,087)         | (9)%       |
| Other receivables and prepayments                     | 2,196,624          | 1.24%       | 3,692,973         | 1.87%       | (1,496,349)       | (41)%      |
| Margin accounts receivable                            | 37,427,744         | 21.07%      | 43,404,467        | 22.02%      | (5,976,723)       | (14)%      |
| Available-for-sale financial assets                   | 7,285,465          | 4.10%       | 9,777,815         | 4.96%       | (2,492,350)       | (25)%      |
| Financial assets held under resale agreements         | 5,377,987          | 3.03%       | 5,003,931         | 2.54%       | 374,056           | 7%         |
| Financial assets at fair value through profit or loss | 24,650,113         | 13.88%      | 25,539,897        | 12.96%      | (889,784)         | (3)%       |
| Derivative financial assets                           | 97,317             | 0.05%       | 168,519           | 0.09%       | (71,202)          | (42)%      |
| Clearing settlement funds                             | 150,433            | 0.08%       | 360,034           | 0.18%       | (209,601)         | (58)%      |
| Cash held on behalf of brokerage clients              | 51,573,237         | 29.03%      | 70,327,108        | 35.69%      | (18,753,871)      | (27)%      |
| Cash and bank balances                                | 15,312,915         | 8.62%       | 15,091,692        | 7.66%       | 221,223           | 1%         |
| <b>Total assets</b>                                   | <b>177,637,259</b> |             | 197,072,821       |             | (19,435,562)      | (10)%      |



## SECTION IV REPORT OF THE BOARD

| Item   | December 31, 2016  |             | December 31, 2015 |             | Increase/decrease |            |
|--|--------------------|-------------|-------------------|-------------|-------------------|------------|
|  | Amount             | Composition | Amount            | Composition | Amount            | Percentage |
| <b>Current liabilities</b>                                 | <b>106,767,949</b> |             | 130,898,344       |             | (24,130,395)      | (18)%      |
| Loans and borrowings                                       | 7,345,161          | 5.69%       | 3,014,161         | 1.95%       | 4,331,000         | 144%       |
| Short-term debt instruments issued                         | 5,929,702          | 4.60%       | 2,100,000         | 1.36%       | 3,829,702         | 182%       |
| Placements from other financial institutions               | 9,107,560          | 7.06%       | 500,000           | 0.32%       | 8,607,560         | 1,722%     |
| Financial liabilities at fair value through profit or loss | 596,900            | 0.46%       | —                 | —           | 596,900           | N/A        |
| Accounts payable to brokerage clients                      | 55,343,327         | 42.90%      | 71,102,044        | 45.98%      | (15,758,717)      | (22)%      |
| Employee benefits payable                                  | 2,268,881          | 1.76%       | 2,642,761         | 1.71%       | (373,880)         | (14)%      |
| Other payables and accruals                                | 5,482,436          | 4.25%       | 9,347,420         | 6.04%       | (3,864,984)       | (41)%      |
| Current tax liabilities                                    | 603,214            | 0.47%       | 1,627,768         | 1.05%       | (1,024,554)       | (63)%      |
| Financial assets sold under repurchase agreements          | 8,516,901          | 6.60%       | 20,555,441        | 13.29%      | (12,038,540)      | (59)%      |
| Derivative financial liabilities                           | 81,623             | 0.06%       | 1,022,572         | 0.66%       | (940,949)         | (92)%      |
| Long-term bonds due within one year                        | 11,492,244         | 8.91%       | 18,986,177        | 12.28%      | (7,493,933)       | (39)%      |
| <b>Total assets less current liabilities</b>               | <b>70,869,310</b>  |             | 66,174,477        |             | 4,694,833         | 7%         |
| <b>Non-current liabilities</b>                             | <b>22,232,646</b>  |             | 23,750,861        |             | (1,518,215)       | (6)%       |
| Long-term bonds  | 17,134,486         | 13.28%      | 18,853,355        | 12.19%      | (1,718,869)       | (9)%       |
| Loans and borrowings                                       | 2,646,456          | 2.05%       | 2,262,341         | 1.46%       | 384,115           | 17%        |
| Deferred tax liabilities                                   | 269,961            | 0.21%       | 551,184           | 0.36%       | (281,223)         | (51)%      |
| Financial assets sold under repurchase agreements          | —                  | —           | 230,000           | 0.15%       | (230,000)         | (100)%     |
| Other non-current liabilities                              | 2,181,743          | 1.69%       | 1,853,981         | 1.20%       | 327,762           | 18%        |
| <b>Total liabilities</b>                                   | <b>129,000,595</b> |             | 154,649,205       |             | (25,648,610)      | (17)%      |
| <b>Total equity</b>  | <b>48,636,664</b>  |             | 42,423,616        |             | 6,213,048         | 15%        |

Except for the liabilities disclosed in this report as of December 31, 2016, the Company had no outstanding mortgage, charges, bonds, other capital liabilities under acceptance or other similar indebtedness, lease purchase and lease commitment, guarantee or other material contingent liabilities.

## SECTION IV REPORT OF THE BOARD

*Non-current assets:*

As of December 31, 2016, the non-current assets of the Company amounted to RMB29.8 billion, representing an increase of 47% as compared with that of the beginning of the year, which was mainly due to the increase in available-for-sale financial assets, financial assets held under resale agreements as well as the increase in refundable deposits of the futures business.

*Current assets:*

As of December 31, 2016, the current assets of the Company amounted to RMB147.9 billion, representing a decrease of 16% as compared with that of the beginning of the year, which was mainly due to the decrease in cash held on behalf of brokerage clients and margin accounts receivable arising from the decline in client trading activities.

*Current liabilities:*

As of December 31, 2016, the current liabilities of the Company amounted to RMB106.8 billion, representing a decrease of 18% as compared with that of the beginning of the year, which was mainly due to the decrease in the accounts payable to brokerage clients and the financial assets sold under repurchase agreements.

*Non-current liabilities:*

As of December 31, 2016, the non-current liabilities of the Company was RMB22.2 billion, representing a decrease of 6% as compared with that of the beginning of the year, which was mainly due to the maturity within one year of certain long-term bonds and repurchase agreements.

## Borrowings and bond financing

Unit: RMB '000

| Item                               | 2016       | 2015       |
|------------------------------------|------------|------------|
| Loans and borrowings               | 9,991,617  | 5,276,502  |
| Short-term debt instruments issued | 5,929,702  | 2,100,000  |
| Long-term bonds                    | 28,626,730 | 37,839,532 |
| Total                              | 44,548,049 | 45,216,034 |

For details of interest rate and maturity profiles of borrowings and bonds financing, please refer to Notes 39, 40 and 47 of the consolidated financial statements.

As of December 31, 2016, the Company's gearing ratio was 60.23%. The Company's borrowings, short-term loans and borrowings, debt instruments issued, and long-term bonds due within one year amounted to RMB24.8 billion, and the Company's current assets, net of the above liabilities, amounted to RMB123.1 billion. Therefore, the liquidity risk exposure of the Company was immaterial.

## SECTION IV REPORT OF THE BOARD

## (II) Analysis on operational information by industries

For details of the industry condition during the Reporting Period, please refer to the relevant information of the industry in Section III “Summary on the Business of the Company”.

## (III) Analysis on investments

## 1. Overall analysis on external equity investments

As of the end of the Reporting Period, the interest in associates and joint ventures of the Company amounted to RMB1.74 billion, representing an increase of RMB860 million or 98.6% as compared with that of the beginning of the year, which was mainly due to an increase in equity investment funds managed by our subsidiaries (e.g. Everbright Capital). For details, please refer to the relevant disclosure in the financial report.

## (1) Significant equity investment

The Company did not have any significant equity investment during the Reporting Period.

## (2) Significant non-equity investment

The Company did not have any significant non-equity investment during the Reporting Period.

## (3) Financial assets at fair value

Unit: RMB Yuan

| Accounting Items                                      | Investment cost/nominal amount | Book balance as of the end of the year | Investment gains during the Reporting Period | Changes in fair value during the Reporting Period |
|---|--------------------------------|--|--|---|
| Financial assets at fair value through profit or loss | 24,604,474,467.97              | 24,650,113,280.36                      | 895,483,115.79                               | (1,186,461,499.18)                                |
| Derivative financial instruments                      | 37,421,279,674.73              | 15,694,308.22                          | (208,239,029.67)                             | 776,204,165.02                                    |
| Available-for-sale financial assets                   | 17,423,123,291.18              | 17,694,873,893.84                      | 694,971,045.87                               | 636,792,844.48                                    |

## SECTION IV REPORT OF THE BOARD

**(IV) Material disposal of assets and equity interests**

There is no significant disposal of assets and equity interests during the Reporting Period.

**(V) Analysis on principal subsidiaries and controlled companies**

- (1) Everbright Futures Co., Ltd., established on April 8, 1993 with a registered capital of RMB1 billion, is a wholly-owned subsidiary of the Company. It is principally engaged in commodity futures brokerage, financial futures brokerage, futures investment consultation and asset management business.

As of December 31, 2016, Everbright Futures had 26 branches and one wholly-owned subsidiary with total assets, net assets and net profit amounting to RMB11.184 billion, RMB1.336 billion and RMB199 million, respectively.

- (2) Shanghai Everbright Securities Asset Management Co., Ltd. obtained business license on April 25, 2012 with a registered capital of RMB200 million and it is a wholly-owned subsidiary of the Company. It is principally engaged in securities asset management business.

As of December 31, 2016, Everbright Asset Management had total assets, net assets and net profit amounting to RMB1.934 billion, RMB1.380 billion and RMB445 million, respectively.

- (3) Everbright Capital Investment Co., Ltd., established on November 7, 2008 with a registered capital of RMB2 billion, is a wholly-owned subsidiary of the Company. It is principally engaged in equity investment, debt investment, setting up direct investment funds and providing financial advisory services.

As of December 31, 2016, Everbright Capital had total assets, net assets and net profit amounting to RMB7.591 billion, RMB2.927 billion and RMB182 million, respectively.

- (4) Everbright Fortune Investment Co., Ltd., established on September 26, 2012 with a registered capital of RMB2 billion, is a wholly-owned subsidiary of the Company. It is principally engaged in financial products investment and investment advisory services.

As of December 31, 2016, Everbright Fortune had total assets, net assets and net profit amounting to RMB2.848 billion, RMB2.052 billion and RMB36 million, respectively.

- (5) Everbright Securities Financial Holdings Limited is a company with limited liability incorporated under the laws of Hong Kong on November 19, 2010 with a registered capital of HK\$2 billion. It is a wholly-owned subsidiary of the Company. It is principally engaged in financial services.

As of December 31, 2016, EBSHK had total assets, net assets and net profit amounting to RMB24.804 billion, RMB91 million and negative RMB57.84 million, respectively (RMB equivalent).

- (6) Everbright Fortune International Leasing Co., Ltd., established in October 2014 with a registered capital of RMB1 billion, is held by the Company as to 85% equity interests through Everbright Capital and EBSHK. It is principally engaged in financial leasing and leasing business.

As of December 31, 2016, Everbright Leasing had total assets, net assets and net profit amounting to RMB4.49 billion, RMB1.130 billion and RMB37 million, respectively.

## SECTION IV REPORT OF THE BOARD

- (7) Everbright Pramerica Fund Management Co., Ltd., jointly established by the Company and PGIM, Inc. on April 22, 2004 with a registered capital of RMB160 million, is held by the Company as to 55% equity interests. It is principally engaged in fund raising, fund sales and asset management business.

As of December 31, 2016, Everbright Pramerica had a subsidiary and two branch companies with total assets, net assets and net profit amounting to RMB800 million, RMB688 million and RMB111 million, respectively.

- (8) Everbright Yunfu Internet Co., Ltd., established in April 2015 with a registered capital of RMB200 million, is held by the Company as to 40% equity interests. It is principally engaged in financial data processing and analysis, industrial investment and asset management.

As of December 31, 2016, Everbright Yunfu had total assets, net assets and net profit amounting to RMB2.603 billion, RMB206 million and RMB8.50 million, respectively.

- (9) Everbright Eascreate Network Technology Co., Ltd., established in September 2015 with a registered capital of RMB100 million, is held by the Company as to 40% equity interests. It is principally engaged in financial data processing, industrial investment and asset management.

As of December 31, 2016, Everbright Eascreate had total assets, net assets and net profit amounting to RMB136 million, RMB102 million and RMB2.23 million, respectively.

- (10) Dacheng Fund Management Co., Ltd., established on April 12, 1999 with a registered capital of RMB200 million and is held by the Company as to 25% equity interests. It is principally engaged in setting up funds and fund management.

As of December 31, 2016, Dacheng Fund had total assets, net assets and net profit amounting to RMB2.787 billion, RMB1.998 billion and RMB139 million, respectively.

### (VI) Structured entities under the control of the Company

As of December 31, 2016, the Group consolidated 21 structured entities, including asset management plans and partnerships. For asset management plans and partnerships that the Group acts as the manager and general partner or investment manager, the Group is of the view that it has control over certain asset management plans and partnerships taking into account various factors including the rights of making decision on its investment and the exposure to its variable returns, and includes them into the scope of consolidation. As of December 31, 2016, the net asset of the above structured entities within the scope of consolidation amounted to RMB7.9 billion.

For the change in operating entities including new subsidiaries, liquidated subsidiaries, structured entities or controls through entrusted operation, please refer to Note 6 to the consolidated financial statements.

**SECTION IV REPORT OF THE BOARD****(VII) Use of proceeds**

The Company issued 488,698,839 RMB-denominated ordinary shares through non-public offering in August 2015, and the net proceeds amounted to RMB7,968,538,346.52 after deducting the issuance expenses. The Company undertook that all the proceeds will be used for increasing its capital and replenishing its working capital so as to expand the Company's business scale and enhance its market competitiveness and risk resistance capacity. As of December 31, 2016, the above mentioned proceeds have already been utilised. The actual use of proceeds was in consistent with the undertaking.

In 2016, the Company initially issued a total of 704,088,800 overseas listed foreign shares (H Shares), and the net proceeds amounted to RMB7,380,333,967.67 (equivalent) after deducting the issuance expenses. The Company undertook that all the proceeds will be used in the ways as set out in the Company's H Share prospectus including developing capital intermediary business, funding operations of overseas business and inorganic expansion, developing wealth management business and institutional securities services businesses, funding working capital and establishing back-office systems.

**III. Management Discussion and Analysis on the Future Development of the Company****(I) Competition landscape and development trend of the industry**

Looking forward, the market environment will be increasingly complicated with plenty of uncertainties in the year 2017. On the one hand, the economic structure in China is undergoing continuous adjustment, and with the furtherance of the supply-side reform, such structural problems as excess capacity, credit mismatch and polarization of wealth will be further exposed, and the economy will continue to suffer from the downward pressure as a whole. On the other hand, the capital market is recovering moderately with rational investor sentiment after the ups and downs in 2016, and is expected to regain the inherent functions of price discovery, value investing and risk management in 2017. However, the recovery of the economy to rational development needs the assistance of various drivers and cannot be achieved in one go, and therefore, the economy may take on the new normal of volatility and adjustment. Last but not least, the regulatory measures on securities companies are all upgraded and new regulatory measures are emerging in replacement of old ones with the direction of the concept of "complying with laws, strict and comprehensive regulation" adhered by the regulatory authorities.

The securities industry will see increasingly fierce competition. With the expansion of medium and small-sized securities firms and the development of Internet finance business, the market shares of large traditional securities firms will shrink; new securities firms will continue to increase, and with the accelerated open-up of the securities industry, new players are all eager to try to enter the industry; in the meanwhile, with intensified consolidation across the industry, large securities firms are seeking to rapidly expand their scale through consolidation of domestic enterprises and acquisition of overseas enterprises.

## SECTION IV REPORT OF THE BOARD

### (II) Development Strategy

The year 2016 is the third year for the Company's Five-Year (2014-2018) Strategic Development Plan. Centering on the two main themes of reform and breakthrough, following the goal of becoming a "full-service investment bank" and striving for development by leveraging capital intermediary business, the Company adhered to integrated operation, synergy and linkage and development driven by innovation, continued to propel the market-oriented reform of the management mechanism, operation mechanism and business model, and focused on the development through transformation, benefiting from which, the Company's competitive strengths and market image were continuously improved.

In 2017, the Company will follow the keynote of "seeking improvement while ensuring stability", with a view to striving for breakthroughs in the meanwhile of stabilizing the foundation. The Company will continuously consolidate client base, enhance the capability of providing comprehensive financial services, and improve management effectiveness and the quality of the workforce. Moreover, the Company will continue to serve the real economy, shift its focus back to the original businesses of an investment bank, and strive for the stable improvement in terms of asset size and quality and continuous enhancement of social influence, thus enabling the Company to make solid progress in the journey of developing into an "internationally competitive, first-class full-service investment bank".

### (III) Business Plan

In 2017, the Company will adhere to the keynote of "making progress while ensuring stability" and exercise calm judgment in analysing the market landscape. Meanwhile, it will actively cope with market changes and seize growth opportunities. Firstly, the Company will continue to maintain stability in its principal businesses, enhance the integrated financial services capabilities and explore the development of the full-value chain. Secondly, the Company will continue to deepen the reform of branches, promote the implementation of multidivisional structure, achieve breakthroughs in the human resources reform and accelerate the reform of the information technology service system. Thirdly, the Company will continue to expand its first-mover advantages in innovative businesses such as PPP finance and asset securitisation, and maintain its comparative advantages in the businesses including bond issuance, asset management, M&A fund, share charge and futures. While expanding its businesses into the overseas market in an orderly manner, the Company will capitalise on the cross-border synergies arising from integration of onshore and offshore business resources and client resources. Fourthly, the Company will optimise its corporate governance structure, explore the strategic management model of subsidiaries and gradually build the diversity advantages of subsidiaries. The Company will timely adopt multiple measures to raise equity capital or debt capital according to the actual situation. It will also optimize its capital structure and continuously strengthen its capital strength so as to ensure that various business development needs can be satisfied.

**SECTION IV REPORT OF THE BOARD****(IV) Potential risk exposure****(1) Market risk**

Market risk exposure to the Company refers to the future potential loss in value of its financial instruments resulting from changes or fluctuations in their market prices, mainly including equity and other price risk, interest rate risk and exchange rate risk, etc.

In terms of the market risk, the Company adheres to the principle of proactive management and quantitative orientation and establish a risk limit system incorporated with authorization procedures for market risk tolerance and business risk limits based on the risk tolerance preferences of the Company. The Board determines the annual scale of proprietary trading business and the market risk loss tolerance and the committee under the senior management of the Company determines the market risk loss tolerance for each specific item and review and approve specific limits for each business, including net exposure value, investment concentration, basis point value, etc. The Company's proprietary trading department implements risk controls by a combination of investment portfolios, mark-to-market measures, hedging and mitigation measures. The risk management department monitors each of risk limits separately on a daily basis, and will send an alert and risk warning to the management and relevant business departments in a timely manner once a specific limit approaches or exceeds the pre-determined risk limit. In this case, the relevant business department shall put forward an analysis report and corresponding countermeasures. The Company has established a stress testing mechanism to analyze the potential loss that the positions may suffer under the stress scenario. Stress testing is an integrated part of the Company's market risk management, through which the potential loss that the Company may suffer under the stress scenario could be estimated, and provides a basis for the Company's management to make decisions.

As the Company carries out overseas and business expansion, it may be exposed to the fluctuation risk of exchange rate. The Company will hedge and mitigate the exchange rate risk by a series of means, so as to support the Company to explore oversea business and expand its overseas operations according to the actual situation. .

**(2) Credit risk**

Credit risk refers to potential losses resulting from the failure of a debtor or counterparty to perform its obligations under a contract, mainly due to the securities and futures trading on behalf of the clients, default risk arising from bond issuers or OTC derivatives counterparties, and risks due to the failure of full repayment as agreed by clients of credit businesses such as margin financing and securities lending.

In terms of the securities and futures trading on behalf of the clients, all transactions thereunder are settled in margin deposits pursuant to the regulatory requirements, and therefore the exposure to credit risk is small. In terms of bond investments, the Company controls the credit risk exposure by setting the investment concentration limit and the lower limit for debt investment rating, and closely monitoring the operating position of the bond issuer. For the credit business, the credit risk is controlled and managed through conducting risk education, credit investigation, credit extension, mark-to-market measures, risk alert, forced liquidation and judicial recourse to the clients, as well as establishing stringent standards for the scope and discount rate of collaterals, margin deposit ratios, and maintenance margin ratios. For the OTC derivatives business, the Company conducts due diligence, credit rating and scale control on the counterparties and applies the mark-to-market measures, collaterals supplement and disposal of collaterals to control the credit risk exposure to the counterparties.



## SECTION IV REPORT OF THE BOARD

### (3) Operational risk

The operational risk exposure to the Company refers to the potential losses arising from defective internal procedures, human resource, IT system and external events.

The Company has formulated administrative measures for the operational risk, specified the governance structure of the operational risk and strengthened the responsibilities and duties for managing each defense line of operational risk. The Company continues to strengthen the business process management and IT system construction, reinforce the accountability system and reduce the possibility of operational risk. In addition, the Company has promoted the construction and operation of tools for managing operational risk, and improved the operational risk event reporting and loss data collection mechanism, which has further enhanced the Company's capabilities in managing the operational risk. Besides, the Company attaches great importance to the identification and control of operational risks in innovative products and innovative businesses and standardizes the operating procedures so as to ensure that the overall operational risk faced by the Company is controllable and tolerable.

### (4) Liquidity risk

Liquidity risk refers to the potential risk of the Company's failure to obtain sufficient funds at a reasonable cost to repay debts as they come due, perform its other payment obligations and satisfy the capital requirements for its normal business operations.

For the purpose of preventing the liquidation risk prudently, the Company has formulated administrative measures for the liquidation risk, specified the governance structure of the operational risk, established an alerting mechanism for liquidation risk limit management and monitoring, and set up a well-established liquidation risk emergency and capital supplement mechanism. Meanwhile, the Company also proactively extends the financing channels and methods and continues to establish a sound and comprehensive liquidation risk management system.

The planning and finance department is authorized by the Company to take charge of the liquidation risk management, implement overall control over the capital resources and financing management of the Company, coordinate to satisfy the capital requirements, and manage its cash flows. Meanwhile, the risk management of the Company is responsible for monitoring the liquidation risk and implementation of limitation system.

**SECTION IV REPORT OF THE BOARD**

During the Reporting Period, the Company proactively extended and continuously optimized the funds raising and financing channels, and satisfied its capital requirements in a reasonable manner, and also adjusted the limit indicators for liquidation risk timely in case of any changes in the market. The Company has completed the construction of the liquidation risk management system to further improve the liquidation measurement and management methods. Therefore, the overall liquidation risk of the Company is controllable and tolerable.

**(5) Information technology risk**

The Company's principal businesses including securities trading heavily rely on the real-time processing of clients' trading data via electronic information system, and storing enormous data on trading business and operating activities on electronic devices. Securities trading system involves various aspects and has higher requirement on maintaining continuity, which may subject to potential information system risks arising from a series of unforeseeable events such as hardware and software as well as communication failure, in turn affecting the Company's reputation and service quality or leading to economic losses and legal disputes.

During the Reporting Period, the Company increased its investment in infrastructure and equipment as well as other technological upgrade in order to further enhance the development of intra-city and inter-city disaster backup system and optimize the unified data backup platform. Moreover, the Company strengthened the development of monitoring system and platform for operation and maintenance, increased the use of automated operation and maintenance while intensifying system capacity management and continuously improving all performance indicators of the system. Meanwhile, the Company held regular tabletop and practical exercises to further improve and optimize the emergency response procedures of the system, and conducted regular comprehensive analysis and assessment on various risks that the Company's information technology may expose to, aiming to prevent and avoid from the occurrence of various information technology risks. The Company also revised and refined the information technology management system and strengthened staff training. By pursuing the principle of turning its experience into knowledge, knowledge into standard, standard into procedure, the Company continued to uplift the management of operation and maintenance and the ability in emergency response.

## SECTION IV REPORT OF THE BOARD

### (6) Reputation risk

Reputation risk refers to the risk resulting from negative feedback from related stakeholders due to the operation, management or other acts of the Company or external events.

The Company has managed reputation risk in proper and effective manner and established a standardized management system and scientific organization structure, including "Management Measures of Everbright Securities Company Limited on Public Opinion Monitoring and Crisis Public Relations Affairs" (《光大證券股份有限公司輿情監控和危機公關事務管理辦法》), "Management Measures of Everbright Securities Company Limited on Reporting of Major Emergencies" (《光大證券重大突發事件報告工作管理辦法》), "Management Measures of Everbright Securities Company Limited on Contingency Plan for Major Emergencies" (《光大證券股份有限公司重大突發事件應急預案管理辦法》) and "Management Measures of Everbright Securities Company Limited on Information Release" (《光大證券股份有限公司信息發佈管理辦法》). The Company has also set up a working group for media affairs management and a leading group for emergency management of the Company, realizing collaborative and unified management at company and department level in reputation management. In addition, designated personnel are assigned to specific positions responsible for public opinion monitoring and external media relations work, and industry consultants and law firms are engaged to assist the Company in better managing reputation risk.

### (7) Compliance risk

Compliance risk refers to the risk of legal sanction, being subjected to supervisory measure, loss of property or reputation on companies arising from violation of laws, regulations or rules due to the operation and management or practices of the Company or its personnel.

For compliance risk, the Company, through establishing practicable compliance management system, realizes effective identification, assessment and management of compliance risks and develops long-term mechanism such as compliance assessment and training, providing effective support and supervision for lawful and compliant operation of the Company's businesses.

### (8) Risk of goodwill impairment

The Company seeks to expand its business coverage and scale of operation through domestic and overseas acquisitions. The Company acquired 70% equity interest in SHKFGI in June 2015 and the remaining 49% interest in ESIL through its subsidiary EBSHK in June 2016, respectively. The above business expansion may expose the Company to challenges in various aspects, including financial, management and operation and risks such as goodwill impairment that may exist in acquisitions and subsequent integration may not be avoided.

The Company will streamline its shareholding and business structure through optimization of business layout and human resources allocation to enhance synergy, so as to avoid relevant risks arising from business expansion.

## SECTION IV REPORT OF THE BOARD

**(V) Business innovation**

In 2016, the Company took advantage of the strengths in comprehensive financial services, enhanced the synergy and linkage across business lines and managed to achieve innovations in various business segments including investment banking and assets management. In terms of investment banking, the Company consolidated asset resources and capital resources, and explored clients' needs along the whole value chain in depth. Centered on core clients which are listed companies, the Company integrated its internal resources to carry out businesses across business lines, explored clients' needs at various levels, and provided comprehensive financial services in addition to satisfying clients' needs for traditional businesses such as IPO and refinancing. The Company also achieved breakthroughs in terms of product design, and implemented a batch of large projects with market influence. The Company took advantage of the rapid development of the bond market to exert more efforts on business development, and completed various innovative projects including the first securitization project for collective entrusted loans and the first green corporate bonds issued by central enterprises in China and the first panda bonds of the Company, with the overall strengths in bond business further improved accordingly. In terms of financial products, the Company made continuous innovation in OTC derivatives and FICC products, and took the initiative to issue various structured notes, with its product system enriched continuously. In terms of business cooperation on Internet platforms, based on the financial innovation and Internet technology innovation, the Company achieved cross integration in its businesses by giving priority to the resource guarantee on risk control, technology development and liquidation operation, and promoted the sale of financial products and the acquisition of retail clients. The Company deeply penetrated into PPP regional market where it closely cooperated with a number of major central enterprises to provide services in more than ten provinces including Yunnan, Zhejiang, Jiangsu, Shaanxi and Anhui, covering a variety of sectors such as regional development, communications and transportation, and water conservancy projects, and has developed three representative PPP financial service models. Adhering to an internationalized development philosophy, the Company actively followed the "Going Global" Strategy of the government. Everbright Capital completed the acquisition of the equity interests of MP & Silva, an international leading company engaging in the provision of sport media services. This acquisition was an important breakthrough for domestic financial capital to go global together with industrial capital and was awarded the best media M&A prize by TMT Finance in UK, making it China's only award-winning M&A case in 2016.

Keeping continuous innovation is the core competitiveness that the Company is able to maintain its invincible position in the fierce industrial competition. By consistently following the essential principle of "risk control comes before innovation, innovation complies with risk control" regarding innovation, the Company carries out compliance control over various businesses, especially innovation businesses, throughout the whole business process, and continues to strengthen the compliance review function before, during and after the operation. The Company continuously improves the risk monitoring mechanism, and depending on the business development, timely revises the limit indicators, introduces new risk ratio indicators and renews various limits and thresholds if necessary to fit the business development. Furthermore, a risk monitoring manager is designated in each business department of the Company to strengthen risk monitoring and meanwhile continuously enhance the risk management capacity of the Company.

## SECTION IV REPORT OF THE BOARD

### IV. Profit Distribution and Proposed Dividend

The formulation and implementation details of the Company's cash dividends policy and the profit distribution proposal for 2016 are set out in "I. Proposal of Profit Distribution for Ordinary Shares or Capitalization from Capital Reserve Fund" of Section V "Significant Events" in this report.

### V. Relevant Laws and Regulations with Significant Impact

Adhering to the philosophy of operating in compliance with laws and regulations, the Company complies with the national laws, administrative regulations and various rules and normative documents promulgated by regulatory authorities. In 2016, by virtue of regulatory provisions and business management requirements, the Company formulated and revised a series of internal management systems to enhance its internal control and management level and improve compliance management systems; formulated and improved business management systems and processes to timely implement all the requirements of regulatory authorities and self-regulatory organizations in all of its business lines; continuously strengthened the publicity and training of laws and compliance culture to enhance the awareness of active prevention from compliance risks in the course of business operations. The overall compliance and risk management of the Company runs well and no material systematic compliance risks have been detected.

### VI. Other Information

#### (I) Directors, Supervisors and senior management of the Company

For details of the composition of the Directors, Supervisors and senior management of the Company, its changes and biographies during the Reporting Period, please refer to Section VII "Particulars about Directors, Supervisors, Senior Management and Staff" of this report.

#### (II) Pre-emptive right

In accordance with the provisions of the PRC laws and the Articles of Association, the Company's shareholders do not have pre-emptive right to purchase shares.

#### (III) Service contracts of Directors and Supervisors

The Company has executed "Service Contracts for Directors" and "Service Contracts for Supervisors" with its incumbent Directors and Supervisors. The service term of the Directors and Supervisors shall be from the date when relevant resolutions are passed at the general meeting to the expiry date of the tenure of the fourth session of the Board and the Supervisory Committee.

None of the Company's Directors and Supervisors has signed with the Company or its subsidiaries any service contract which cannot be terminated within one year, or which cannot be terminated without payment of compensation, other than statutory compensation.

#### (IV) Right of Directors and Supervisors to purchase shares

At no time during the Reporting Period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate.

**SECTION IV REPORT OF THE BOARD****(V) Directors' and Supervisors' interests in material contracts**

Except for the service contracts, neither the Company nor its subsidiaries has entered into any significant transactions, arrangements or contracts in which the Directors or Supervisors or their connected entities had or continue to have, directly or indirectly, a material interest during the Reporting Period.

**(VI) Interest of Directors in business in competition with the Company**

None of the Directors has any interest in any business that competes or may compete with the Company's business, directly or indirectly.

**(VII) Permitted indemnity provision**

The Company has arranged for appropriate insurance in respect of the responsibilities of the Directors and members of the senior management to cover possible legal liabilities owed to third parties arising from corporate activities that may be faced by the Directors and members of the senior management.

**(VIII) Management contracts**

For the year ended December 31, 2016, no contract has been entered into for the management and administration of the entire or any material part of the business of the Group.

**(IX) Major clients**

The Group's major clients include individuals (especially affluent individuals), corporations, institutional investors and financial institutions. The Group's clients are primarily located in China, but it expects to serve more overseas clients as the Group expands our overseas operations.

In 2016, income generated from the five largest clients of the Company accounted for less than 30% of the Group's total revenue and other income.

The Group has no major suppliers due to the nature of our businesses.

**(X) Reserves and reserves for profit distribution**

For particulars about changes in reserves and reserves for profit distribution, please refer to the "Consolidated Statement of Changes in Equity" and note 50 to the Consolidated Financial Statements in this report.

**(XI) Employees**

Human resources are one of the most valuable assets of the Group. The Company is committed to strengthening talent team building and improving employee quality. Please refer to "V. Information about the Staff of the Parent Company and Major Subsidiaries" in Section VII "Particulars about Directors, Supervisors, Senior Management and Staff" of this report.

**(XII) Equity-linked agreements**

No equity-linked agreements were entered into by the Group, or existed during the Reporting Period.

**SECTION IV REPORT OF THE BOARD****(XIII) Directors', Supervisors' and chief executive's interests and short positions in shares, underlying shares or debentures of the Company and its associated corporation**

As of December 31, 2016, none of the Directors, Supervisors or chief executive of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which are taken or deemed to be held under such provisions of the SFO), or which would be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Long Listing Rules to be notified to the Company and the Hong Kong Stock Exchange or which would be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein.

At no time was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements during the year to enable the directors of the Company, including their spouses and children under 18 years of age, to acquire any interests by means of the acquisition of shares in, or debentures of, the Company or any other body corporates.

**(XIV) Environmental, social and governance reporting and performance of social responsibilities**

As a state-owned holding financial enterprise, the Company always upholds the philosophy of “create value for customer, the staff, the shareholders and the community”, and actively fulfills the corporate social responsibility. While disclosing this report, the Company will also disclose 2016 Annual CRS Report of Everbright Securities Company Limited on the website of the SSE (<http://www.sse.com.cn>).

The Company has complied the “2016 Environmental, Social and Governance Report of Everbright Securities Company Limited” pursuant to the Environmental, Social and Governance Reporting Guide contained in the Appendix 27 of the Hong Kong Listing Rules. For details, please refer to the “2016 Environmental, Social and Governance Report of Everbright Securities Company Limited” published by the Company and disclosed on the HKEx website of the Hong Kong Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)). During the Reporting Period, the Company has complied with the “comply or explain” provisions set out in the Environmental, Social and Governance Reporting Guide.

According to the principles of the Notice of National Plan for Poverty Alleviation in the 13<sup>th</sup> Five-Year Plan Period Issued by the State Council and the requirements under the Opinions of the CSRC on Capital Markets' Role in Serving to the National's Strategy for Poverty Alleviation, the Company earnestly implemented the strategy plan of poverty alleviation formulated by the Central Government. Please refer to the 2016 Environmental, Social and Governance Report of Everbright Securities Company Limited disclosed on the HKEx website of the Hong Kong Stock Exchange ([www.hkexnews.com](http://www.hkexnews.com)) and the website of the Company ([www.ebscn.com](http://www.ebscn.com)) for the information about the Company's carrying out of targeted poverty alleviation and fulfilling its social responsibility.

By order of the Board  
**Everbright Securities Company Limited**  
**Xue Feng**  
*Chairman, President*

## SECTION V SIGNIFICANT EVENTS

### I. Proposal of Profit Distribution for Ordinary Shares or Capitalization from Capital Reserve Fund

#### (I) Formulation, implementation or adjustment of cash dividend policy

The Company emphasizes shareholders return. The Articles of Association explicitly provides for the Company's profit distribution policy and the Company has formulated Management Measures for Profit Distribution of Everbright Securities Company Limited. The relevant profit distribution provisions of the Articles of Association clearly stipulate the specific conditions for the adjustment of the established policy, especially the cash dividend distribution policy, the decision-making procedures and the mechanism and the order of the cash dividend distribution in relation to the dividend in the profit distribution mode, the interval time and the specific conditions of cash dividends distribution, the conditions of the issuance of bonus shares.

During the Reporting Period, the 2015 annual general meeting of the Company considered and approved the proposal in relation to the Company's 2015 profit distribution proposal. On May 18, 2016, the Company's 2015 profit distribution was completed.

The 28<sup>th</sup> meeting of the fourth session of the Board considered and approved the proposal in relation to the Company's 2016 profit distribution: on the basis of a total share capital of 4,610,787,639 A Shares and H Shares in issue as of December 31, 2016, cash dividend of RMB2.00 per 10 shares (inclusive of tax) will be distributed to all holders of A Shares and H Shares, with total cash dividend amounting to RMB922,157,527.80. Cash dividend is denominated and declared in RMB, and paid to holders of A Shares in RMB and to holders of H Shares in HKD. The actual distribution amount in HKD would be calculated at the rate of average benchmark exchange rate of RMB against HKD published by PBOC for five business days prior to the 2016 annual general meeting of the Company. The above distribution proposal will be submitted to the Company's 2016 general meeting for consideration, and cash dividend will be distributed within two months after the pass of the proposal by the Company's 2016 general meeting.

The Company will announce in due course the date of the 2016 annual general meeting, and for the purpose of ascertaining the eligibility of the shareholders to attend and vote at the forthcoming annual general meeting, the timing for which the register of members of the Company will be closed. The Company will publish separate announcement on the record date and book closure period for the payment of the financial dividends to the H Shareholders, as well as the record date and the date for the payment of the dividends to A Shareholders.

#### (II) Proposal or plan of the profit distribution for ordinary shares or capitalization from capital reserve fund to share capital for the last three years (including the Reporting Period)

Unit: Yuan Currency: RMB

| Year of distribution | Amount of dividends (tax inclusive) per ten shares (RMB) | Amount of cash dividends (tax inclusive) | Net profit for the year attributable to the shareholders of the Company in the annual consolidated statements during the year of distribution | Percentage in net profit for the year attributable to the shareholders of the Company in the consolidated statements (%) |
|----------------------|--|--|---|--|
| 2016                 | 2.0  | 922,157,527.80                           | 3,013,019,180.75  | 30.61  |
| 2015                 | 6.0  | 2,344,019,303.40                         | 7,646,516,077.13  | 30.65  |
| 2014                 | 0.8  | 273,440,000.00                           | 2,068,307,502.08  | 13.22  |



## SECTION V SIGNIFICANT EVENTS

### II. Performance of Undertakings

**(I) Undertakings of de facto controllers, shareholders, related parties, purchasers, the Company and connected parties made and/or remain effective during the Reporting Period**

In preparation of the listing of the Company's H shares on the Hong Kong Stock Exchange, Everbright Group made relevant non-competition undertakings which were disclosed in the Company's prospectus. The Company has received the written confirmation from Everbright Group, confirming that it has complied with the relevant non-competition undertakings during the financial year from January 1, 2016 to December 31, 2016.

The independent non-executive Directors have reviewed the compliance and enforcement of non-competition undertakings by Everbright Group, and are of the view that during the financial year from January 1, 2016 to December 31, 2016, none of Everbright Group, any of its normally-operating wholly-owned subsidiaries, controlling subsidiaries or an entity controlled by it, substantively competes with Everbright Securities or subsidiaries of Everbright Securities in any business that is engaged in by a securities firm as the primary operating entity and regulated by the relevant securities regulatory authority, nor is there any potential substantive competition. Therefore, Everbright Group has complied with the relevant non-competition undertakings during the financial year from January 1, 2016 to December 31, 2016.

## SECTION V SIGNIFICANT EVENTS

## III. Appointment and Dismissal of Accounting Firms

Unit: 10,000 Yuan Currency: RMB

| <b>Current Appointment</b>                         |  |
|--|--|
| Name of domestic accounting firm                   | KPMG Huazhen LLP (Special General Partnership) |
| Years of auditing by domestic accounting firm      | 4  |
| Name of international accounting firm              | KPMG   |
| Years of auditing by international accounting firm | 4  |
| <b>Name</b>  |  |
| Accounting firm for internal control audit         | KPMG Huazhen LLP (Special General Partnership) |

The fees paid for PRC domestic audit service and internal control audit of the Company amounted to RMB2.2 million in aggregate. The international accounting firm conducted audits of ESIL and SHKFGL, and issued opinions, respectively, with the fees amounting to HK\$4.9 million in aggregate (equivalent to RMB4.3 million).

## IV. Material Litigation and Arbitration Matters

During the Reporting Period, the Company was not involved in any material litigation and arbitration that involve claims of over RMB10 million and accounting for more than 10% of the absolute value of the Company's latest audited net assets, which shall be disclosed in accordance with the requirements under the SSE Listing Rules. The Company did not have matters generally questioned by media during the Reporting Period. For the particulars of other litigations of the Company, please refer to "VII. Other Significant Events and Subsequent Events" in Section V "Significant Events" of this report.

## SECTION V SIGNIFICANT EVENTS

### V. Material Related Party/Connected Transactions

#### (I) Related party/connected transactions relating to daily business

##### Exempt continuing connected transactions

In the Group's daily operation:

1. The Company and certain of its subsidiaries in China have entered into certain trademark license agreements with Everbright Group. Everbright Group has granted non-exclusive, non-transferable and royalty-free licenses to the Company and its subsidiaries, pursuant to which the Company and its subsidiaries are permitted to use certain trademarks owned by Everbright Group in China.
2. Sun Hung Kai & Co. Limited and SHKFGL and/or certain of its subsidiaries have entered into certain trademark license agreements. Sun Hung Kai & Co. Limited granted to SHKFGL and certain of its subsidiaries exclusive (save and except as Sun Hung Kai & Co. Limited), non-transferable and royalty-free licenses to use certain trademarks and domain names owned by Sun Hung Kai & Co. Limited in Hong Kong, Macau, PRC and Australia.
3. Sun Hung Kai Insurance Consultants Limited, a subsidiary of SHKFGL, entered into an agreement with certain associates of Sun Hung Kai & Co. Limited, pursuant to which Sun Hung Kai Insurance Consultants Limited will provide packaged brokerage services to the associates of Sun Hung Kai & Co. Limited by assisting those associates in procuring insurance policies to be taken out with third party insurers. With respect to securities brokerage, commission and related services, customer referral and financial information, SHKFGL has entered into a framework agreement with Sun Hung Kai & Co. Limited and certain of its associates to regulate the provision of securities brokerage services.
4. Sun Hung Kai & Co. Limited, SHKFGL and EBSHK entered into a transitional services agreement, pursuant to which Sun Hung Kai & Co. Limited and SHKFGL will provide certain administration services to the other party including human resources, employees and access to the insurance policies, sharing of office space and car park space, keeping of documents, cleaning services, security services, financial support services, technology systems, administrative and in-house legal resources.

The transactions provided under above said agreements are fully exempt continuing connected transactions in accordance with Chapter 14A of the Hong Kong Listing Rules and are exempt from the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Hong Kong Listing Rules.

In addition, the Group shall set a maximum daily deposit balance limit on the deposits of the Group's proprietary funds and client funds deposited at Everbright Bank. In the process of applying for the listing of H Shares with Hong Kong Exchange, the Company had made an application to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange had granted the Company a waiver from strict compliance with the maximum daily balance requirements set out in Rule 14A.53 of the Hong Kong Listing Rules.

**SECTION V SIGNIFICANT EVENTS****Non-exempt continuing connected transactions***Property Leasing Framework Agreement*

In the ordinary and usual course of the Group, the Group had leased certain properties in the PRC from Everbright Group and its associates for its offices and business uses. On the other hand, the Everbright Group and its associates had leased certain properties from the Group mainly for their business operations.

Before listing of H Shares of the Company on the Hong Kong Stock Exchange, the Group and the Everbright Group entered into a property leasing framework agreement (the “Everbright Group Property Leasing Framework Agreement”) to regulate property leasing of the Group. The Everbright Group Property Leasing Framework Agreement will be valid until December 31, 2018, unless terminated earlier in accordance with the agreement. The principal terms of the Everbright Group Property Leasing Framework Agreement are as follows: (1) the rental shall be determined based on the market rent applicable to the leased property; (2) the Group and the Everbright Group or its related associates shall enter into separate agreements to set out the specific terms and conditions in respect of the relevant leased property according to the principles, and within the parameters under the Everbright Group Property Leasing Framework Agreement; (3) the Group and the Everbright Group and its associates are entitled to lease additional gross floor area from and among the available properties owned by the other party during the term of the Everbright Group Property Leasing Framework Agreement; and (4) either party may, at any time before the Everbright Group Property Leasing Framework Agreement expires, by giving not less than three months’ written notice, to terminate any lease made pursuant to and contemplated under such agreement, and the rental will be reduced accordingly.

In accordance with the Everbright Group Property Leasing Framework Agreement, the annual cap for the rental income from Everbright Group and its affiliated parties for the leased properties would be RMB5.0 million, RMB6.0 million and RMB7.8 million in 2016, 2017 and 2018 respectively; and the annual cap for the rental expenses to be incurred for the properties rented from Everbright Group and its affiliated parties would be RMB32.0 million, RMB40.0 million and RMB52.0 million in 2016, 2017 and 2018 respectively. In 2016, the actual amount of rental income from the properties leased to Everbright Group and its affiliated parties was RMB3.4782 million, and the actual rental expenditure incurred for the properties rented from Everbright Group and its affiliated parties was RMB15.9043 million.

Under the Everbright Group Property Leasing Framework Agreement, as the highest percentage ratio based on the relevant annual caps set out above is expected to be between 0.1% and 5% on an annual basis, such transactions are subject to the announcement, reporting and annual review requirements in Chapter 14A of Hong Kong Listing Rules, but are exempted from the independent shareholders’ approval requirement.

Before listing of H Share of the Company on the Hong Kong Stock Exchange, the Company had made an application to Hong Kong Stock Exchange in respect of the transactions under the Everbright Group Property Leasing Framework Agreement, and the Hong Kong Stock Exchange had granted the Company a waiver from strict compliance with the announcement requirement under Rule 14A.35 of the Hong Kong Listing Rules.

## SECTION V SIGNIFICANT EVENTS

### *Financial Products and Services Framework Agreement*

In the ordinary and usual course of the Group's business, the Group regularly enters into securities and financial products transactions with, and provide securities and financial services to, Everbright Group and its associates. Likewise, Everbright Group and its associates also enter into securities and financial products transactions with, and provide securities and financial services to, the Group on normal commercial terms. The Company entered into a financial products and services framework agreement (the "Everbright Group Financial Products and Services Framework Agreement") with Everbright Group before the listing of the Company's H Shares. The Everbright Group Financial Products and Services Framework Agreement will be valid until December 31, 2018, unless terminated earlier in accordance with the agreement.

#### A. Securities and Financial Products Transactions

The transaction of securities and financial products includes the transaction of various securities and financial products which are permitted to be traded by regulatory authorities. The market rate of these securities and financial products is generally transparent and standardized in the market. The commission rates and fees charged for these products or transactions shall be determined based on arm's length negotiation with reference to the prevailing market rates or, in the case of financing transactions, market rates normally applicable to independent counterparties for products or transactions of a similar type.

In accordance with the Everbright Group Financial Products and Services Framework Agreement, the annual cap for cash inflow from the transaction of securities and financial products shall be RMB133,250.0 million, RMB160,650.0 million and RMB192,750.0 million in 2016, 2017 and 2018 respectively; and the annual cap for cash outflow for the transaction of securities and financial products shall be RMB169,700.0 million, RMB204,650.0 million and RMB245,750.0 million in 2016, 2017 and 2018 respectively. In 2016, the actual cash inflow from the transaction of securities and financial products was RMB60,300.0 million; and the actual cash inflow for the transaction of securities and financial products was RMB97,500 million.

#### B. Securities and Financial Services

Securities and financial services shall cover various securities and financial services permitted by regulatory authorities and mutually provided by the Group and Everbright Group and its affiliated parties, including but not limited to the services such as investment banking, brokerage, asset management, deposit and loan, proxy sales of financial products, insurance, etc. The price of such securities and financial services shall be determined through fair negotiation and by referring to the prevailing market price, industrial practice, the interest rate of deposit and loan as determined and published by the PBOC, and independent third party's price.

In accordance with the Everbright Group Financial Products and Services Framework Agreement, the annual cap for the revenue to be gained by the Group for the securities and financial services provided to Everbright Group and its affiliated parties shall be RMB588.5 million, RMB792.4 million and RMB1,048.6 million in 2016, 2017 and 2018 respectively; and the annual cap for the expense to be paid by the Group for the securities and financial services provided by Everbright Group and its affiliated parties shall be RMB121.0 million, RMB146.0 million and RMB176.0 million in 2016, 2017 and 2018 respectively. In 2016, the actual revenue gained by the Group for the securities and financial services provided to Everbright Group and its affiliated parties was RMB338.5 million, and the actual expense paid by the Group for the securities and financial services provided by Everbright Group and its affiliated parties was RMB119.0 million.

## SECTION V SIGNIFICANT EVENTS

Under the Everbright Group Financial Products and Services Framework Agreement, as the highest applicable percentage ratio based on the relevant annual caps set out above are expected to be 5% or more on an annual basis, these transactions are subject to the announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

Before listing of H Shares of the Company on the Hong Kong Stock Exchange, the Company had made an application to the Hong Kong Stock Exchange in respect of the transactions under the Everbright Group Financial Products and Services Framework Agreement, and the Hong Kong Stock Exchange had granted the Company a waiver from strict compliance with the announcement and independent shareholder's approval requirements under Rules 14A.35 and 14A.36 of the Hong Kong Listing Rules.

### Confirmation of the Auditors

The Board has received the letter of confirmation from the Company's auditors in relation to the above-mentioned continuing connected transactions that are subject to the announcement, reporting, annual review and/or independent shareholders' approval requirement. The Company's auditors confirmed that, during the Reporting Period:

1. nothing has come to their attention that causes them to believe that the above-mentioned continuing connected transactions have not been approved by the Board;
2. nothing has come to their attention that causes them to believe that the above-mentioned continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;
3. nothing has come to their attention that causes them to believe that the above-mentioned continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and
4. nothing has come to their attention that causes them to believe that the above-mentioned continuing connected transactions have exceeded the annual cap.

### Independent Non-executive Directors' Confirmation

The independent non-executive Directors have reviewed the above-mentioned continuing connected transactions that are subject to the announcement, reporting, annual review and/or independent shareholders' approval requirements, and confirmed that the above-mentioned continuing connected transactions have been:

1. entered into in the Group's ordinary course of business;
2. entered into on normal commercial terms or better; and
3. entered into according to the agreements regulating such continuing connected transactions on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

## SECTION V SIGNIFICANT EVENTS

### (II) Related transactions in which assets or equity are acquired or sold

On June 15, 2016, EBSHK, a wholly-owned subsidiary of the Company, entered into a share sale and purchase agreement with the ACTION GLOBE LIMITED, a wholly-owned subsidiary of China Everbright Limited, the second largest shareholder of the Company, pursuant to which EBSHK acquired 49% equity interest in ESIL held by ACTION GLOBE LIMITED at a price of HK\$930 million. The transaction was completed on June 29, 2016. Prior to completion of the transaction, EBSHK held 51% equity interest in ESIL and upon completion of the transaction on June 29, 2016, EBSHK held 100% equity interest in ESIL.

### (III) Related creditor's rights and debts transactions

On September 19, 2016, the lender and the borrower entered into a facility agreement, pursuant to which the lender has agreed to grant to the borrower the loan facility in the amount of up to HK\$1.5 billion. The shareholding interest of the lender is indirectly owned by the Company as to 70% and indirectly owned by Sun Hung Kai & Co. Limited as to 30%. As Allied Properties (Hong Kong) Co., Ltd. ("APL") is a substantial shareholder of Sun Hung Kai & Co. Limited and the borrower is a 30% controlled company of APL, the borrower is an associate of APL and hence a connected person of the Company at the subsidiary level within the meaning of the Hong Kong Listing Rules. Accordingly, the provision of the loan facility agreement by the lender, an indirect non-wholly owned subsidiary of the Company, to the borrower constitutes a connected transaction of the Company. As each of the applicable percentage ratios is less than 5%, the granting of the loan facility shall be subject to the reporting and announcement requirements only and exempt from the independent shareholders' approval requirement pursuant to Chapter 14A of the Hong Kong Listing Rules.

The principal terms of the facility agreement are as follows:

- Loan amount: up to HK\$1.5 billion
- Term: six months from the date of the facility agreement
- Purpose: acquisition of listed shares of a target company
- Normal interest rate: Standard Chartered Bank Hong Kong Prime Rate +2.75% per annum
- Default interest rate: 18.00% per annum
- Non-refundable commitment fee: HK\$3,750,000
- Security for the loan facility: unsecured

The lender would finance the loan facility made to the borrower pursuant to the facility agreement with its internal resources.

## SECTION V SIGNIFICANT EVENTS

The terms of the facility agreement, including the applicable interest rate, were arrived at after arm's length negotiations between the lender and the borrower having taken into account the prevailing market interest rates and practices. The facility agreement was entered into by the lender having regard to (i) the costs of borrowing in providing the loan facility to the borrower; (ii) the interest income to be generated by the provision of the loan facility; and (iii) the non-refundable commitment fee to be received. In addition, the provision of the loan facility is part of the ordinary and usual course of business of the lender. In view of the above, taking into account the financial background of the borrower and the Group's expected interest income, the Directors, including the independent non-executive Directors, are of the view that the terms of the facility agreement are on normal commercial terms and the provision of the loan facility is fair and reasonable, and in the interests of the Company and its shareholders taken as a whole.

## VI. Material Contracts and Their Performance

### (I) Guarantees

During the Reporting Period, the Company wrote off the guarantee of HK\$1.5 billion provided to EBSHK, its wholly-owned subsidiary. As of December 31, 2016, the remaining balance of the guarantee provided by the Company to its subsidiaries amounting to RMB5.672 billion (the guarantee amount in foreign currencies had been converted according to the middle rate of RMB exchange rate in the inter-bank foreign exchange market announced by the PBOC on December 30, 2016), representing 11.66% of the Company's latest audited net assets. Except for the above guarantees, the Company does not have any external guarantee continued to year 2016.

The above-mentioned guarantees has complied with necessary procedures in compliance with applicable laws, meet the requirements of the Notification on Standardizing the Issues Concerning the Capital Exchange between Listed Companies and Affiliated Parties and the External Guarantees provided by Listed Companies, and do not damage the benefits of the Company and shareholders.

The Company does not have any fund occupied by controlling shareholders and their affiliated parties not for purpose of business operation.

## VII. Other Significant Events and Subsequent Events

### (I) Public offering of overseas listing foreign shares

During the Reporting Period, the Company continued to proceed with the issuance of overseas-listed foreign shares (H Shares) by way of an initial public offering and the listing of shares on the Main Board of Hong Kong Stock Exchange. Pursuant to the "Approval on the Issuance of Overseas Listed Foreign Shares of Everbright Securities Company Limited" (Zheng Jian Xu Ke [2016] No. 1547) issued by the CSRC and approval by the Hong Kong Stock Exchange, in August 2016, the Company issued 704,088,800 overseas listed foreign shares (H Shares) and listed and traded on Main Board of the Hong Kong Stock Exchange. The total number of the shares of the Company changed to 4,610,787,639 from 3,906,698,839, and the registered capital of the Company changed to RMB4,610,787,639 from RMB3,906,698,839 (For details, please refer to the announcements of the Company No. 2016-038, 042, 044, 045, 047, 048, 049, 050, 051, 057, 058 and 066 published by the Company on the SSE, and relevant announcements published on the website of the Hong Kong Stock Exchange).



## SECTION V SIGNIFICANT EVENTS

### (II) Acquisition of 49% shareholding of ESIL

On June 15, 2016, the 20<sup>th</sup> Meeting of the fourth session of the Board considered and approved that EBSHK entered into a share purchase agreement with ACTION GLOBE LIMITED, a wholly-owned subsidiary of China Everbright Limited, for the acquisition of its 49% shareholding in ESIL at a consideration of HK\$930 million. Before the completion of the transaction, 51% equity interest in ESIL was held by EBSHK. Upon completion of the acquisition on June 29, 2016, 100% of equity interest in ESIL was held by EBSHK (For details, please refer to the announcements of the Company No. 2016-037 and 040 published by the Company on the SSE).

### (III) Establishment of Branches

Pursuant to the “Reply Letter Regarding the Approval for Establishment of 57 Branches by Everbright Securities Company Limited” (Hu Zheng Jian Xu Ke [2016] No. 35) issued by the CSRC Shanghai Bureau, the Company was permitted to set up 57 branches and representative offices, of which five are branch companies and 52 are securities brokerage branches. Up to the date of this report, these branch companies and the securities brokerage branches have been set up.

### (IV) Events related to litigation

1. A total of 502 investors brought civil actions arising from the “816 Event” against the Company, involving an aggregate claim amount of RMB68.73 million. As of the date of this report, 489 cases were closed and the Company settled RMB41.44 million as compensation for the plaintiffs. 13 cases of civil proceedings are still pending for the final judgment involving an aggregate claim amount of RMB2.61 million, among which, one case with the claim amount of more than RMB90,000 was pending the judgment by the court of first instance; and plaintiffs of 12 cases with an aggregate claim amount of RMB2.52 million appealed against the judgment issued by the court of first instance.
2. On January 26, 2016, the Company received a notice of appearance issued by the People’s Court of Jing’an District of Shanghai, pursuant to which a margin financing and securities lending client filed a claim against the Company for RMB39.39 million and related litigation cost. The plaintiff alleged that the Company breached the agreement not to liquidate his margin account which caused loss to him. The court heard the case on June 6, 2016 and August 26, 2016. On November 30, 2016, the People’s Court of Jing’an District of Shanghai delivered the first instance judgment of the case, according to which the plaintiff’s claim was not supported. Up to present, the plaintiff had appealed the case to the Shanghai No. 2 Intermediate People’s Court, the court had yet to deliver the judgment.
3. In January 2016, the People’s Procuratorate of Huining County, Gansu Province, issued a case filing notification to the Company stating that it would begin investigations into suspected corporate bribery offenses involving the Company’s Urumqi securities brokerage branch. In September 2016, Urumqi securities brokerage branch received the Notification on Ending of Case Investigation and Transfer for Review and Prosecution issued by Huining County People’s Procuratorate. Up to the present, there is no further progress in this case.

## SECTION V SIGNIFICANT EVENTS

4. On March 30, 2016, due to the default by Qiqihar Beixing Special Steel Co., Ltd (齊齊哈爾北興特殊鋼有限責任公司) (“Beixing Special Steel”), Dongbei Special Steel Group Beiman Steel Co., Ltd. (東北特鋼集團北滿特殊鋼有限責任公司) (“Beiman Special Steel”), Dongbei Special Steel Group Co., Ltd. (東北特殊鋼集團有限責任公司) (“Dongbei Special Steel Group”) and Dongbei Special Steel Group Dalian Steel Co.,Ltd. (東北特鋼集團大連特殊鋼有限責任公司) (“Dalian Special Steel”) in respect of the relevant financial leasing contract with Everbright Leasing, Everbright Leasing (a subsidiary of the Company), filed an action in the Higher People’s court of Shanghai and applied for property preservation. The litigation involved a total claim amount of RMB500,222,330.75. On January 26, 2017, the Higher People’s court of Shanghai delivered the first instance judgment as follows: Beixing Special Steel and Beiman Special Steel shall, since the effective date of the judgment, pay Everbright Leasing the rent of RMB499,067,932.32, the penalty for delayed payment of RMB454,298.43, the penalty for the delay as per 0.05% for each delayed (from March 30, 2016 to the date of actual payment), as well as the remaining purchasing price of RMB100, lawyer’s fee of RMB750,000 and insurance premium of RMB198,877.54. Dalian Special Steel and Dongbei Special Steel Group shall assume several and joint liability for the above-mentioned debts. Everbright Leasing will apply to the People’s Court for enforcement after formation of effective judgment.
5. On February 4, 2015, Everbright Futures filed an action in the Shanghai No. 1 Intermediate People’s Court against Dajiao Niu (大角牛) and Xinhua Xin (欣華欣), the clients of Everbright Futures, claiming that: (1) Xinhua Xin (as the defendant) shall compensate the margin calls of approximately RMB41.90 million and pay the corresponding interest incurred to Everbright Futures; (2) Dajiao Niu (as the defendant) shall be jointly liable for the payment obligation of Xinhua Xin. The Shanghai No. 1 Intermediate People’s Court had accepted the case and a hearing was conducted on July 2, 2015. On March 4, 2016, Everbright Futures received the first instance judgment which supported Everbright Futures’s first claim as mentioned above. On April 8, 2016, Everbright Futures received the notice of appeal served by the Shanghai No. 1 Intermediate People’s Court, pursuant to which Xinhua Xin filed an appeal regarding the first instance judgment. The Higher People’s Court of Shanghai heard the case on May 19, 2016. On January 5, 2017, the Higher People’s Court of Shanghai delivered the second instance judgment: it dismissed above said claims of Xinhua Xin and sustained the order of the court of first instance judgment.
- (6) On June 7, 2016, Everbright Asset Management, a wholly-owned subsidiary of the Company, received a notice of appearance issued by the Shanghai No. 2 Intermediate People’s Court. Xiamen International Bank Co., Ltd. Shanghai Branch (“Xiamen International Bank Shanghai”) alleged that it had entrusted RMB150 million to a 3-year Targeted Asset Management (“TAM”) scheme established and managed by Everbright Asset Management. As approved by the plaintiff, the TAM scheme invested the entrusted assets in a trust plan managed by a trust company, which had a duration of 365 days and an expected annual return of 6.2%. Xiamen International Bank Shanghai alleged that Everbright Asset Management breached its fiduciary duty of care in managing the entrusted assets under the TAM scheme, which caused loss of the entrusted assets and expected returns, and thus appealed Everbright Asset Management to return the said entrusted assets and pay expected returns. On July 8, 2016, Everbright Asset Management appointed a lawyer to file a counterclaim. Everbright Asset Management requested Xiamen International Bank Shanghai to receive the entrusted assets and compensate for any loss due to Xiamen International Bank Shanghai not receiving the entrusted assets in time pursuant to the contract. On February 23, 2017, the court of first instance heard the lawsuit and the counterclaim. As of the date of this report, the lawsuit and the counterclaim are pending for court trial and the final outcome of the lawsuit is to be made by the court.

## SECTION V SIGNIFICANT EVENTS

- (7) On January 4, 2017, the Company's branch at Jihua Six Road, Foshan received a notice of administrative penalty decision issued by People's Bank of China Foshan Branch. The branch and its person in charge were imposed an administrative penalty of a fine of RMB200,000 and RMB10,000, respectively, in respect of issues such as the branch failing to fulfill the obligation in verifying client identities as required and failing to conduct the classification and management of risks on money laundering by clients as required.

## VIII. Development of Spin-off Listing of Hong Kong Business

As disclosed in the Company's prospectus dated August 8, 2016, the Company intends to spin off its Hong Kong operations, including the businesses currently operated by ESIL and SHKFGL, as well as any other new Hong Kong business that the Company may acquire, through a listing on the Hong Kong Stock Exchange that the Company expects to occur before June 1, 2018. The Company has previously applied for, and the Hong Kong Stock Exchange has granted the Company, a waiver from strict compliance with the three-year restriction requirement under paragraph 3(b) of Practice Note 15 of the Hong Kong Listing Rules, subject to certain conditions, among which the Company shall update the status of the spin-off in its annual and interim reports.

In the second half of 2016, the management of the Company started integrating the investment banking business, brokerage business and wealth management business of ESIL and SHKFGL. As of the date of this report, the management of the Company is currently reviewing and considering the appropriate reorganization structure to be implemented in connection with the proposed spin-off. As the proposed spin-off is at an early stage of consideration, the Company will announce definitive details of the proposed spin-off plan as and when they become available and in accordance with the Hong Kong Listing Rules. No final decision has been made by the Board as to whether and when the proposed spin-off will proceed. There is also no assurance that the Hong Kong Stock Exchange will approve the proposed spin-off.

## IX. Tax Relief

### A Share shareholder

In accordance with the Notification of the MOF, the State Administration of Taxation and the CSRC on the Issues Concerning Differential Personal Income Tax Policies for Dividends of Listed Companies (Cai Shui [2015] No. 101), for the listed companies' shares obtained by individuals from public issue and transfer market, where the holding period is more than one year, the income from dividend may be temporarily exempted from personal income tax; for the listed companies' shares obtained by individuals from public issue and transfer market, where the share holding period is within one month (including one month), the full amount of income from dividends shall be taken into the amount of taxable income; where the holding period is from one month to one year (including one year), the income from dividends shall be 50% taken into the amount of taxable income. For the above-mentioned income, personal income tax shall be uniformly calculated and levied as per 20% tax rate. When distributing dividends, listed companies may not withhold personal income tax where personal shareholding is within one year (including one year); when individuals transfer their shares, the securities registration and settlement company shall calculate the amount of tax to be paid according to their shareholding period, the shares custody institutions such as securities companies, etc. shall deduct and transfer the amount of taxes from their personal fund accounts to the securities registration and settlement company. Within 5 working days of the next month, the securities registration and settlement company shall transfer and pay such taxes to the listed companies. Within the statutory declaration period of the very month when receiving the taxes, the listed companies shall declare for tax payment to the competent tax authorities.

As for resident corporate shareholders holding A Shares of the Company, the enterprise income tax on the dividends obtained by them shall be declared and paid by themselves.

**SECTION V SIGNIFICANT EVENTS**

As for qualified foreign institutional investors (QFII), in accordance with the provisions of the Notification of the State Administration of Taxation on the Issuers Concerning Withholding of Enterprise Income Tax on the Dividends, Bonus and Interests Paid by Chinese Resident Enterprises to QFII (Guo Shui Han [2009] No. 47), listed companies shall withhold enterprise income tax at the tax rate of 10%. Where the dividend and bonus income obtained by QFII shareholders need to enjoy the treatment of tax treaty (arrangement), QFII shareholders may apply for tax refund to competent tax authorities independently after obtaining the dividends and bonus according to regulations, and the competent tax authorities may execute the regulations of tax treaty after checking and confirming that every item is correct.

As for non-resident enterprise shareholders holding A Shares of the Company other than the aforesaid QFII, in accordance with the relevant provisions of the Interim Measures for Management on Source Withholding of Non-resident Enterprise Income Tax (Guo Shui Fa [2009] No 3) and the Written Reply of the State Administration of Taxation on the Issues Concerning the Levying of Enterprise Income Tax on the Dividends of B Share. Obtained by Non-Resident Enterprises (Guo Shui Han [2009] No. 394), etc., listed companies shall withhold enterprise income as per the tax rate 10%. Non-resident enterprises' shareholders shall follow relevant provisions executed by tax treaty where they need to enjoy the treatment of tax treaty.

In accordance with the provisions of the Notification of the MOF, the State Administration of Taxation and the CSRC on Relevant Tax Policies for Pilot Operation of Transaction Interconnection Mechanism of Shanghai-Hong Kong Stock Markets (Cai Shui [2014] No. 81), for the dividend income obtained by Hong Kong investors (including enterprises and individuals) from investment in A shares listed on the SSE, before Hong Kong Securities Clearing Company Limited meets the conditions of providing detailed data about investors' identities and shareholding time, etc. to China Securities Registration and Settlement Co., Ltd., the differential tax levying policies won't be executed temporarily according to shareholding time, while listed companies shall withhold the income tax as per the 10% tax rate and handle the withholding declaration to their competent tax authorities. Where some Hong Kong investors belong to other countries' tax residents, and the dividend income tax rate regulated in the tax treaty signed by and between their countries and China is lower than 10%, the enterprises or individuals may, personally or by entrusting the withholding obligator, file an application for enjoying the treatment of tax treaty to the competent tax authorities of the listed companies. After examination and approval, the competent tax authorities shall reimburse the taxes according to the balance between the amount of tax already levied and the tax payable as calculated as per the tax rate in the tax treaty.

In accordance with the provisions of the Notification of the MOF, the State Administration of Taxation and the CSRC on Relevant Tax Policies for Pilot Operation of Transaction Interconnection Mechanism of Shenzhen-Hong Kong Stock Markets (Cai Shui [2016] No. 127), for the dividend income obtained by Hong Kong investors (including enterprises and individuals) from investment in A shares listed on the SZSE, before Hong Kong Securities Clearing Company Limited meets the conditions of providing detailed data about investors' identities and shareholding time, etc. to China Securities Registration and Settlement Co., Ltd., the differential tax levying policies won't be executed temporarily according to shareholding time, while listed companies shall withhold the income tax as per the 10% tax rate and handle the withholding declaration to their competent tax authorities. Where some Hong Kong investors belong to other countries' tax residents, and the dividend income tax rate regulated in the tax treaty signed by and between their countries and China is lower than 10%, the enterprises or individuals may, personally or by entrusting the withholding obligator, file an application for enjoying the treatment of tax treaty to the competent tax authorities of the listed companies. After examination and approval, the competent tax authorities shall reimburse the taxes according to the balance between the amount of tax already levied and the tax payable as calculated as per the tax rate in the tax treaty.

## SECTION V SIGNIFICANT EVENTS

### H Share shareholders

In accordance with the provisions of the Notification of the State Administration of Taxation on the Issues Concerning the Levying and Management of Personal Income Tax after Cancellation of Guo Shui Fa [1993] No. 045 Archives (Guo Shui Han [2011] No. 348, for the dividend income obtained by foreign resident individual shareholders from holding the shares issued by domestic non-foreign-invested enterprises in Hong Kong, the withholding obligators shall withhold personal income tax according to law by the items “interest, dividend and bonus income”. As for the shares issued in Hong Kong by domestic non-foreign-invested enterprises, their foreign resident individual shareholders may enjoy relevant tax preference according to the tax treaty signed by the country to which their resident identities belong and China, and the tax arrangements between Chinese Mainland and Hong Kong (Macao). The interest rate on relevant dividends regulated in relevant tax treaty and tax arrangement is generally 10%. In order to simplify tax levying and management, domestic non-foreign-invested enterprises issuing shares in Hong Kong may generally, when distributing dividends and bonuses, withhold personal income tax according to the tax rate 10%, instead of filing an application for the withholding. Under the circumstances under which the tax rate on dividends is not 10%, the following regulations shall be followed: (1) Where the individuals obtaining dividends and bonuses are residents of the agreement countries executing a tax rate of lower than 10%, the withholding obligator may apply for the treatment of relevant agreement for such dividends according to regulations, and refund the over-withheld tax after obtaining the approval of competent tax authorities; (2) where the individuals obtaining dividends and bonuses are residents of the agreement countries executing a tax rate of higher than 10% but less than 20%, the withholding obligator shall withhold personal income tax as per actual tax rate without filing an application when distributing dividends and bonuses; and (3) where the individuals obtaining dividends and bonuses are residents of countries having not concluded tax treaty with China or belong to other circumstances, the withholding obligator shall withhold personal income tax as per the tax rate 20% when distributing dividends and bonuses.

In accordance with the provisions of the Notification of the State Administration of Taxation on the Issues Concerning the Withholding of Enterprise Income Tax on the Dividends Distributed by Chinese Resident Enterprises to Foreign H Share Non-Resident Corporate Shareholders (Guo Shui Han [2008] No. 897), when distributing dividends of 2008 and later years to foreign H share non-resident corporate shareholders, Chinese resident enterprises shall uniformly withhold enterprise income tax as per the tax rate 10%. After obtaining dividends, foreign non-resident corporate enterprises may, personally or by entrusting an agent or withholding obligatory, file an application for enjoying the treatment of tax treaty (arrangement) to competent tax authorities, and provide the data proving that they are the actual beneficial owners meeting the provisions of tax treaty (arrangement). After checking and affirming the data, the competent tax authorities shall reimburse the tax according to the balance between the amount of tax already levied and the tax payable as calculated as per the tax rate regulated in the tax treaty (arrangement).

In accordance with the provisions of the Notification of the MOF, the State Administration of Taxation and the CSRC on Relevant Tax Policies for Pilot Operation of Transaction Interconnection Mechanism of Shanghai-Hong Kong Stock Markets (Cai Shui [2014] No. 81), for the dividends and bonuses obtained by Chinese Mainland personal investors from investment in H shares listed with Hong Kong Exchanges and Clearing

## SECTION V SIGNIFICANT EVENTS

Limited through Shanghai-Hong Kong Stock Connect, H Share companies shall withhold personal income tax as per the tax rate 20%. For the dividends and bonuses obtained by Chinese Mainland securities investment funds from investment in shares listed with Hong Kong Exchanges and Clearing Limited through Shanghai-Hong Kong Stock Connect, personal income tax shall be calculated and levied according to the above regulations. Individual investors who have paid withholding taxes overseas, with effective taxation certificates, can apply to competent taxation authorities under ChinaClear for tax credit. Gains on dividends derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shanghai-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Wherein, for the dividend and bonus income obtained by Chinese Mainland resident enterprises from holding of H share continuously for 12 months, enterprise income tax shall be exempted according to law.

In accordance with the provisions of the Notification of the MOF, the State Administration of Taxation and the CSRC on Relevant Tax Policies for Pilot Operation of Transaction Interconnection Mechanism of Shenzhen-Hong Kong Stock Markets (Cai Shui [2016] No. 127), for the dividends and bonuses obtained by Chinese Mainland personal investors from investment in H shares listed with Hong Kong Exchanges and Clearing Limited through Shenzhen-Hong Kong Stock Connect, H Share companies shall withhold personal income tax as per the tax rate 20%. For the dividends and bonuses obtained by Chinese Mainland securities investment funds from investment in shares listed with Hong Kong Exchanges and Clearing Limited through Shenzhen-Hong Kong Stock Connect, personal income tax shall be calculated and levied according to the above regulations. Gains on dividends derived by mainland corporate investors through investment into shares listed on the Hong Kong Stock Exchange via the Shenzhen-Hong Kong Stock Connect are credited to their total income and subject to corporate income tax in accordance with laws. Wherein, for the dividend and bonus income obtained by Chinese Mainland resident enterprises from holding of H share continuously for 12 months, enterprise income tax shall be exempted according to law.

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

The Company's shareholders pay relevant taxes and/or enjoy tax reduction and exemption according to the above-mentioned regulations.

## X. Other Information

1. There was no embezzlement of funds of the Company during the Reporting Period.
2. During the Reporting Period, the external auditors engaged by the Company did not issue any non-standard audit report.

## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

### I. Changes in Ordinary Share Capital

#### (I) Table of changes in ordinary share capital

##### 1. Table of changes in ordinary share capital

Unit: Share

|   | Before the change |                | Increase/decrease from the change (+,-) |              |               | After the change |                |
|---|-------------------|----------------|---|--------------|---------------|------------------|----------------|
|   | Number of shares  | Percentage (%) | Issue of new shares                     | Others       | Sub-total     | Number of shares | Percentage (%) |
| I. Shares with selling restrictions                 | 488,698,839       | 12.51          | 0                                       | -488,698,839 | -488,698,839  | 0                | 0.00           |
| 1. State-owned shares                               | 0                 | 0.00           | 0                                       | 0            | 0             | 0                | 0.00           |
| 2. Shares held by state-owned legal entities        | 0                 | 0.00           | 0                                       | 0            | 0             | 0                | 0.00           |
| 3. Shares held by domestic investors                | 488,698,839       | 12.51          | 0                                       | -488,698,839 | -488,698,839  | 0                | 0.00           |
| 4. Foreign shareholding                             | 0                 | 0.00           | 0                                       | 0            | 0             | 0                | 0.00           |
| II. Outstanding shares without selling restrictions | 3,418,000,000     | 87.49          | 704,088,800                             | 488,698,839  | 1,192,787,639 | 4,610,787,639    | 100.00         |
| 1. RMB ordinary shares                              | 3,418,000,000     | 87.49          | 0                                       | 488,698,839  | 488,698,839   | 3,906,698,839    | 84.73          |
| 2. Domestic listed foreign shares                   | 0                 | 0.00           | 0                                       | 0            | 0             | 0                | 0.00           |
| 3. Overseas listed foreign shares                   | 0                 | 0.00           | 704,088,800                             | 0            | 704,088,800   | 704,088,800      | 15.27          |
| 4. Others   | 0                 | 0.00           | 0                                       | 0            | 0             | 0                | 0.00           |
| III. Total number of ordinary shares                | 3,906,698,839     | 100.00         | 704,088,800                             | 0            | 704,088,800   | 4,610,787,639    | 100.00         |

##### 2. Details of changes in ordinary shares

According to the Approval for the Issuance of Shares through Non-public Offering by Everbright Securities Company Limited (關於核准光大證券股份有限公司非公開發行股票的批覆) (Zheng Jian Xu Ke [2015] No. 1833) by the CSRC, 488,698,839 RMB ordinary shares (A Shares) issued through non-public offering by the Company to specified seven investors in August 2015, which were listed and floated on September 1, 2016.

According to the Approval for the Issuance of Overseas Listed Foreign Shares by Everbright Securities Company Limited. (關於核准光大證券股份有限公司發行境外上市外資股的批覆) (Zheng Jian Xu Ke [2016] No. 1547) by the CSRC and as approved by the Hong Kong Stock Exchange, 704,088,800 overseas listed foreign shares (H Shares) issued by the Company were listed and traded on the Main Board of the Hong Kong Stock Exchange in 2016. The total number of the shares of the Company changed to 4,610,787,639 from 3,906,698,839 and the registered capital of the Company changed to RMB4,610,787,639 from RMB3,906,698,839.

##### 3. Effect of changes in ordinary shares on financial indicators such as earnings per share and net assets per share for the most recent year and most recent period

During the Reporting Period, the Company successfully completed issuance of new H Shares with its total issued shares increased from 3,906,698,839 to 4,610,787,639. The increase in its share capital has diluted the Company's earnings per share for the Reporting Period and net assets per share as of the end of the Reporting Period. The Company's basic earnings per share for 2016 calculated based on the weighted average share capital amounted to RMB0.74.

## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

## (II) Changes in shares with selling restrictions

Unit: Shares

| Name of shareholders                                    | Number of shares with selling restrictions at the beginning of the year | Number of shares released from selling restrictions in the year | Number of shares increased with selling restrictions in the year | Number of shares with selling restriction at the end of the year | Reasons for selling restrictions | Date on released from selling restrictions |
|---|---|---|--|--|----------------------------------|--|
| Ping An UOB Fund Management Co., Ltd.                   | 152,718,387   | 152,718,387   | 0  | 0  | Non -public offering of A shares | September 1, 2016                          |
| Caitong Fund Management Co.,Ltd.                        | 91,136,224  | 91,136,224  | 0  | 0  | Non -public offering of A shares | September 1, 2016                          |
| New China Fund Management Co.,Ltd.                      | 61,087,354  | 61,087,354  | 0  | 0  | Non -public offering of A shares | September 1, 2016                          |
| Harvest Capital Management Co., Ltd.                    | 54,978,619  | 54,978,619  | 0  | 0  | Non -public offering of A shares | September 1, 2016                          |
| China Great Wall Asset Management Corporation           | 54,978,619  | 54,978,619  | 0  | 0  | Non -public offering of A shares | September 1, 2016                          |
| Lion Fund Management Co., Ltd                           | 54,978,619  | 54,978,619  | 0  | 0  | Non -public offering of A shares | September 1, 2016                          |
| Anhui Expressway Construction Investment Fund Co., Ltd. | 18,821,017  | 18,821,017  | 0  | 0  | Non -public offering of A shares | September 1, 2016                          |
| <b>Total</b>  | <b>488,698,839</b>  | <b>488,698,839</b>  | <b>0</b>   | <b>0</b>   | <b>/</b>                         | <b>/</b>                                   |

## II. Issuance and Listing of Securities

## (I) Issuance of securities during the Reporting Period

| Types of shares and their derivative securities                            | Issue date       | Issue price (or interest rate) | Issue size         | Date of listing    | Number of shares permitted to be listed for trading | Date of termination of transaction |
|--|------------------|--------------------------------|--------------------|--------------------|---|------------------------------------|
| <b>Ordinary shares</b>   |                  |                                |                    |                    |   |                                    |
| H Shares   | N/A              | 12.68                          | 680,000,000 shares | August 18, 2016    | 680,000,000 shares                                  | N/A                                |
| H Shares (Over-allotment)  | N/A              | 12.68                          | 24,088,800 shares  | September 19, 2016 | 24,088,800 shares                                   | N/A                                |
| <b>Convertible bonds, detachable convertible bonds and corporate bonds</b> |                  |                                |                    |                    |   |                                    |
| Corporate bonds  | April 27, 2016   | 3.45%                          | 1,500,000,000      | May 13, 2016       | 1,500,000,000                                       | October 27, 2016                   |
| Corporate bonds  | April 27, 2016   | 3.66%                          | 2,500,000,000      | May 13, 2016       | 2,500,000,000                                       | October 27, 2018                   |
| Corporate bonds  | May 26, 2016     | 3.35%                          | 3,000,000,000      | July 8, 2016       | 3,000,000,000                                       | November 26, 2016                  |
| Corporate bonds  | May 26, 2016     | 3.59%                          | 3,000,000,000      | July 8, 2016       | 3,000,000,000                                       | November 26, 2018                  |
| Corporate bonds  | October 24, 2016 | 3.13%                          | 1,000,000,000      | November 4, 2016   | 1,000,000,000                                       | October 24, 2018                   |
| Corporate bonds  | October 24, 2016 | 3.20%                          | 3,000,000,000      | November 4, 2016   | 3,000,000,000                                       | October 24, 2019                   |

- Notes: 1. The issue price and size of H Shares are denominated in Hong Kong dollars; whereas the issue size of corporate bonds is denominated in RMB.
2. Corporate bonds attaching early redemption rights are subject to changes on the date of termination of transaction.

## (II) Description of issuance of securities during the Reporting Period

Early redemption rights are attached to some corporate bonds issued by the Company. For details of the changes of interest rates, please refer to Note 5 to the 2016 audit report and Note 47 to the consolidated financial statements.



## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

## III. Information of Shareholders and De Facto Controller

## (I) Total number of shareholders

|   |   |
|---|---|
| Total number of shareholders of ordinary shares as of the end of the Reporting Period | 107,156 (of which 106,930 were holders of A Shares and 226 were registered holders of H shares) |
| Total number of shareholders of ordinary shares at the end of last month              | 109,403 (of which 109,178 were holders of A Shares and 225 were registered holders of H shares) |

## (II) Shareholding of top ten shareholders and top ten holders of tradable shares (or holders of shares without selling restrictions) as of the end of the Reporting Period

Unit: Shares

| Name of shareholders (Full name)  | Shareholding of top ten shareholders                        |   |                | Pledged or frozen shares |                  |                        |
|---|---|---|----------------|--------------------------|------------------|------------------------|
|   | Changes in the number of shares during the Reporting Period | Number of shares held as of the end of the Reporting Period | Percentage (%) | Status of shares         | Number of shares | Nature of shareholders |
|   | China Everbright Group Ltd.                                 | 0   | 1,159,456,183  | 25.15                    | Nil              |                        |
| China Everbright Limited  | 0   | 1,139,250,000   | 24.71          | Nil                      |                  | Foreign legal person   |
| HKSCC Nominees Limited  | 703,647,600   | 703,647,600   | 15.26          | Nil                      |                  | Others                 |
| Pingan Dahua Fund – Pingan Bank – Ping An Bank Company Limited  | 0   | 152,718,387   | 3.31           | Nil                      |                  | Others                 |
| China Securities Finance Corporation Limited  | 14,830,118  | 78,596,348  | 1.70           | Nil                      |                  | Others                 |
| New China Fund – Minsheng Bank – Everbright Securities Private Placement No. 1 Asset Management Plan                    | 0   | 61,087,354  | 1.32           | Nil                      |                  | Others                 |
| China Great Wall Asset Management Corporation   | 0   | 54,978,619  | 1.19           | Nil                      |                  | Others                 |
| Harvest Capital – Everbright Bank – Harvest Capital Everbright Securities Private Placement No. 2 Asset Management Plan | 0   | 54,978,619  | 1.19           | Nil                      |                  | Others                 |
| Central Huijin Asset Management Ltd.  | 0   | 37,568,900  | 0.81           | Nil                      |                  | Others                 |
| Bank of China Limited – CMS CSI Securities Company Index Structured Securities Investment Fund                          | 0   | 28,662,767  | 0.62           | Nil                      |                  | Others                 |

## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

## Shareholding of top ten shareholders without selling restrictions

| Name of shareholders (Full name)  | Number of tradable shares held without selling restrictions | Type and number of shares      |               |
|---|---|--------------------------------|---------------|
|   |   | Type                           | Number        |
| China Everbright Group Ltd.   | 1,159,456,183   | RMB ordinary shares            | 1,159,456,183 |
| China Everbright Limited  | 1,139,250,000   | RMB ordinary shares            | 1,139,250,000 |
| HKSCC Nominees Limited  | 703,647,600   | Overseas listed foreign shares | 703,647,600   |
| Pingan Dahua Fund – Pingan Bank – Ping An Bank Company Limited  | 152,718,387   | RMB ordinary shares            | 152,718,387   |
| China Securities Finance Corporation Limited  | 78,596,348  | RMB ordinary shares            | 78,596,348    |
| New China Fund – Minsheng Bank – Everbright Securities Private Placement No. 1 Asset Management Plan                    | 61,087,354  | RMB ordinary shares            | 61,087,354    |
| China Great Wall Asset Management Corporation   | 54,978,619  | RMB ordinary shares            | 54,978,619    |
| Harvest Capital – Everbright Bank – Harvest Capital Everbright Securities Private Placement No. 2 Asset Management Plan | 54,978,619  | RMB ordinary shares            | 54,978,619    |
| Central Huijin Asset Management Ltd.  | 37,568,900  | RMB ordinary shares            | 37,568,900    |
| Bank of China Limited – CMS CSI Securities Company Index Structured Securities Investment Fund                          | 28,662,767  | RMB ordinary shares            | 28,662,767    |

**Description of the connected relationships or action in concert between the above shareholders**

Central Huijin Asset Management Ltd. is a wholly-owned subsidiary of Central Huijin Investment Ltd., which holds 55.67% equity interest in China Everbright Group Ltd. China Everbright Limited is a controlled subsidiary of China Everbright Holdings Company Limited, a wholly-owned subsidiary of China Everbright Group Ltd.

Save for the above, the Company is unaware of whether the above shareholders are connected to each other or are parties acting in concert.

Note 1: Among the H shareholders of the Company, HKSCC Nominees Limited held the H Shares on behalf of the non-registered shareholders.

Note 2: In the table above, the shares held by HKSCC Nominees Limited are listed foreign shares (H Shares) and the shares held by other shareholders are RMB denominated ordinary shares (A Shares).

Note 3: The nature of shareholders of A Shares set out in the table above represents that of accounts registered by such shareholders with China Securities Depository and Clearing Corporation Limited (Shanghai Branch).

## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

## IV. Controlling Shareholder and De Facto Controller

## (I) Controlling shareholder

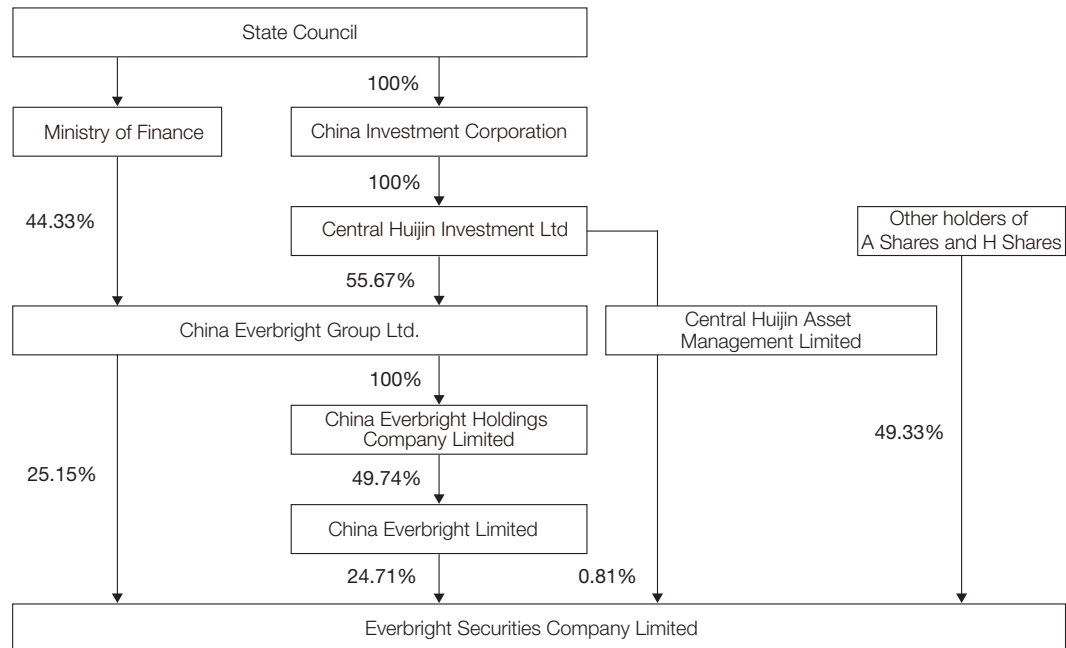
## 1. Legal person

|   |  |
|---|--|
| Name  | China Everbright Group Ltd.  |
| Person in charge of the unit or legal representative  | Tang Shuangning  |
| Date of establishment   | November 12, 1990  |
| Principal business  | Investment and management of the financial industry, including banking, securities, insurance, funds, trust, futures, leasing, gold and silver transactions; asset management; investment and management of non-financial industry (Business activities which need to obtain approval in accordance with the law may only be carried out upon approval by the relevant authorities.)   |
| Controlling holding and holding of shares of other domestic and overseas listed companies during the Reporting Period | <p>As of December 31, 2016, the shares held by China Everbright Group Ltd. in other domestic and overseas listed companies (except for Everbright Securities) were as follows:</p> <ul style="list-style-type: none"> <li>• directly and indirectly holding approximately 29.16% of the total shares of China Everbright Bank Company Limited (SSE Stock Code: 601818; Hong Kong Stock Exchange Stock Code: 6818)</li> <li>• directly and indirectly holding approximately 49.74% of the total shares of China Everbright Limited (Hong Kong Stock Exchange Stock Code: 0165).</li> <li>• directly and indirectly holding approximately 41.4% of the total shares of China Everbright International Limited (Hong Kong Stock Exchange Stock Code: 0257).</li> <li>• directly and indirectly holding approximately 4.98% of the total shares of Shenwan Hongyuan Securities Co., Ltd. (SZSE Stock Code: 000166).</li> </ul> |

## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

## 2. Chart of the ownership and controlling relationship between the Company and controlling shareholder

Shareholding structure as of December 31, 2016



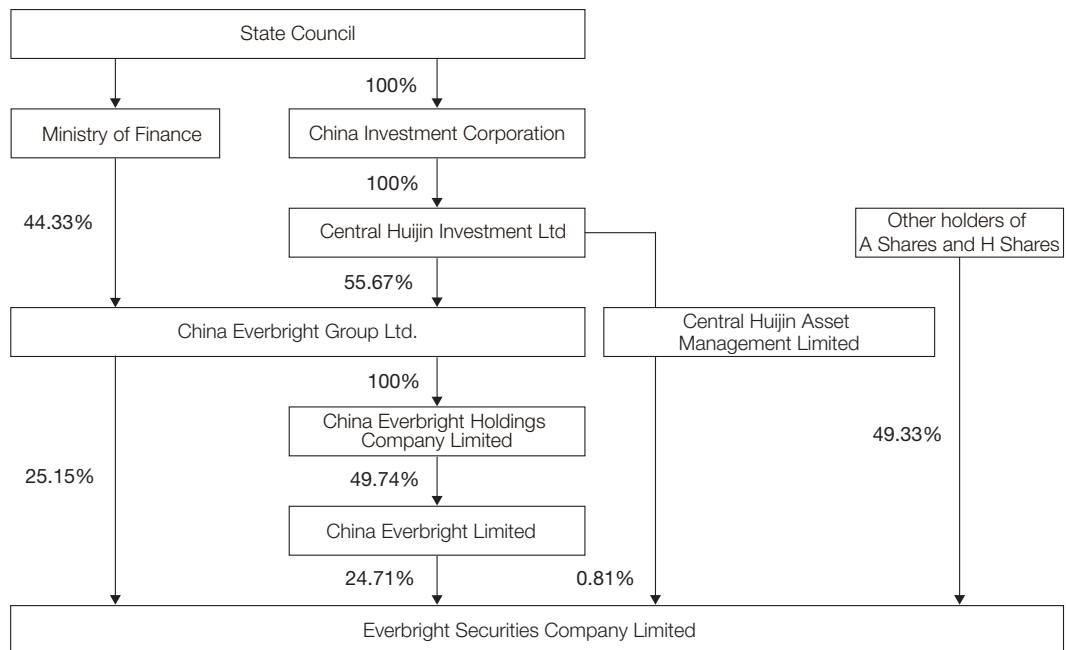
**SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS**

**(II) De facto controller**

1. The de facto controller shall be disclosed to the level of state-owned assets management authority in accordance with the No. 2 of Contents and Format of the Information Disclosure for Companies Offering Securities Publicly – the Contents and Format of Annual Report (revised in 2016). The de facto controller of the Company is State Council, the ownership and controlling relationship between the Company and the de facto controller is as shown as above.

2. **Chart of the ownership and controlling relationship between the Company and de facto controller**

Shareholding structure as of December 31, 2016



## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

## (III) Substantial shareholders and other persons' interests and short positions in the shares and underlying shares

As of December 31, 2016, so far as the Directors, having made reasonable enquiries, are aware, the following parties (other than the Directors, Supervisors or chief executive of the Company) had an interest or short position in the shares or underlying shares, which is required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and has been entered in the register kept by the Company according to section 336 of the SFO:

| No. | Name of substantial shareholders  | Type of share | Nature of interests                              | Number of corresponding shares of the Company held <sup>7</sup> (share) | Percentage of total issued shares of the Company <sup>7</sup> (%) | Percentage of total issued A Shares/ H Shares of the Company <sup>7</sup> (%) | Long position/ short position  |
|-----|---|---------------|--|---|---|---|--------------------------------|
| 1   | Central Huijin Investment Ltd.<br>(中央匯金投資有限責任公司)                                    | A Share       | Interests in controlled corporation <sup>1</sup> | 37,568,900  | 0.81  | 0.96  | Long position                  |
|     |   | A Share       | Interests in controlled corporation <sup>2</sup> | 2,298,706,183<br>2,336,275,083  | 49.85<br>50.67  | 58.84<br>59.80  | Long position<br>Long position |
| 2   | Central Huijin Asset Management Limited<br>(中央匯金資產管理有限責任公司)                         | A Share       | Beneficial owners                                | 37,568,900  | 0.81  | 0.96  | Long position                  |
| 3   | China Everbright Group Ltd.<br>(中國光大集團股份公司)   | A Share       | Beneficial owners                                | 1,159,456,183   | 25.15   | 29.68   | Long position                  |
|     |   | A Share       | Interests in controlled corporation <sup>3</sup> | 1,139,250,000<br>2,298,706,183  | 24.71<br>49.85  | 29.16<br>58.84  | Long position<br>Long position |
| 4   | China Everbright Holdings Company Limited<br>(中國光大集團有限公司)                           | A Share       | Interests in controlled corporation <sup>3</sup> | 1,139,250,000   | 24.71   | 29.16   | Long position                  |
| 5   | Datten Investments Limited  | A Share       | Interests in controlled corporation <sup>3</sup> | 1,139,250,000   | 24.71   | 29.16   | Long position                  |
| 6   | Honorich Holdings Limited   | A Share       | Interests in controlled corporation <sup>3</sup> | 1,139,250,000   | 24.71   | 29.16   | Long position                  |
| 7   | China Everbright Limited<br>(中國光大控股有限公司)  | A Share       | Beneficial owners                                | 1,139,250,000   | 24.71   | 29.16   | Long position                  |
| 8   | China State Construction Engineering Corporation                                    | H Share       | Interests in controlled corporation <sup>4</sup> | 127,436,800   | 2.76  | 18.10   | Long position                  |
| 9   | China State Construction Engineering Corporation Limited<br>(中國建築股份有限公司)            | H Share       | Interests in controlled corporation <sup>4</sup> | 127,436,800   | 2.76  | 18.10   | Long position                  |
| 10  | CSCEC Capital (Hong Kong) Limited   | H Share       | Beneficial owners                                | 127,436,800   | 2.76  | 18.10   | Long position                  |
| 11  | Hengjian International Investment Holding (Hong Kong) Limited<br>(恒建國際投資控股(香港)有限公司) | H Share       | Beneficial owners                                | 131,344,200   | 2.85  | 18.65   | Long position                  |
| 12  | Guangdong Hengjian Investment Holding Co., Ltd (廣東恒建投資控股有限公司)                       | H Share       | Interests in controlled corporation <sup>5</sup> | 131,344,200   | 2.85  | 18.65   | Long position                  |
| 13  | China Life Insurance (Group) Company<br>(中國人壽保險(集團)公司)                              | H Share       | Beneficial owners                                | 48,933,600  | 1.06  | 6.95  | Long position                  |
| 14  | China Shipbuilding Industry Corporation<br>(中國船舶重工集團公司)                             | H Share       | Interests in controlled corporation <sup>6</sup> | 110,000,000   | 2.39  | 15.62   | Long position                  |
| 15  | China Shipbuilding Capital Limited<br>(中國船舶資本有限公司)                                  | H Share       | Beneficial owners                                | 110,000,000   | 2.39  | 15.62   | Long position                  |

## Notes:

- As of December 31, 2016, Central Huijin Investment Ltd. held 100% of the total issued share capital in Central Huijin Asset Management Limited. Accordingly, Central Huijin Investment Ltd. is deemed to be interested in Central Huijin Asset Management Limited's interest in the Company under the SFO.
- As of December 31, 2016, Central Huijin Investment Ltd. held a 55.67% interest in China Everbright Group Ltd. Accordingly, Central Huijin Investment Ltd. is deemed to be interested in China Everbright Group Ltd.'s interest in the Company under the SFO.
- As of December 31, 2016, Honorich Holdings Limited and Everbright Investment and Management Limited (光大投資管理有限公司) held 49.386% and 0.358% of the total issued share capital in China Everbright Limited, respectively; Datten Investments Limited held 100% of the total issued share capital in Honorich Holdings Limited; China Everbright Holdings Company Limited held 100% of the total issued share capital in Datten Investments Limited and Everbright Investment and Management Limited; China Everbright Group Ltd. held 100% of the total issued share capital in China Everbright Holdings Company Limited. Accordingly, each of the China Everbright Group Ltd., China Everbright Holdings Company Limited, Datten Investments Limited and Honorich Holdings Limited is deemed to be interested in China Everbright Limited's interests in the Company under the SFO.

## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

4. As of December 31, 2016, China State Construction Engineering Corporation Limited held 100% of the total issued share capital in CSCEC Capital (Hong Kong) Limited; China State Construction Engineering Corporation held 56.26% of the total issued share capital in China State Construction Engineering Corporation Limited. Accordingly, China State Construction Engineering Corporation Limited and China State Construction Engineering Corporation are deemed to be interested in CSCEC Capital (Hong Kong) Limited's interests in the Company under the SFO.
5. As of December 31, 2016, Guangdong Hengjian Investment Holding Co., Ltd held 100% of the total issued share capital in Hengjian International Investment Holding (Hong Kong) Limited. Accordingly, Guangdong Hengjian Investment Holding Co., Ltd. is deemed to be interested in Hengjian International Investment Holding (Hong Kong) Limited's interest in the Company under the SFO.
6. As of December 31, 2016, China Shipbuilding Industry Corporation held 100% of the total issued share capital in China Shipbuilding Capital Limited. Accordingly, China Shipbuilding Industry Corporation is deemed to be interested in China Shipbuilding Capital Limited's interest in the Company under the SFO.
7. As of December 31, 2016, the total issued shares of the Company were 4,610,787,639, among with 3,906,698,839 were A Shares and 704,088,800 were H Shares.

Save as disclosed above, as of December 31, 2016, the Company was not aware of any other person (other than the Directors, Supervisors and chief executive of the Company) having any interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register pursuant to Section 336 of the SFO.

### (IV) Directors, Supervisors and chief executive's interests and short positions in the shares, underlying shares or debentures of the Company and its associated corporations

As of December 31, 2016, none of the Directors, Supervisors or chief executive of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which shall be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which are taken or deemed to be held under such provisions of the SFO), or which would be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Hong Long Listing Rules to be notified to the Company and the Hong Kong Stock Exchange or which would be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein.

At no time was the Company, its holding company, any of its subsidiaries or fellow subsidiaries a party to any arrangements during the year to enable the directors of the Company, including their spouses and children under 18 years of age, to acquire any interests by means of the acquisition of shares in, or debentures of, the Company or any other body corporates.

## V. Other Legal-person Shareholders with More Than 10% Shareholding

| Name of legal-person shareholder | Person in charge                    |   | Code of the organization | Registered capital                             | Main business or managed activities   |
|----------------------------------|-------------------------------------|---|--------------------------|--|---|
|                                  | of the unit or legal representative | Date of establishment   |                          |  |   |
| China Everbright Limited         | Chen Shuang                         | August 25, 1972 (China Everbright Limited was previously known as Intercontinental Housing Development Ltd. (明輝發展有限公司), and its name was changed to China Everbright Limited in 1997) | N/A                      | HK\$1,685,253,712<br>(as of December 31, 2016) | China Everbright Limited holds a strategy of "cross-border large asset management", focusing on the investment in primary and secondary markets, structured finance and investment, including private equity funds, venture capital funds, industrial funds and hedge funds, etc. |

## SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

### VI. Sufficient Public Float

The Company has made an application to the Hong Kong Stock Exchange when applying for the listing of its H Shares, and the Hong Kong Stock Exchange has granted the Company a waiver that the minimum public float requirement under Rule 8.08(1) of the Hong Kong Listing Rules be reduced and the minimum percentage of the H Shares from time to time held by the public to be the highest of:

1. 14.39% of the total issued share capital of the Company;
2. such percentage of H Shares of the total issued share capital of the Company to be held by the public immediately after completion of the global offering (assuming the over-allotment option is not exercised); or
3. such percentage of H Shares of the enlarged issued share capital of the Company to be held by the public after the exercise of the over-allotment option.

According to the data which is publicly available to the Company and to the best knowledge of the Directors as of the latest practicable date (March 29, 2017) prior to the publication of this annual report, the Company has always maintained the public float as required by the Hong Kong Stock Exchange since the Company's H Shares were listed on the Hong Kong Stock Exchange on August 18, 2016.

### VII. Repurchase, Sale or Redemption of the Listed Securities of the Company and Its Subsidiaries

During the Reporting Period, neither the Company nor any of its subsidiaries has repurchased, sold or redeemed any above securities of the Company or its subsidiaries.

### VIII. Preference Shares

During the Reporting Period, the Company did not have any matters relating to preference shares.



## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## I. Changes in Shareholding and Remuneration

## (I) Changes in shareholding and remuneration of current and resigned Directors, Supervisors and senior management during the Reporting Period

## 1. The basic information of current Directors, Supervisors and senior management is as follow:

| Name          | Position <sup>(note)</sup>              | Gender | Year of birth | Start of the term of office | Expiration of the term of office | Total pre-tax remuneration received from the Company during the Reporting Period (RMB Ten Thousand) | Whether received remuneration from any connected party of the Company or not |
|---------------|---|--------|---------------|-----------------------------|----------------------------------|---|--|
| Gao Yunlong   | Non-executive Director                  | Male   | 1958          | September 15, 2014          | September 15, 2017               | 0.00  | Yes  |
| Ge Haijiao    | Non-executive Director                  | Male   | 1971          | March 27, 2017              | September 15, 2017               | 0.00  | Yes  |
| Xue Feng      | Chairman, Executive Director, President | Male   | 1967          | September 15, 2014          | September 15, 2017               | 333.30  | No   |
| Yin Lianchen  | Non-executive Director                  | Male   | 1966          | September 15, 2014          | September 15, 2017               | 0.00  | Yes  |
| Chan Ming Kin | Non-executive Director                  | Male   | 1969          | November 13, 2014           | September 15, 2017               | 0.00  | Yes  |
| Yang Guoping  | Non-executive Director                  | Male   | 1956          | September 15, 2014          | September 15, 2017               | 0.00  | Yes  |
| Zhu Ning      | Independent Non-executive Director      | Male   | 1973          | September 15, 2014          | September 15, 2017               | 14.14   | No   |
| Xu Jingchang  | Independent Non-executive Director      | Male   | 1965          | September 15, 2014          | September 15, 2017               | 14.14   | No   |
| Xiong Yan     | Independent Non-executive Director      | Male   | 1956          | September 18, 2014          | September 15, 2017               | 14.14   | Yes  |
| Li Zheping    | Independent Non-executive Director      | Male   | 1965          | November 13, 2014           | September 15, 2017               | 14.14   | No   |
| Au Sing Kun   | Independent Non-executive Director      | Male   | 1952          | August 18, 2016             | September 15, 2017               | 5.39  | No   |
| Liu Jiping    | Chairman of the Supervisory Committee   | Male   | 1964          | September 15, 2014          | September 15, 2017               | 215.84  | No   |
| Zhu Wuxiang   | External Supervisor                     | Male   | 1965          | September 15, 2014          | September 15, 2017               | 9.57  | No   |
| Zhang Limin   | External Supervisor                     | Male   | 1955          | September 15, 2014          | September 15, 2017               | 9.57  | No   |
| Wang Wenyi    | Employee Supervisor                     | Female | 1966          | September 15, 2014          | September 15, 2017               | 340.71  | No   |
| Huang Qin     | Employee Supervisor                     | Female | 1975          | September 23, 2014          | September 15, 2017               | 308.83  | No   |
| Wang Baoqing  | Vice President                          | Male   | 1958          | May 25, 2006                | until expiry                     | 221.01  | No   |
| Xiong Guobing | Vice President                          | Male   | 1968          | September 14, 2007          | until expiry                     | 220.39  | No   |
| Wang Cuiting  | Vice President                          | Female | 1966          | May 30, 2005                | until expiry                     | 225.81  | No   |
| Wang Zhong    | Vice President                          | Male   | 1972          | March 12, 2015              | until expiry                     | 167.91  | No   |
| Mei Jian      | Vice President                          | Male   | 1970          | January 12, 2017            | until expiry                     | -   | No   |
| Chen Lan      | Chief Compliance Officer                | Female | 1969          | December 29, 2008           | until expiry                     | 184.93  | No   |
| Wang Yong     | Chief Risk Officer                      | Male   | 1964          | August 5, 2014              | until expiry                     | 444.40  | No   |
| Li Bingtao    | Business Line Director                  | Male   | 1976          | February 13, 2017           | until expiry                     | 409.54  | No   |
| Pan Jianyun   | Business Line Director                  | Male   | 1970          | February 8, 2017            | until expiry                     | -   | No   |
| Zhu Qin       | Secretary to the Board                  | Female | 1970          | February 6, 2017            | until expiry                     | -   | No   |
| Dong Jie      | Business Line Director (proposed)       | Female | 1967          |                             | until expiry                     | -   | No   |
| <b>Total</b>  | /                                       | /      | /             | /                           | /                                | 3,620.29  | /  |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Notes:

- (1) According to the relevant requirements of the Rules for Governance of Securities Companies (《證券公司治理準則》), payment of more than 40% of annual performance-based remuneration for the senior management of the securities companies shall be deferred for a period of at least three years. In the table above, the total pre-tax remuneration received by the senior management of the Company during the Reporting Period includes wages, benefits and deferred payment of remuneration in previous years for the year of 2016. The Company has not implemented any non-cash remuneration plan by means of shares or options.
- (2) Mr. Xu Feng commenced to act as a vice president of the Company on June 18, 2012, the president of the Company on January 22, 2014 and the chairman of the Board on November 4, 2016. The term of office shown in the table above refers to the term of office of the director and the vice chairman of the fourth session of the Board.
- (3) In 2016, Mr. Mei Jiang, Mr. Pan Jianyun and Ms. Zhu Qin did not receive remuneration from the Company as members of senior management of the Company. Mr. Li Bingtao received remuneration from an overseas subsidiary of the Company as the Company's employee supervisor, whose remuneration as shown in the table above was converted from HKD to RMB.
- (4) The Directors, Supervisors and senior management do not hold any shares of the Company and there were no changes to their shareholdings of the Company during the Reporting Period.

2. The basic information of resigned Directors, Supervisors and senior management is as follow:

| Name                           | Position                                     | Gender | Year of birth | Start of the term of office | Expiration of the term of office | Total pre-tax remuneration received from the Company during the Reporting Period (RMB Ten Thousand) | Whether received remuneration from any connected party of the Company or not |
|--------------------------------|--|--------|---------------|-----------------------------|----------------------------------|---|--|
| Tang Shuangning <sup>(1)</sup> | Non-executive Director                       | Male   | 1954          | September 15, 2014          | February 24, 2017                | 0.00  | Yes  |
| Guo Xinshuang <sup>(1)</sup>   | Chairman, Non-executive Director             | Male   | 1963          | September 15, 2014          | November 2, 2016                 | 0.00  | Yes  |
| Jiang Bo <sup>(2)</sup>        | Supervisor                                   | Female | 1955          | September 15, 2014          | February 24, 2017                | 0.00  | Yes  |
| Nie Ting Ming                  | Supervisor                                   | Male   | 1970          | February 2, 2016            | March 27, 2017                   | 0.00  | Yes  |
| Wang Weimin <sup>(1)</sup>     | Vice President                               | Male   | 1959          | May 30, 2005                | November 14, 2016                | 220.72  | No   |
| Chen Hong                      | Chief Marketing Officer                      | Male   | 1968          | July 30, 2014               | April 19, 2016                   | 102.75  | No   |
| Xu Lifeng                      | Chief Officer of Investment Banking Business | Female | 1960          | July 11, 2014               | April 22, 2016                   | 143.06  | No   |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Notes:

- (1) Mr. Tang Shuangning, Mr. Guo Xinshuang and Mr. Wang Weimin had confirmed that there was no disagreement with the Board and that no other matters relating to their resignation need to be brought to the attention of the shareholders of the Company.
- (2) Ms. Jiang Bo had confirmed that there was no disagreement with the Supervisory Committee and that no other matters relating to her resignation need to be brought to the attention of the shareholders of the Company.

### 3. Biographical Details of Current Directors, Supervisors and Senior Management

| Name                 | Main Working Experience  |
|----------------------|--|
| Gao Yunlong<br>(高雲龍) | Mr. Gao is currently a non-executive Director of the Company, vice chairman and general manager of Everbright Group, vice chairman of China Everbright Bank Company Limited, a company listed on the SSE and the Hong Kong Stock Exchange (SSE stock code: 601818, Hong Kong Stock Exchange stock code: 6818), non-executive director and vice chairman of China Everbright Holdings Company Limited, director of Sun Life Everbright Life Insurance Co., Ltd., and master supervisor of the Tsinghua University. He served as deputy mayor of Baise City of the Guangxi Autonomous Region, vice chairman and chairman of the Guangxi Autonomous Region regional committee of the China Democratic National Construction Association, vice governor of Qinghai Province, chairman of the Qinghai provincial committee of the China Democratic National Construction Association and chairman of China Everbright Industrial (Group) Company Ltd.. Mr. Gao was a member of the 11 <sup>th</sup> and 12 <sup>th</sup> Chinese People's Political Consultative Conferences. |
| Ge Haijiao<br>(葛海蛟)  | Mr. Ge is currently a non-executive Director of the Company, deputy general manager of Everbright Group and a director and chairman of China Everbright Industrial (Group) Company Ltd.. Mr. Ge held various positions with Agricultural Bank of China, including serving as the governor of Liaoyang in Liaoning Province, a vice governor of Dalian Branch, the general manager of Singapore Branch, a deputy general manager (at the level of departmental general manager) of the international business department, the governor of Heilongjiang Branch and an overseas senior management of Sydney Branch.   |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name                   | Main Working Experience   |
|------------------------|---|
| Xue Feng<br>(薛峰)       | Mr. Xue is currently the chairman and president of the Company, chairman of EBSHK, chairman of Everbright Eascreate, chairman of SHKFGL and a director of China Securities Credit Investment Co., Ltd.. He held various positions with the PBOC, including serving as deputy branch director of the Dalian Development Zone branch and vice director of Dalian Development Zone branch of the SAFE. He served as general office director and deputy director of the Dalian Office of CBRC, deputy director of the general office of Everbright Group. He also served as vice mayor of Jingmen City, Hubei Province, vice chairman and vice president of the Company, chairman of Everbright Fortune and chairman of Everbright Yunfu.   |
| Yin Lianchen<br>(殷連臣)  | Mr. Yin is currently a non-executive Director of the Company, chief investment officer and a member of the management decision committee of Everbright Limited and a supervisor of China Everbright Bank Company Limited (a company listed on the SSE and the Hong Kong Stock Exchange, SSE stock code: 601818, Hong Kong Stock Exchange stock code: 6818). He held various positions in Everbright Limited, including the general manager of the insurance agency department and general manager of the corporate planning and communications department. Mr. Yin worked as chief representative of America Moody KVM Company (China), vice president of Beijing Yangde Investment Co., Ltd., director of the general division of the general office of Everbright Limited and assistant general manager and member of the management committee of Everbright Limited. |
| Chan Ming Kin<br>(陳明堅) | Mr. Chan is currently a non-executive Director of the Company, chief legal counsel and company secretary and a member of the investment decision committee of Everbright Limited. He served as a Supervisor of the Company from July 2008 to October 2014. Mr. Chan is a Hong Kong lawyer with years of experience in private practice and as an in-house lawyer. Mr. Chan is also a fellow of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.  |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name                  | Main Working Experience  |
|-----------------------|--|
| Yang Guoping<br>(楊國平) | <p>Mr. Yang is currently a non-executive Director of the Company, chairman and general manager of Dazhong Transportation (Group) Co., Ltd (a company listed on the SSE, stock code: 600611), chairman of Shanghai Dazhong Public Utilities (Group) Co., Ltd. (a company listed on the SSE and the Hong Kong Stock Exchange (SSE stock code: 600635, Hong Kong Stock Exchange stock code: 1635)), chairman of Shanghai Jiaoda Onlly Co., Ltd. (a company listed on the SSE, stock code: 600530) and chairman of Shanghai Dazhong Gas Co., Ltd.. Mr. Yang has also served as a director of Shanghai Jiao Yun Group Co., Ltd. (a company listed on the SSE, stock code: 600676), a director of Shanghai Songz Automobile Air Conditioning Co., Ltd. (a company listed on the SZSE, stock code: 002454), vice chairman of Shenzhen Capital Group Co., Ltd. and a director of NanJing Public Utilities Development Co., Ltd. (a company listed on the SZSE, stock code: 000421). He has also been an independent director, chairman of the audit committee and member of the risk management committee of HFT Investment Management Co., Ltd., an independent director of Shanghai Shentong Metro Co., Ltd. (a company listed on the SSE, stock code: 600834), and an independent director of Bright Red Estate Group Co., Limited (a company listed on the SSE, stock code: 600708). Mr. Yang has served as vice chairman of the Shanghai Association for Public Companies and chairman of the Shanghai Association of Micro-Credit.</p> |
| Zhu Ning<br>(朱寧)      | <p>Mr. Zhu is currently an independent non-executive Director of the Company, adjunct professor of Oceanwide Finance (泛海金融學) of the PBC School of Finance of Tsinghua University, vice-president of National Institute of Financial Research of Tsinghua University and director of the Global M&amp;A Research Center of National Institute of Financial Research of Tsinghua University. Mr. Zhu has been an independent director of Leshi Internet Information and Technology Corp., Beijing (a company listed on the SZSE, stock code: 300104), Industrial Securities Co., Ltd. (a company listed on the SSE, stock code: 601377) and Healthcare Co., Ltd. (a company listed on the SZSE, stock code: 603313). He was a vice president and a finance professor of the Shanghai Advanced Institute of Finance of Shanghai Jiao Tong University. Mr. Zhu previously taught at the University of California, Davis, where he was granted tenure.</p>  |
| Xu Jingchang<br>(徐經長) | <p>Mr. Xu is currently an independent non-executive Director of the Company. He serves as dean, professor and doctoral tutor of the accounting department of the School of Business of Renmin University of China. Mr. Xu was an independent director of Sinochem International Corporation (a company listed on the SSE, stock code: 600500), Hainan Airlines Co., Ltd. (a company listed on the SSE, stock code: 600221) and served as a member of the council of the Accounting Society of China and an executive member of the council of the Banking Accounting Society of China. He was previously the deputy dean of the accounting department of the Business School of Renmin University of China.</p>  |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name                 | Main Working Experience  |
|----------------------|--|
| Xiong Yan<br>(熊焰)    | Mr. Xiong is currently an independent non-executive Director of the Company. He serves as chairman of Beijing Guofu Capital Co., Ltd., independent director of Beijing Watertek Information Technology Co., Ltd. (a company listed on the SZSE, stock code: 300324), vice chairman of the 3 <sup>rd</sup> council of China Mergers and Acquisitions Association and chairman of Zhongguancun Asia America Multi-Technology Association. He previously worked as a director, president and chairman of Beijing Property Rights Exchange Co., Ltd., chairman of Beijing Environment Exchange, chairman of China Technology Exchange, chairman and president of Beijing Financial Assets Exchange.  |
| Li Zheping<br>(李哲平)  | Mr. Li is currently an independent non-executive Director of the Company. He serves as an editor-in-chief of the magazine "Modern Bankers" and independent director of UBS SDIC Fund Management Co., Ltd., AVIC Securities Co., Ltd. and Guangdong Nanyue Bank Co., Ltd.. Mr. Li previously served as an editor-in-chief of the theory edition of the "China Securities Journal" and chairman of Tongxin Assets Appraisal Co., Ltd..   |
| Au Sing Kun<br>(區勝勤) | Mr. Au is currently an independent non-executive Director of the Company. He serves as a director of Nice International Investments Limited and an independent director of Shenzhen Expressway Company Limited (a company listed on the SSE and the Hong Kong Stock Exchange, SSE stock code: 600548, Hong Kong Stock Exchange stock code: 548). He held various positions with HSBC, including serving as regional manager, manager of the credit department and president of HSBC (Hong Kong), chief operating officer of HSBC (China), president of HSBC, Shenzhen Branch, and chief executive officer of HSBC (Macau). He also was the chairman of the Association of Shenzhen Foreign Financial Institutions and vice chairman of the Macau Association of Banks. |
| Liu Jiping<br>(劉濟平)  | Mr. Liu is currently a chief Supervisor of the Company. From September 2002 to June 2005, he served as a Director of the Company. Mr. Liu previously served as a director, deputy director and head of the audit department of the China Everbright Group, chief supervisor of Shanghai Everbright Convention & Exhibition Center Co., Ltd., a supervisor of China Everbright Investment and Assets Management, and a director of Everbright Financial Holding Asset Management. Mr. Liu was also a director of the investment and audit division of the State Auditing Administration.  |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name                 | Main Working Experience   |
|----------------------|---|
| Zhu Wuxiang<br>(朱武祥) | Mr. Zhu is currently an external Supervisor of the Company. He also served as a professor and doctoral tutor of the department of finance of the School of Economics and Management of Tsinghua University. He was an independent director of Beijing Properties (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0925), ZTE Corporation (a company listed on the SZSE and Hong Kong Stock Exchange, SZSE stock code: 000063, Hong Kong Stock Exchange stock code: 763), China Fortune Land Development Co., Ltd. (a company listed on the SSE, stock code: 600340), Dong Xing Securities Co., Ltd. (a company listed on the SSE, stock code: 601198), a supervisor of Unisplendour Corporation Limited (a company listed on the SZSE, stock code: 000938, and a director of China Cinda Asset Management Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 01359). |
| Zhang Limin<br>(張立民) | Mr. Zhang is currently an external Supervisor of the Company. He has been an accounting professor and doctoral tutor at Beijing Jiaotong University, independent director of Shenzhen Centralcon Investment Holdings Co., Ltd. (a company listed on the SZSE, stock code: 000042) and Golden (Group) Co., Ltd. (a company listed on the SSE, stock code: 600383). He also serves as an executive member of the China Audit Society and a member of the disciplinary committee of the Chinese Institute of Certified Public Accountants. Mr. Zhang was an accounting professor and doctoral tutor of Sun Yat-sen University.   |
| Wang Wenyi<br>(王文藝)  | Ms. Wang is currently an employee representative Supervisor of the Company, general manager of the Beijing branch of the Company. She was the general manager of the brokerage branch of Everbright Securities in Urumqi, general manager of the brokerage branch of Everbright Securities in Yuetan North Street, Beijing. She was also an employee representative supervisor of the third session of the Supervisory Committee of the Company.  |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name                   | Main Working Experience  |
|------------------------|--|
| Huang Qin<br>(黃琴)      | Ms. Huang is currently an employee representative Supervisor of the Company and the general manager of the Company's risk management department as well as a supervisor of Everbright Futures and a director of Everbright Fortune. She previously served as assistant to the general manager, deputy general manager and general manager of the Company's audit department.   |
| Wang Baoqing<br>(王寶慶)  | Mr. Wang is currently a vice president of the Company. He previously served as general manager of the Company's brokerage business division and human resources department and assistant to the president.   |
| Xiong Guobing<br>(熊國兵) | Mr. Xiong is currently a vice president of the Company and chairman of Everbright Asset Management. Mr. Xiong has served in various positions, including general manager of the Company's audit department, general manager of the Company's risk management department, director of Everbright Capital.   |
| Wang Cuiting<br>(王翠婷)  | Ms. Wang is currently a vice president of the Company. She was a secretary to the board of Everbright Pramerica Fund Management Co., Ltd.. She served in various positions, such as secretary to the Board and director of the Board office, general manager of the Company's human resources department. She also worked as a director of Everbright Asset Management, Everbright Capital and Everbright Fortune.   |
| Wang Zhong<br>(王忠)     | Mr. Wang is currently a vice president of the Company. He served as an assistant to general manager of the Company's bonds division, deputy general manager of the Company's fixed income division. Mr. Wang served as assistant president and vice president of Everbright Financial Holding Asset Management Co., Ltd.. He previously worked as a business director of Guotai Jun An Securities Co., Ltd. (a company listed on the SSE, stock code: 601211). |
| Mei Jian<br>(梅鍵)       | Mr. Mei is currently a vice president of the Company. He previously held various positions, including director of the Board office, director of the Company's general office, general manager of brokerage business division, secretary to the Board and assistant president.  |



## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name                          | Main Working Experience  |
|-------------------------------|--|
| Chen Lan<br>(陳嵐)              | Ms. Chen is currently the chief compliance officer of the Company and a supervisor of Everbright Capital. She previously served as a director of the CSRC legal department, director of the CSRC Administrative Penalty Committee and general manager of the Company's legal compliance department.  |
| Wang Yong<br>(王勇)             | Mr. Wang is currently the chief risk management officer of the Company, a director of Everbright Asset Management and Everbright Capital. Mr. Wang worked for the Royal Bank of Canada and served as vice president and managing director of its quantitative risk analysis department.  |
| Li Bingtao<br>(李炳濤)           | Mr. Li is currently a business line director of the Company, director and chief executive officer of ESIL and a director of SHKFGL. He previously served as an investment manager of JP Morgan Chase & Co., professional adviser of the Planning and Development Committee and officer of the institutional supervision department of the CSRC, senior manager of the general office of Everbright Group; director of the Company's general office, an employee representative supervisor of the Company.  |
| Pan Jianyun<br>(潘劍雲)          | Mr. Pan is currently a business line director of the Company and general manager of the investment banking management headquarters. He previously worked as a lawyer of Ningbo Beilun Law Firm, project manager, assistant to general manager, director of the legal affairs office, general manager of the investment banking headquarters of the investment banking division of Skyone Securities; general manager of the Company's investment banking division (Zhejiang) and the third division of the Company's investment banking division (Shanghai). |
| Zhu Qin<br>(朱勤)               | Ms. Zhu is currently the secretary to the Board, director of the Board (Supervisory Committee) office and securities affairs representative. She previously worked as a project manager, senior manager and executive director of the fourth division of the Company's investment banking division, assistant to the director and deputy director of the Board office.   |
| Dong Jie<br>(董捷)<br>proposed) | Ms. Dong is currently a business line director of the Company. She previously worked as a senior manager of budget finance department of Dalian branch of Bank of Communications Co., Ltd., member of the party committee, assistant to the president of Dalian branch of China Everbright Bank Co., Ltd., and vice president and member of the party committee of Dalian branch of China Everbright Bank Co., Ltd..   |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

### 4. Changes in shareholding of current Directors, Supervisors and senior management

During the Reporting Period, none of the Directors, Supervisors and senior management of the Company directly held shares, stock options and restricted shares of the Company.

### 5. Equity incentives granted to Directors, Supervisors and senior management during the Reporting Period

During the Reporting Period, the Directors, Supervisors and senior management of the Company were not granted any equity incentives by the Company.

## II. Employment of Current and Resigned Directors, Supervisors and Senior Management during the Reporting Period

### (I) Positions held in the shareholders

| Name of employee | Name of shareholding companies          | Positions held in the shareholding companies   | Start of the term of office | Expiration of the term of office |
|------------------|---|--|-----------------------------|----------------------------------|
| Gao Yunlong      | China Everbright Group Corporation Ltd. | Vice Chairman, general manager   | July 2014                   | until expiry                     |
| Ge Haijiao       | China Everbright Group Corporation Ltd. | Deputy general manager   | December 2016               | until expiry                     |
| Yin Lianchen     | China Everbright Limited                | Chief investment officer and member of management decision committee                 | April 2012                  | until expiry                     |
| Chan Ming Kin    | China Everbright Limited                | General legal counsel and company secretary, member of investment decision committee | December 2007               | until expiry                     |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## (II) Positions held in other companies

| Name of employee | Name of other companies                             | Positions held in other companies  | Start of the term of office | Expiration of the term of office |
|------------------|---|--|-----------------------------|----------------------------------|
| Gao Yunlong      | China Everbright Bank Co., Ltd.                     | Vice chairman of the board of directors  | December 2014               | up to the expiry                 |
| Gao Yunlong      | China Everbright Group Company Ltd.                 | Non-executive director, vice chairman  | November 2016               | until expiry                     |
| Gao Yunlong      | Sun Life Everbright Life Insurance Co., Ltd.        | Director   | October 2014                | up to the expiry                 |
| Ge Haijiao       | China Everbright Industrial (Group) Co., Ltd.       | Chairman   | January 2017                | up to the expiry                 |
| Xue Feng         | China Securities Credit Investment Co., Ltd.        | Director   | May 2015                    | up to the expiry                 |
| Yin Lianchen     | China Everbright Bank Co., Ltd                      | Supervisor   | December 2014               | up to the expiry                 |
| Yang Guoping     | Dazhong Transportation (Group) Co.,Ltd.             | Chairman and general manager   | April 2006                  | up to the expiry                 |
| Yang Guoping     | Shanghai Dazhong Public Utilities (Group) Co., Ltd. | Chairman   | January 1992                | up to the expiry                 |
| Yang Guoping     | Shanghai Jiaoda Only Co., Ltd.                      | Chairman   | May 2014                    | up to the expiry                 |
| Yang Guoping     | Shanghai Jiaoyun Group Co., Ltd.                    | Director   | August 2015                 | up to the expiry                 |
| Yang Guoping     | HFT Investment Management Co., Ltd.                 | Independent director, chairman of the audit committee of the board and member of the risk control committee of the board | March 2013                  | up to the expiry                 |
| Yang Guoping     | Nanjing Public Utilities Development Co.,Ltd.       | Director   | May 2011                    | up to the expiry                 |
| Yang Guoping     | Songz Automobile Air Conditioning Co.,Ltd.          | Director   | May 2014                    | up to the expiry                 |
| Yang Guoping     | Shanghai Dazhong Gas Co., Ltd. (上海大眾燃氣有限公司)         | Chairman   | September 2001              | up to the expiry                 |
| Yang Guoping     | Shenzhen Capital Group Co., Ltd                     | Vice chairman  | May 2012                    | up to the expiry                 |
| Yang Guoping     | Shanghai Shentong Metro Co., Ltd.                   | Independent director   | May 2014                    | up to the expiry                 |
| Yang Guoping     | Bright Real Estate Group Co.,Ltd                    | Independent director   | August 2015                 | up to the expiry                 |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name of employee | Name of other companies                             | Positions held in other companies | Start of the term of office | Expiration of the term of office |
|------------------|---|-----------------------------------|-----------------------------|----------------------------------|
| Zhu Ning         | Leshi Internet Information & Technology Corporation | Independent director              | October 2015                | up to the expiry                 |
| Zhu Ning         | Industrial Securities Co., Ltd.                     | Independent director              | February 2016               | up to the expiry                 |
| Zhu Ning         | Healthcare Co., Ltd.                                | Independent director              | December 2015               | up to the expiry                 |
| Xu Jingchang     | Sinochem International Corporation                  | Independent director              | May 2014                    | up to the expiry                 |
| Xu Jingchang     | Hainan Airlines Co., Ltd                            | Independent director              | October 2016                | up to the expiry                 |
| Li Zheping       | UBS SDIC Fund Management Co., Ltd.                  | Independent director              | August 2008                 | up to the expiry                 |
| Li Zheping       | AVIC Securities Co., Ltd.                           | Independent director              | October 2009                | up to the expiry                 |
| Li Zheping       | Guangdong Nanyue Bank Co., Ltd.                     | Independent director              | July 2014                   | up to the expiry                 |
| Xiong Yan        | Beijing Guofu Capital Co., Ltd.                     | Chairman                          | April 2015                  | up to the expiry                 |
| Xiong Yan        | Beijing Watertek Information Technology Co., Ltd.   | Independent director              | June 2010                   | up to the expiry                 |
| Au Sing Kun      | Nice International Investments Limited              | Director                          | December 2009               | up to the expiry                 |
| Au Sing Kun      | Shenzhen Expressway Company Limited                 | Independent director              | January 2012                | up to the expiry                 |
| Zhu Wuxiang      | Beijing Properties (Holdings) Limited               | Independent director              | January 2011                | up to the expiry                 |
| Zhu Wuxiang      | China Fortune Land Development Co., Ltd.            | Independent director              | December 2013               | up to the expiry                 |
| Zhu Wuxiang      | Dong Xing Securities Co., Ltd.                      | Independent director              | May 2014                    | up to the expiry                 |
| Zhu Wuxiang      | ZTE Corporation                                     | Independent director              | March 2016                  | up to the expiry                 |
| Zhu Wuxiang      | Unisplendour Corporation Limited                    | Supervisor                        | May 2015                    | up to the expiry                 |
| Zhu Wuxiang      | China Cinda Asset Management Co., Ltd.              | Independent director              | October 2016                | up to the expiry                 |
| Zhang Limin      | Shenzhen Centralcon Investment Holdings Co., Ltd.   | Independent director              | October 2013                | up to the expiry                 |
| Zhang Limin      | Golden (Group) Co., Ltd.                            | Independent director              | April 2014                  | up to the expiry                 |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## III. Remuneration of Directors, Supervisors and Senior Management

|   |  |
|---|--|
| Decision-making procedures of remuneration of the Directors, Supervisors and senior management                              | <p>The remuneration of the Company's independent non-executive Directors and external Supervisors shall be decided by the general meeting, and the remuneration of the senior management of the Company shall be decided by the Board. Remuneration, Nomination and Credentials Committee is responsible for advising the remuneration and structure of the Directors and senior management of the Company and the establishment of a remuneration policy with transparent procedures to the Board of Directors.</p> <p>According to the relevant requirements of the Rules for Governance of Securities Companies, payment of more than 40% of annual performance-based remuneration for the senior management of the securities companies shall be deferred for a period of at least three years.</p>  |
| The basis for determining the remuneration of the Directors, Supervisors and senior management                              | <p>Remuneration of the independent non-executive Directors and external Supervisors of the Company is determined with reference to that of similar listed companies in the same industry and based on actual situation of the Company. Remuneration of internal Directors, employee Supervisors and senior management is determined in accordance with the remuneration system of the Company and is also linked to position and performance.</p>  |
| Actual payment of remuneration of the Directors, Supervisors and senior management  | <p>Details of the remuneration of the Directors, Supervisors and senior management of the Company are set out in "I. Changes in Shareholding and Remuneration – (I) Changes in shareholding and remuneration of current and resigned Directors, Supervisors and senior management during the Reporting Period" in Section VII "Particulars about Directors, Supervisors, Senior Management and Staff".</p> <p>The 27<sup>th</sup> meeting of the fourth session of the Board of Directors of the Company was held on February 27, 2017. The meeting considered and approved the Proposal on Determining Total Amount of Remuneration of the Senior Management of the Company for 2015, among which, the bonus for 2015 were already paid to Xue Feng (RMB2.85 million); Liu Jiping (RMB2.51 million); Wang Weimin, Wang Baoqing, Xiong Guobing, Wang Cuiting and Wang Zhong (RMB2.14 million); Chen Lan, Wang Yong, Chen Hong and Xu Lifeng (RMB2.00 million).</p> |
| Total remuneration actually obtained by the Directors, Supervisors and senior management at the end of the Reporting Period | <p>Details of the actual payment of remuneration of the Directors, Supervisors and senior management are set out in "I. Changes in Shareholding and Remuneration – (I) Changes in shareholding and remuneration of current and resigned Directors, Supervisors and senior management during the Reporting Period" in Section VII "Particulars about Directors, Supervisors, Senior Management and Staff", which amounted to RMB36.2029 million.</p> <p>The 27<sup>th</sup> meeting of the fourth session of the Board of Directors was held on February 27, 2017. The meeting considered and approved the Proposal on Determining Total Amount of Remuneration of the Senior Management of the Company for 2015, among which, the bonus for 2015 already paid was RMB24.06 million in total.</p>   |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## IV. Changes of Directors, Supervisors and Senior Management of the Company

| Name            | Position                           | Change    | Reason for Change  |
|-----------------|------------------------------------|-----------|--|
| Tang Shuangning | Non-executive Director             | Resigned  | On February 24, 2017, the Board received a resignation letter from Mr. Tang Shuangning. In order to focus more on the strategic development of China Everbright Group Corporation Ltd. (the controlling shareholder of the Company), Mr. Tang Shuangning ceased to be a Director of the Company.   |
| Guo Xinshuang   | Chairman, Non-executive Director   | Resigned  | On November 2, 2016, Mr. Guo Xinshuang resigned as Chairman, Director, the Chairman and a member of Strategies and Development Committee, and member of Remuneration, Nomination and Credentials Committee.  |
| Ge Haijiao      | Non-executive Director             | Appointed | Mr. Ge Haijiao was selected as Director at the first extraordinary general meeting in 2017. Mr. Ge Haijiao's appointment became effective from March 27, 2017 according to the "Reply Letter in Relation to the Appointment of Ge Haijiao as a Director of a Securities Company" (Hu Zhang Jian Xu Ke [2017] No. 32).  |
| Xue Feng        | Chairman                           | Appointed | On November 4, 2016, Mr. Xue Feng was elected as chairman of the Company at the 24 <sup>th</sup> meeting of the fourth session of the Board.   |
| Au Sing Kun     | Independent non-executive Director | Appointed | Mr. Au Sing Kun was elected as an independent non-executive Director of the fourth session of the Board at the 2016 first extraordinary general meeting of the Company, and had obtained the qualification to serve as an independent non-executive director of a securities firm. Mr. Au's appointment became effective from August 18, 2016.   |
| Jiang Bo        | Supervisor                         | Resigned  | On February 24, 2017, the Supervisory Committee received a resignation letter from Ms. Jiang Bo. Ms. Jiang Bo ceased to be a Supervisor of the Company due to her retirement.  |
| Nie Ting Ming   | Supervisor                         | Appointed | Mr. Nie Ting Ming was elected as a Supervisor of the fourth session of the Supervisory Committee at the 2015 fifth extraordinary general meeting of the Company. Pursuant to the Reply in Relation to the Approval of the Qualification of Mr. Nie Ting Ming Serving as a Supervisor of a Securities Company (Hu Zhengjian Xuke [2016] No. 20), Mr. Nie Ting Ming's appointment became effective from February 2, 2016. On March 27, 2017, the Supervisory Committee of the Company received the resignation letter from Mr. Nie Ting Ming, who resigned as a Supervisor of the Company. |
| Wang Weimin     | Vice president                     | Resigned  | On November 14, 2016, Mr. Wang Weimin resigned as a vice president of the Company due to work arrangement.   |
| Mei Jian        | Vice president                     | Appointed | Mr. Mei Jian was elected as a vice president of the 25 <sup>th</sup> meeting of the fourth session of the Board. On January 12, 2017, the qualification of Mr. Mei Jian as senior management of a securities company was approved by CSRC Shanghai Bureau, and he formally started assuming his role on the same date.   |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

| Name        | Position                                     | Change    | Reason for Change  |
|-------------|--|-----------|--|
| Chen Hong   | Chief marketing officer                      | Resigned  | In April 2016, Mr. Chen Hong resigned as the chief marketing Officer of the Company due to personal reasons.   |
| Xu Lifeng   | Chief officer of investment banking business | Resigned  | In April 2016, Ms. Xu Lifeng resigned as the chief officer of investment banking business of the Company due to personal reasons.  |
| Li Bingtao  | Employee Supervisor                          | Resigned  | On January 16, 2017, Mr. Li Bingtao resigned as an employee supervisor of the Company due to work adjustment.  |
| Li Bingtao  | Business line director                       | Appointed | Mr. Li Bingtao was elected as a business line director at the 26 <sup>th</sup> meeting of the fourth session of the Board. On February 13, 2017, the qualification of Mr. Li Bingtao as senior management of a securities company was approved by CSRC Shanghai Bureau, and he formally started assuming his role on the same date.  |
| Pan Jianyun | Business line director                       | Appointed | Mr. Pan Jianyun was elected as a business line director at the 26 <sup>th</sup> meeting of the fourth session of the Board. On February 8, 2017, the qualification of Mr. Pan Jianyun as senior management of a securities company was approved by CSRC Shanghai Bureau, and he formally started assuming his role on the same date. |
| Zhu Qin     | Secretary to the Board                       | Appointed | Ms. Zhu Qin was elected as a secretary to the Board at the 26 <sup>th</sup> meeting of the fourth session of the Board. On February 6, 2017, the qualification of Ms. Zhu Qin as senior management of a securities company was approved by CSRC Shanghai Bureau, and she formally started assuming her role on the same date.        |
| Dong Jie    | Business line director (proposed)            | Appointed | Ms. Dong Jie was elected as a business line director of the Company at the 26 <sup>th</sup> meeting of the fourth session of the Board. Ms. Dong Jie's appointment will become effective from the day when she obtains the qualification to serve as senior management of a securities company.                                      |

## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## V. Information about the Staff of the Parent Company and Major Subsidiaries

## (I) Information about the staff

As of December 31, 2016, the Company had 7,932 employees (including 2,991 brokers), of which parent company had 6,835 employees, wholly owned and controlled subsidiaries had 1,097 employees. The employee structure is as follows:

|   |       |
|---|-------|
| Number of staff employed by the parent company (persons)                          | 6,835 |
| Number of staff employed by the major subsidiaries (persons)                      | 1,097 |
| The total number of staff employed (persons)                                      | 7,932 |
| Number of paid retired staff by the parent company and its subsidiaries (persons) | 0     |

## Profession Composition

| Profession                             | Number       | Percentage     |
|--|--------------|----------------|
| Brokerage business                     | 5,797        | 73.08%         |
| Investment banking business            | 295          | 3.72%          |
| Research department                    | 145          | 1.83%          |
| Assets management business             | 133          | 1.68%          |
| Proprietary trading business           | 142          | 1.79%          |
| IT                                     | 146          | 1.84%          |
| Financial department                   | 125          | 1.58%          |
| Compliance management and risk control | 76           | 0.96%          |
| Other business and administration      | 1,073        | 13.53%         |
| <b>Total</b>                           | <b>7,932</b> | <b>100.00%</b> |

## Education

| Levels of education | Number       | Percentage     |
|---------------------|--------------|----------------|
| Doctoral degree     | 72           | 0.91%          |
| Master's degree     | 1,637        | 20.64%         |
| Bachelor's degree   | 4,173        | 52.61%         |
| Others              | 2,050        | 25.84%         |
| <b>Total</b>        | <b>7,932</b> | <b>100.00%</b> |



## SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

### (II) Remuneration policy

The Company adheres to implementing the MD rank-based rank wage system with market competitiveness according to marketization principle. The staff income consists of three parts i.e. wages, bonuses and benefits. Wages are determined based on the MD rank where a staff is at, his/her qualifications, competencies, performance, etc. Bonuses are linked with the performance of individuals, departments and the Company. The Company provides staff with a full range of benefits in accordance with national and local laws and regulations. In terms of statutory benefits, the Company provides pension insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance, housing provident fund and paid annual leave, etc., to employees. In terms of supplementary benefits, the Company has established an enterprise annuity plan as a supplementary employee pension insurance system in order to reduce the income gap of employees before and after retirement and improve the quality of their lives after retirement. In addition, the Company also provides employees and their children with supplementary commercial insurance and annual health checks as well as other benefits to ensure that employees have a healthy body and high quality lives.

The Company implements risk reserve system, and implements both incentives and constraints to control risks and thus achieve sustainable development. The Company compares with industry average in a timely manner, and regularly adjusts salary structure and level so as to provide employees with competitive remuneration and benefits in the industry and thus achieve the objectives of “attracting talent, retaining talent and motivating talent”.

According to the relevant regulations, the premiums and welfare benefit contributions borne by the Group are calculated regularly on a certain percentage of the remuneration cost and paid to the relevant labor and social welfare authorities. The Group shall not withdraw or utilize its fund contribution made to the defined contribution plans under any circumstance.

### (III) Training plan

The Company continues enriching and improving the hierarchical education and training system, and developing and implementing annual training plans according to the strategic and business development needs, in consideration of the characteristics of employee career development. Innovative training means were applied to effectively stimulate the enthusiasm of staff learning. New forms such as classroom teaching, role play, sitcom, case study and barrage interaction were adopted with focus on contents such as strategic transformation, cutting-edge hot spots and business development, to leverage on the role of training in promoting reform, transmitting culture and teaching know-how. The Company made full use of internal and external and Internet resources to enrich staff learning opportunities. In 2016, the Company organized 7,346 person-time participation in 118 internal training sessions, assigned 436 person-time to participate in 203 external training sessions, and used Internet, WeChat, video and other forms to carry out online training to form a useful supplement to offline training.

### (IV) Labor outsourcing

|   |              |
|---|--------------|
| The total number of labor outsourcing                       | 36 persons   |
| The total amount of remuneration paid for labor outsourcing | RMB4,987,383 |

**SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF****VI. Customer Solicitation and Client Service by the Brokers Commissioned by the Company**

In 2016, the Company strictly complied with the relevant provisions of Interim Provisions on the Administration of Securities Brokers (證券經紀人管理暫行規定) ([2009] No. 2), Verification Opinions On-site of Securities Brokers System (證券經紀人制度現場核查意見書) (Hu zheng jian ji gou [2009] No. 302) and its internal system. The Company centralized management of securities brokers to further regulate the practice of securities brokers to safeguard the legitimate rights and interests of clients through improving rules and regulations, the internal control mechanism, the support system and internal training. According to Article 8 of Notice on Cancellation of the Launching of a Filing System in respect of Securities Brokers by Securities Brokerage Branches (取消證券營業部啟動實施證券經紀人制度備案) [2015] No. 8, securities brokerage branches can launch to implement securities broker system without filing with the local regulatory bureau.

As of the end of the Reporting Period, the Company had 187 securities brokerage branches to carry out securities brokerage business, and 2,921 domestic securities brokers in China, all of which have registered with the Securities Association of China.

**VII. Other Matters**

- (1) None of the existing and resigned Directors, Supervisors and senior management during the Reporting Period had been subjected to any penalty by the securities regulatory authorities in the recent three years.

## SECTION VIII CORPORATE GOVERNANCE

### I. Description of Corporate Governance

#### (I) Corporate governance

As a company listed both in the Mainland China and Hong Kong, the Company strictly complies with the laws, regulations and regulatory documents including the PRC Company Law, the PRC Securities Law, Regulations for Supervision and Administration of Securities Companies, the Rules for Governance of Securities Companies, the Code of Corporate Governance for Listed Companies, and the Corporate Governance Code and Corporate Governance Report under Appendix 14 to the Hong Kong Listing Rules and established a comprehensive corporate governance system. The general meeting of shareholders, the Board, the Supervisory Committee and the management properly perform their respective duties and responsibilities corresponding to their positions, which establishes a good corporate governance system and ensures the standard operation of the Company in accordance with the Corporate Governance Code. Unless otherwise stated in this report, the Company's corporate governance is in line with the requirements of the PRC Company Law and the relevant provisions formulated by the CSRC and regulations regulating the markets in Hong Kong.

During the Reporting Period, as the Company issued foreign shares (H shares) overseas and listed such shares on the Main Board of the Hong Kong Stock Exchange, the Company further amended the Articles of Association, Rules of Procedures for General Meeting, Rules of Procedures for the Board Meetings, Rules of Procedures for the Supervisory Committee, rules of procedures for special committees under the Board, Rules of Managing Related-party/Connected Transactions, Rules of Managing External Guarantee, Working Rules of Independent Directors, Working Rules of the Secretary to the Board, Working Rules of the President, in order to meet the relevant regulatory requirements.

In 2016, in order to further strengthen the management of related-party (connected) transactions of the Company, combining the actual situation of the listing at the two markets, the Company established the related (connected) transactions working group according to the Rules of Managing Related-party (Connected) Transactions to deal with the specific management of the transactions. Meanwhile, the Company organized the relevant publicity and training of related-party (connected) transactions to explain the relevant rules, cases in Mainland China and Hong Kong markets and internal management processes with respect to related-party (connected) transactions of the Company.

In accordance with the relevant provisions of the Registration Rules of the Company's Insiders, the Company has issued a confidentiality reminder letter to the Directors, Supervisors, senior management and related personnel of the Company, reminding them to fulfill the confidential obligations before disclosing information, and conducted insider registration timely.

During the Reporting Period, the Company convened three general meetings of shareholders, ten Board meetings, five meetings of the Supervisory Committee, four meetings of the Audit Committee, two meetings of the Remuneration, Nomination and Credentials Committee, five meetings of the Risk Management Committee and one meeting of the Strategies and Development Committee.

**SECTION VIII CORPORATE GOVERNANCE****(II) Corporate governance policies and the Board's responsibilities on corporate governance**

In order to meet the corporate governance and standardized operation requirements of A+H listed company, on August 1, 2016, the Board meeting approved and adopted the Model Code for Securities Transactions by Directors of the Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules as the code of conduct for securities transactions of the Company by all Directors and Supervisors, and adopted Appendix 14 to the Hong Kong Listing Rules as its own corporate governance guideline. On August 18, 2016, the H Shares of the Company were listed and traded on the Main Board of the Hong Kong Stock Exchange. The Company has strictly complied with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Hong Kong Listing Rules. Except as specifically stated in this report, the Company has fully complied with the applicable provisions in the Corporate Governance Code, and met most of the recommended best practice in the Corporate Governance Code.

In respect of the corporate governance, the responsibilities of the Board shall include the followings:

- (I) to formulate and review the corporate governance policies and practice of the Company;
- (II) to review and monitor the training and continuous professional development of the Directors and the senior management;
- (III) to review and monitor the Company's policies and practices on compliance with laws and regulatory requirements;
- (IV) to formulate, review and monitor the code of conduct and compliance manual applicable to employees and Directors (if any); and
- (V) to review the Company' compliance with the Corporate Governance Code and disclosure in the Corporate Governance Report.

Before the publication of this report, the Board reviewed the Corporate Governance section of this report, i.e., Corporate Governance Report, and was of the view that it is in compliance with the relevant requirements of the Hong Kong Listing Rules.

## SECTION VIII CORPORATE GOVERNANCE

### II. General Meeting

#### (I) Shareholders and the general meeting

The general meeting is the authoritative organization of the Company, and all shareholders shall exercise their functions and powers through such meeting. The Articles of Association and Rules of Procedures of the General Meeting of the Company provide the rights and obligations of shareholders, the functions and power of general meeting, holding of a general meeting, voting, resolutions and other matters, thereby ensuring the normal and effective operating of general meeting, and safeguarding the interests of the shareholders, especially minority shareholders of the Company.

According to Article 76 of the Articles of Association, the shareholder(s) severally or jointly holding 10% or more shares in the Company shall have the right to request the Board of Directors to convene an extraordinary general meeting and shall submit such request to the Board of Directors in writing. The Board shall, in accordance with provisions of the law, administrative regulations and the Articles of Association, inform in writing to indicate whether the Board of Directors has agreed or disagreed to convene such extraordinary shareholders' meeting within 10 days upon receipt of the request. If the Board of Directors has agreed to hold such extraordinary shareholders' meeting, it shall serve a notice of the general meeting within five days after the Board of Directors has passed the board relevant resolution. The relevant shareholders' consent shall be sought in respect of any changes to the original proposal contained in such notice. If the Board of Directors does not agree to hold such extraordinary general meeting or fails to give any reply within 10 days upon receipt of such request, the shareholder(s) severally or jointly holding 10% or more shares in the Company shall have the right to propose to the Supervisory Committee to hold such extraordinary general meeting and shall propose to the Supervisory Committee in writing. If the Supervisory Committee agrees to hold such extraordinary general meeting, it shall serve a notice of such general meeting within five days upon receipt of such request. The relevant shareholders' consent shall be sought in respect of any changes to the original proposal contained in such notice. If it fails to give such notice of the general meeting within the period of time set forth above, the Supervisory Committee shall be deemed not to convene and preside over such general meeting. The shareholder(s) severally or jointly holding 10% or more shares in the Company for more than consecutive 90 days may proceed to convene and preside over such general meeting by itself.

In addition, according to Article 81 of the Articles of Association, when a general meeting of the Company is held, the Board of Directors, the Supervisory Committee and the shareholder(s) severally or jointly holding 3% or more shares in the Company shall have the right to make proposals regarding the matters to be resolved to the Company. The shareholder(s) severally or jointly holding 3% or more shares in the Company shall submit any temporary written proposals regarding the matters to be resolved to the convener 10 days before a general meeting is held. The convener shall give a supplementary notice of the general meeting and publicly announce the content of such temporary proposals within two days upon receipt of such proposal. Otherwise, the convener shall not change the proposals set out in the notice of general meeting or add any new proposals after the said notice announcement is served.

## SECTION VIII CORPORATE GOVERNANCE

## (II) Holding general meetings during the Reporting Period

| Meeting  | Convening date    | Enquiry index of the websites designated for publication of the resolutions  | Date of disclosure of the publication of the resolution |
|--|-------------------|--|---|
| The first extraordinary general meeting in 2016  | February 26, 2016 | <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>  | February 27, 2016                                       |
| 2015 annual general meeting                      | March 21, 2016    | <a href="http://www.sse.com.cn">http://www.sse.com.cn</a>  | March 22, 2016  |
| The second extraordinary general meeting in 2016 | October 26, 2016  | <a href="http://www.sse.com.cn">http://www.sse.com.cn</a><br><a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a> | October 27, 2016  |

## Description of General Meetings

- On February 26, 2016, the Company held the first extraordinary general meeting of the Company in 2016 at Room 1320, Block A, China Everbright Center, 25 Taipingqiao Street, Beijing, China. The meeting considered and approved Proposal on Considering the Scale of Proprietary Trading Business of the Company in 2016, Resolution on Considering and Revising the Articles of Association, Resolution on Considering and Electing Independent Directors, Proposal on Changing the Use of the Funds Raised through Non-public Issuance by the Company and Proposal on Considering the Application to Expand the Scope of the Company's Foreign Exchange Business.
- On March 21, 2016, the Company held the 2015 annual general meeting at Room 1320, Block A, China Everbright Center, 25 Taipingqiao Street, Beijing, China. The meeting considered and approved Resolution on Considering the Board of Directors Work Report for 2015, Resolution on Considering the Supervisory Committee Work Report for 2015, Resolution on Considering the Company's 2015 Annual Report and its Summary, Resolution on Considering the Company's Profit Distribution Plan for 2015, and Proposal on Considering the Company's Expected Related Transactions in 2016.
- On October 26, 2016, the Company held the second extraordinary general meeting in 2016 at Room 1320, Block A, China Everbright Center, 25 Taipingqiao Street, Beijing, China. The meeting considered and approved Resolution on Appointing the Company's External Auditors for 2016.

As a responsible listed company, the Company effectively protects the rights and interests of small and medium shareholders, ensures their full right of information, and the fairness of information disclosure, and continues to take a series of practical actions to further enhance the quality and strength of communication with investors. The Company has formulated Measures of Managing Information Disclosure of Everbright Securities, Everbright Securities Insider Registration Management Rules and other rules and regulations. The Company has appointed the secretary to the Board of Directors and the company secretary to be responsible for the disclosure of information. The company secretary, the securities affairs representative and the office of the Board are appointed to assist in the disclosure of information and the handling of investor relations. The Company interacts with investors mainly through telephone, e-mail, the investor relations interactive platform on the Company's website, reception of

## SECTION VIII CORPORATE GOVERNANCE

visitors, participation in investor meetings, overseas road shows and other forms. Shareholders may submit inquiries and express their opinions to the Board of Directors in writing through the company secretary and the office of the Board. Where appropriate, the inquiries and opinions of shareholders will be forwarded to the Board of Directors and/or the relevant special committees under the Board of Directors, to get answered, and ensure that the Company's shareholders, especially small and medium shareholders, are able to fully exercise their rights.

### III. Board of Directors and the Management

#### (I) Board of Directors

The Articles of Association and the Rules of Procedure of the Board of Directors of the Company have stipulated the qualification and obligations of the Directors, the terms of reference of the Board of Directors, the convening, voting and resolution of the Board of Directors, to ensure the operation of Board of Directors regularly and efficiently.

##### 1. Composition of the Board

The Company shall appoint and change Directors in accordance with relevant regulations and Articles of Association. The Board of Directors has exercised its functions and powers according to law. The composition, convening and voting of the Board are in compliance with the relevant laws and regulations stipulated in Company Law, Articles of Association and the Hong Kong Listing Rules.

According to Article 114 of the Articles of Association, except for the first session of the Board of Directors of the Company, the candidates for the directors of any successive Board of Directors shall be nominated by the shareholders holding more than 3% (including 3%) of the shares or by three directors of the previous Board of Directors of the Company. The previous Board of Directors shall be responsible to prepare and submit a proposal to the general meeting for voting. Any shareholder holding more than 1% (including 1%) of the shares may nominate any candidates for independent directors. Regarding the specific procedure of nominating candidates for Directors by the shareholders, the Company has prepared the Procedures for Shareholders to Propose a Person for Election as Director, which has been published on the website of the Company.

The members of the Board shall be elected and changed by the general meeting for a term of three years from the date on which their appointments are approved by the general meeting and their qualifications of being directors of securities companies are obtained and approved by the CSRC. Directors are eligible for re-election upon the expiration of their terms. The term of independent non-executive Directors is the same as other Directors of the Company and eligible for re-election upon the expiration of their terms. However, the successive terms of independent non-executive Directors may not be more than two terms. An ordinary resolution with respect to any Director elected at a general meeting shall be valid only when such matters are passed by one half or above of the voting rights held by the shareholders (including their proxies) attending the general meeting.

## SECTION VIII CORPORATE GOVERNANCE

The Company seeks for appropriate candidates for Directors through a variety of channels in the Company and the human resource market with a wide range. The conditions for candidates include but not limited to gender, age, educational background or professional experience, skills, knowledge and service tenure, and the ability to take responsibility for the affairs of the Company. After reviewing and passing the resolution to determine the candidate, the Board of Directors shall submit to the general meeting by a written proposal. Since the listing of the Company's H Shares, the Board has always complied with the requirements of the Hong Kong Listing Rules with respect to the appointment of at least three independent non-executive Directors and the number of independent non-executive Directors appointed must comprise of at least one third on the Board. The qualification of the five independent non-executive Directors of the Company complies with the requirements of Rules 3.10 (1) and (2) and 3.10(A) of the Hong Kong Listing Rules. Apart from that, the Company has received the annual written confirmation from each independent non-executive Director with regard to his independence in accordance with relevant requirements under Rule 3.13 of the Hong Kong Listing Rules. Therefore, the Company confirms that each independent non-executive Director has the independence required by the Hong Kong Listing Rules.

### 2. Duties and responsibilities of the Board of Directors

The Board of Directors is the decision-making organ of the Company and is responsible to the general meeting and exercise its powers and duties in accordance with the laws and regulations, Articles of Association and the securities listing rules and requirements of the stock exchange on which shares of the Company are listed. The Board of Directors is mainly responsible for formulation of the Company's strategy, development of corporate governance practices, implementation of risk management and internal control, and corporate decisions in respect of the finance of the Company.

According to Articles of Association, the Board of Directors shall exercise the following major powers and duties: to convene a general meeting and report to such meeting; to implement the resolutions of a general meeting; to decide the operation plan and investment scheme of the Company; to prepare the draft annual budget and final accounts of the Company; to prepare the profit distribution plan and the plan for provisions for losses of the Company; to prepare the plan for the Company to increase or reduce its registered capital, issuance of bonds and other securities and other listing plans; to prepare plans of the Company with respect to material acquisitions, acquisition of the Company's shares, mergers, divisions, dissolution or changes of the form of the Company; to decide the Company's external investments, purchases and sales of assets, pledge of assets, external guarantees, trust management or to manage related parties transactions within the scope of authorization by a general meeting; to decide the establishment of the internal management organizations of the Company; to appoint or remove the president or the secretary to the Board of Directors nominated by the Chairman of the Board of Directors; to appoint or remove the vice president, assistant president, chief financial officer, chief compliance officer and other officers nominated by the president and decide the remunerations and rewards and punishments thereof; to establish a basic management system of the Company; to prepare plans to amend the Articles of Association; to manage the matters related to the information disclosed by the Company; to make suggestions to a general meeting regarding the engagement or replacement of the accounting firm as the auditors of



## SECTION VIII CORPORATE GOVERNANCE

the Company; to receive the work report of the president of the Company and examine such work; to be responsible to urge, examine and evaluate the establishment and implementation of various internal control systems of the Company and to undertake responsibility for the validity of such internal control systems; to be responsible to urge, examine and evaluate the establishment and implementation of various internal control systems of the Company and to undertake final responsibility for the validity of such internal control systems; to consider and adopt the basic compliance system of the Company and the annual and interim compliance report of the Company and receive the report from the chief compliance officer and to be responsible for the implementation of the compliance policies; other powers and duties conferred by the law, administrative regulations, department regulations and the Articles of Association.

The Company continued to purchase liability insurance for the Directors, Supervisors and senior management, to protect them against liabilities that may arise from performing their duties and to encourage them to earnestly fulfill their duties and responsibilities.

During the Reporting Period, the primary measures adopted by the Board of Directors in respect of corporate governance included making amendments to the Articles of Association, the Rules of Procedure of the Board of Directors, the Rules of Procedure of the Audit Committee, the Remuneration, Nomination and Credentials Committee, the Rules of Procedure of the Risk Management Committee and the Rules of Procedure of the Strategies and Development Committee in accordance with the requirements of the Hong Kong Listing Rules.

### 3. Duties and responsibilities of the management

According to the Articles of Association, the president is responsible to the Board of Directors and exercises the following powers and duties: to manage the operation of the Company, organize and implement the decisions of the Board of Directors and report to the Board of Directors; to organize and implement the annual plan and investment plan of the Company; to prepare the plan for the establishment of internal organizations of the Company; to formulate the basic management system of the Company; to formulate specific regulations of the Company; to nominate the vice presidents, assistant presidents, chief financial officer, chief compliance officer and other senior officers identified by CSRC to be appointed or removed by the Board of Directors; to decide on the appointment or removal of any management personnel other than those required to be appointed or removed by the Board of Directors; to formulate the salary, welfare, rewards and punishments of the employees of the Company and decide on the appointment and removal of such employees; to propose to the chairman of the Board of Directors to agree to convene any interim board meetings; to decide on the investment matters of the Company within the scope of authorization of the Board of Directors in accordance with the relevant regulations of the securities regulators. The Articles of Association stipulates that the Board of Directors of the Company could delegate its management and administrative authority to the management when necessary and provides clear guidance on the act of authorization. The senior management of the Company shall be appointed and dismissed by the Board of Directors. The office term for senior management shall be three years. The senior management may be re-appointed.

## SECTION VIII CORPORATE GOVERNANCE

### 4. Chairman and president

The Corporate Governance Code requires that chairman of the board of directors and chief executive officer should not be held by one person at the same time. On November 2, 2016, the Company received a resignation letter from Mr. Guo Xinshuang (former chairman). Mr. Guo resigned as the chairman, non-executive director, chairman of the Strategies and Development Committee and member of the Remuneration, Nomination and Credentials Committee due to work adjustment. On November 4, 2016, Mr. Xue Feng, an executive Director and president of the Company, was appointed as Chairman by the Board.

The Company is of the view that although the roles of chairman and president of the Company are performed by the same individual, the Board of the Company has five non-executive Directors and five independent non-executive Directors in addition to the chairman of the Company which delivers strong independence in the composition of the Board of Directors and is expected to fully and fairly represent the interests of the shareholders of the Company. The Board and senior management of the Company are comprised of experienced and excellent individuals. It is expected that the balance of power between the Board and senior management of the Company will not be impaired. In addition, the power of the Company does not vested on the same individual, and all significant decisions are made upon negotiations among the Board of Directors, its relevant board committees and senior management. Moreover, the Board of Directors is of the opinion that the role of chairman and president performed by the same individual can provide the Company with solid and consistent leadership and facilitate efficient business plan and decisions.

## IV. Performance of Duties of Directors

The Board of Directors shall exercise its powers and duties in accordance with the provisions of the Articles of Association, and for the best interests of the Company and the shareholders. The Board of Directors shall report to the general meetings, implement the resolutions approved by the general meetings, and be responsible to the general meetings.

### (I) Attendance of Directors at board meetings and general meetings

According to the provisions of the Articles of Association, the Board of Directors shall hold at least four meetings every year, which shall be convened by the chairman of the Board of Directors. A notice of regular meeting of the Board of Directors shall be served at least 14 days before such meeting, and shall state the date and venue of the meeting; the period of such meeting; the subject matters and agenda and the date of the notice.

A board meeting shall be held only when more than half of the Directors are present. Unless otherwise provided in the Articles of Association, any resolutions made at a board meeting shall be passed by more than half of all Directors. If a Director is related to an enterprise in a resolution to be passed at a board meeting, such Director shall not exercise his/her voting rights or on behalf of any other Directors in respect of such resolution. Such board meeting may be held when more than half of non-related Directors are present; any resolutions made at such board meeting shall be passed by more than half of non-related Directors. If the number of non-related Directors present at such Board meeting is less than three, such matters shall be submitted to a general meeting for consideration. The Board meeting shall be held onsite in principle. When necessary, the temporary meeting of the Board of Directors may be held by video conference, telephone and facsimile or by way of an on-site meeting or other ways at the same time. A Director may attend any board meetings in person, and also may appoint in writing other Directors to attend such meeting on his/her behalf.

## SECTION VIII CORPORATE GOVERNANCE

During the Reporting Period, attendance of Directors at board meetings and general meetings is as follow:

## 1. Attendance of current Directors at board meetings and general meetings

| Name of Director           | Whether or not he/she is an independent non-executive Director | Number of board meetings requiring attendance during the year | Attendance at board meetings |                                 |                     |         | Whether or not he/she failed to attend the meeting in person for two consecutive times | Attendance at general meetings |
|----------------------------|--|---|------------------------------|---------------------------------|---------------------|---------|--|--------------------------------|
|                            |  |   | Attendance in person         | Attendance by telecommunication | Attendance by proxy | Absence |  |                                |
| Gao Yunlong                | No   | 10  | 10                           | 3                               | 0                   | 0       | No   | 1                              |
| Xue Feng                   | No   | 10  | 10                           | 4                               | 0                   | 0       | No   | 3                              |
| Yin Lianchen               | No   | 10  | 10                           | 4                               | 0                   | 0       | No   | 0                              |
| Chan Ming Kin              | No   | 10  | 9                            | 3                               | 1                   | 0       | No   | 1                              |
| Yang Guoping               | No   | 10  | 6                            | 5                               | 4                   | 0       | No   | 0                              |
| Zhu Ning                   | Yes  | 10  | 9                            | 4                               | 1                   | 0       | No   | 1                              |
| Xu Jingchang               | Yes  | 10  | 10                           | 4                               | 0                   | 0       | No   | 1                              |
| Xiong Yan                  | Yes  | 10  | 9                            | 3                               | 1                   | 0       | No   | 1                              |
| Li Zheping                 | Yes  | 10  | 10                           | 4                               | 0                   | 0       | No   | 0                              |
| Au Sing Kun <sup>(1)</sup> | Yes  | 4   | 3                            | 2                               | 1                   | 0       | No   | 0                              |

## 2. Attendance of resigned Directors at board meetings and general meetings

| Name of Director               | Whether or not he/she is an independent non-executive Director | Number of board meetings requiring attendance during the year | Attendance at board meetings |                                 |                     |         | Whether or not he/she failed to attend the meeting in person for two consecutive times | Attendance at general meetings |
|--------------------------------|--|---|------------------------------|---------------------------------|---------------------|---------|--|--------------------------------|
|                                |  |   | Attendance in person         | Attendance by telecommunication | Attendance by proxy | Absence |  |                                |
| Tang Shuangning <sup>(2)</sup> | No   | 10  | 8                            | 5                               | 2                   | 0       | No   | 1                              |
| Guo Xinshuang <sup>(3)</sup>   | No   | 8   | 7                            | 2                               | 0                   | 1       | No   | 2                              |

Notes:

- (1) Mr. Au Sing Kun, an independent non-executive Director, performed formally the duties of Director on August 18, 2016, the date on which H shares of the Company were listed.
- (2) On February 24, 2017, the Board of Directors of the Company received a resignation letter from Mr. Tang Shuangning (former non-executive director). In order to focus more on the strategic development of the controlling shareholder of the Company China Everbright Group Co., Ltd., (中國光大集團股份有限公司), Mr. Tang ceased to be a non-executive Director of the Company. The resignation of Mr. Tang took effect when the resignation was served to the Board of Directors.
- (3) On November 2, 2016, the Board of Directors of the Company received a resignation letter from Mr. Guo Xinshuang (former chairman). Mr. Guo resigned as chairman, non-executive director, chairman of the Strategies and Development Committee and member of the Remuneration, Nomination and Credentials Committee due to his work adjustment.

## SECTION VIII CORPORATE GOVERNANCE

**(II) Description of the board meetings during the Reporting Period:**

|   |    |
|---|----|
| Number of board meetings convened during the year           | 10 |
| Of which: number of on-site meetings                        | 5  |
| Number of meetings held by teleconference                   | 3  |
| Number of meetings held both on-site and via teleconference | 2  |

The details of Board of Directors' meetings during the Reporting Period are as follows:

1. The 16<sup>th</sup> meeting of the fourth session Board of Directors was held on January 18, 2016. The meeting considered and approved the Proposal on the Board of Directors' Authorization to the Company' Management on the Operation and Management in 2016, the Proposal on the Scale of the Company's Proprietary Trading Business in 2016, the Proposal on Revising the Articles of Association, the Proposal on Nominating the Candidates for Independent Directors, the Proposal on Changing the Use of Funds Raised Through Non-public Issuance by the Company, the Proposal on Establishing New Branches and Sales Departments of the Company, the Proposal on Applying to Expand the Scope of the Company's Foreign Exchange Business, the Proposal on Applying for the Qualification to Carry out Overseas Investment Transaction Business, the Proposal on the Company's Increase in Capital Investment in Everbright Futures, the Proposal on the Company's Increase in Capital Investment in Everbright Fortune, the Proposal on the Head Office Remuneration Standards Approval Plan for 2015, the Proposal on the Company's Risk Preference in 2016, and the Proposal on Holding the First Extraordinary Shareholders' Meeting in 2016.
2. The 17<sup>th</sup> meeting of the fourth session Board of Directors was held on February 26, 2016. The meeting considered and approved the Board of Directors' Annual Work Report for 2015, the Company's Annual Report for 2015, the Proposal on the Company's Profit Distribution Plan for 2015, the Proposal on the Company's Expected Related Transactions in 2016, the Company's Internal Control Evaluation Report for 2015, the Company's Social Responsibility Report for 2015, the Company's Compliance Report for 2015, the Company's Special Report on the Depositing and Actual Use of the Funds Raised in 2015, the Proposal on Establishing Investment Banking Quality Control Head Office of the Company, and the Proposal on Holding the Company's Annual Shareholders' Meeting for 2015.
3. The 18<sup>th</sup> meeting of the fourth session Board of Directors was held on March 31, 2016. The meeting considered and approved the Proposal on Revising the Relevant Provisions of the Board of Directors' Power of Attorney to the Company's Management for 2016.
4. The 19<sup>th</sup> meeting of the fourth session Board of Directors was held on April 25, 2016. The meeting considered and approved the Company's 2016 First Quarter Report, the Proposal on the Establishment of Structured Financing Department of the Company and the Proposal on the Company's Application for Carrying out Carbon Emission Business.
5. The 20<sup>th</sup> meeting of the fourth session Board of Directors was held on June 15, 2016. The meeting considered and approved the Proposal on the Purchase of 49% Equity of ESIL by the Company's Hong Kong Subsidiary EBSHK from China Everbright Limited.

## SECTION VIII CORPORATE GOVERNANCE

6. The 21<sup>st</sup> meeting of the fourth session Board of Directors was held on August 1, 2016. The meeting considered and approved the Proposal on Determining the Global Offering of H Shares (Hong Kong Public Offering and International Offering) and the Listing on the Hong Kong Stock Exchange and the Proposal on the Signing of Directors and Supervisors Service Contracts and Senior Management Service Contracts.
7. The 22<sup>nd</sup> meeting of the fourth session Board of Directors was held on August 29, 2016. The meeting considered and approved the Proposal on the Company's Interim Report 2016, the Proposal on the Company's Semi-annual Compliance Report for 2016, the Proposal on the Increase in Capital Investment in EBSHK, the Proposal on Appointing the Company's Annual External Auditors for 2016 and the Proposal on Holding the Second Extraordinary Shareholders' Meeting in 2016.
8. The 23<sup>rd</sup> meeting of the fourth session Board of Directors was held on October 28, 2016. The meeting considered and approved the Proposal on the Company's 2016 Third Quarter Report, the Proposal on Establishing New Sales Departments of the Company, and the Proposal on Establishing the Private Equity Fund Subsidiaries Specialized in PPP Related Business.
9. The 24<sup>th</sup> meeting of the fourth session Board of Directors was held on November 4, 2016. The meeting considered and approved the Proposal on Electing Mr. Xue Feng as Chairman of the Board of Directors.
10. The 25<sup>th</sup> meeting of the fourth session Board of Directors was held on December 29, 2016. The meeting considered and approved the Proposal on the Company's Bonus Provision Proportion for 2016 and the Proposal on Appointing Mr. Mei Jian as a Vice President of the Company.

### (III) Objections raised by Independent Non-executive Directors

During the Reporting Period, no objections were raised by independent non-executive Directors to relevant matters.

### (IV) Training of Directors

The Company attaches great importance to the ongoing training of the Directors, in order to ensure that the Directors could have an appropriate understanding of the operation of the Company and its business and that they understand their duties and responsibilities as a director as required by the CSRC, the SSE, the Hong Kong Stock Exchange and as stipulated in the Articles of Association and other relevant laws and regulatory requirements.

In August 2016, all the then Directors of the Company attended the special trainings on Responsibilities and Obligations of Directors of Companies Listed in Hong Kong, Responsibilities and Obligations of Directors of Companies Listed in Hong Kong in respect of the Prospectus, Legal Issues Regarding Publicity Before Publication of the Prospectus and Daily Compliance After the Listing of H Shares delivered by Latham & Watkins, the Hong Kong legal adviser to the Company.

## SECTION VIII CORPORATE GOVERNANCE

**(V) Performance of Duties of the Special Committees under the Board of Directors during the Reporting Period**

To strengthen the decision-making function of the Board of Directors, and to ensure that the Board of Directors effectively monitors the management and optimizes the corporate governance structure of the Company, the Board of Directors of the Company has established the Risk Management Committee, the Audit Committee, the Remuneration, Nomination and Credentials Committee and the Strategies and Development Committee according to the Company Law, the Hong Kong Listing Rules and the relevant regulations of the supervision authorities. The members of a special committee shall consist of Directors. independent non-executive Directors shall represent more than half of the Audit Committee and the Remuneration, Nomination and Credentials Committee and an independent non-executive Director shall act as the chairman. At least one independent non-executive Director with more than 5 years' professional experience in accounting shall serve as a member on the Audit Committee. The establishment of any special committees under the Board of Directors shall be approved at a general meeting.

In 2016, the special committees under the Board of Directors convened a total of 12 meetings, of which the Remuneration, Nomination and Credentials Committee convened two meetings, the Strategies and Development Committee convened one meeting, the Audit Committee convened four meetings, and the Risk Management Committee convened five meetings. In compliance with the relevant requirements of the Articles of Association and the rules of procedures for each committee, every special committee under the Board of Directors earnestly performed its duties, made use of the professional experience of its members, thus providing a strong support for decision-making of the Board of Directors.

The composition of the special committees is as follows:

|   |   |
|---|---|
| Remuneration, Nomination and Credentials Committee <sup>(1)</sup> | Xiong Yan (chairman), Xue Feng, Zhu Ning, Xu Jingchang                      |
| Strategies and Development Committee <sup>(1)</sup>               | Xue Feng, Chan Ming Kin, Zhu Ning, Xiong Yan                                |
| Audit Committee   | Xu Jingchang (chairman), Chan Ming Kin, Yang Guoping, Xiong Yan, Li Zheping |
| Risk Management Committee   | Zhu Ning (chairman), Yang Guoping, Yin Lianchen, Xu Jingchang, Li Zheping   |

Note:

- (1) Mr. Guo Xinshuang resigned as chairman, non-executive director, chairman of the Strategies and Development Committee, and member of Remuneration, Nomination and Credentials Committee on November 2, 2016.

## SECTION VIII CORPORATE GOVERNANCE

The duties and convention of meetings of special committees are as follow:

### ***Remuneration, Nomination and Credentials Committee***

The Remuneration, Nomination and Credentials Committee shall have the following primary powers and duties:

1. to prepare any remuneration plan or scheme in accordance with the main scope, responsibility, importance of the management posts of a Director, the president and other officer and the remuneration level for the similar posts of other related enterprises;
2. to submit a remuneration plan or scheme to the Board of Directors including but not limited to the main plans and systems with respect to performance evaluation criteria, procedures and main evaluation system, rewards and punishments;
3. to review the performance of any Directors (other than independent non-executive Directors), the president and other officers of the Company and make annual appraisals of such performance;
4. to be responsible for monitoring the implementation of the remuneration system of the Company;
5. to make suggestions in respect of the scale and constitution of the Board of Directors according to the business activities, asset scale and equity structure of the Company;
6. to research for the candidates for positions of Directors and other officers;
7. to search for candidates for qualified Directors and other officers;
8. to screen any candidates for Directors, the president and other officers and make suggestions;
9. to screen and make suggestions with respect to any senior officers to be appointed by the Board of Directors;
10. to review and make suggestions at least once a year with respect to the structure, number and constitution of the Board of Directors (including skills, knowledge and experience); and
11. to be responsible for other matters authorized by the Board of Directors.

## SECTION VIII CORPORATE GOVERNANCE

To achieve diversity of the Board of Directors, reasonable structure, Remuneration, Nomination and Credentials Committee of Board of Directors shall make opinions or suggestions at least once a year with respect to the structure, number and constitution of the Board of Directors (including skills, knowledge and experience) according to the business activities, asset scale and shareholding structure of the Company, and also make recommendations on any changes to the Board of Directors that are in line with the Company's strategy. In order to comply with and implement the relevant provisions of the Hong Kong Listing Rules on the diversification of the board of directors, and ensure that the composition of the Board of Directors is more scientific and reasonable, the Company has formulated the Policy on Diversification of Directors of Everbright Securities (光大證券股份有限公司董事多元化政策) which includes the purpose of formulating the policy, policy descriptions, measurable goals, supervision and reporting. The Company confirms that the composition of the Board of Directors complies with the provisions of the Hong Kong Listing Rules relating to the diversification of directors and is in line with the diversified policies formulated by the Company.

The Working Rules of Remuneration, Nomination and Credentials Committee has been published on the websites of the Company and the Hong Kong Stock Exchange. During the Reporting Period, the Remuneration, Nomination and Credentials Committee convened a total of two meetings, and the detail is as follows:

- On January 7, 2016, the 1<sup>st</sup> meeting of the fourth session of Remuneration, Nomination and Credentials Committee of the Board of Directors in 2016 considered and approved the Proposal on the Aggregate Remuneration of the Company for 2015 and the Proposal on the Nomination of Independent Directors.
- On December 22, 2016, the 2<sup>nd</sup> meeting of the fourth session of Remuneration, Nomination and Credentials Committee of the Board of Directors in 2016 considered and approved the Proposal on the Annual Bonus for 2016 of Senior Management and the Proposal on the Employment of Certain Senior Officers.

During the Reporting Period, the attendances of members of Remuneration, Nomination and Credentials Committee at meetings held are as follows:

| Name                 | Position                                | Number of actual attendances/<br>Number of meetings required attendance |
|----------------------|---|---|
| Xiong Yan (chairman) | Independent non-executive Director      | 2/2   |
| Xue Feng             | Chairman, executive Director, president | 2/2   |
| Zhu Ning             | Independent non-executive Director      | 1/2   |
| Xu Jingchang         | Independent non-executive Director      | 2/2   |



## SECTION VIII CORPORATE GOVERNANCE

### *Strategies and Development Committee*

The Strategies and Development Committee shall have the following primary powers and duties, including:

1. to research and make suggestions with respect to the long-term strategic plan of the Company;
2. to research and make suggestions with respect to any material financing plan required to be approved by the Board of Directors as stipulated in the Articles of Association;
3. to research and make suggestions with respect to any material capital operations and asset operation projects required to be approved by the Board of Directors as stipulated in the Articles of Association;
4. to research and make suggestions with respect to any other material matters affecting the development of the Company;
5. to examine the implementation of all such matters above; and
6. to be responsible for other matters authorized by the Board of Directors.

The Working Rules of Strategies and Development Committee has been published on the websites of the Company and the Hong Kong Stock Exchange. During the Reporting Period, the Strategies and Development Committee convened a total of one meeting, and the detail is as follows:

- On January 7, 2016, the 1<sup>st</sup> meeting of the fourth session of Strategies and Development Committee of the Board of Directors in 2016 considered and approved the Proposal of the Establishment of New Subsidiaries and Operation Departments of the Company, the Proposal on the Expansion of Foreign Exchange Business of the Company and the Proposal on the Commencement of the Overseas Proprietary Business of the Company.

During the Reporting Period, the attendances of the members of the Strategies and Development Committee at the meeting held are as follows:

| Name                         | Position                                | Number of actual attendances/<br>Number of meetings requiring attendance |
|------------------------------|---|--|
| Xue Feng                     | Chairman, executive Director, president | 1/1  |
| Chan Ming Kin                | Non-executive Director                  | 1/1  |
| Zhu Ning                     | Independent non-executive Director      | 1/1  |
| Xiong Yan                    | Independent non-executive Director      | 1/1  |
| Guo Xinshuang <sup>(1)</sup> | Former chairman, non-executive Director | 1/1  |

Note:

- (1) Mr. Guo Xinshuang resigned as the Chairman, a non-executive Director, Chairman of the Strategies and Development Committee and a member of Remuneration, Nomination and Credentials Committee on November 2, 2016.

**SECTION VIII CORPORATE GOVERNANCE***Audit Committee*

The Audit Committee shall have the following primary powers and duties:

1. to propose to engage or replace external auditors and monitor the business practice of such external auditors;
2. to monitor the internal audit system of the Company and its implementation;
3. to be responsible for communications between the internal auditors and external auditors;
4. to review the financial information of the Company and its disclosure; to monitor annual audit work and make a judgment as to the truthfulness, accuracy and completeness of the financial report and information subsequent to such audit and submit the same to the Board of Directors for consideration;
5. to review the internal control systems of the Company and audit any material related-party transactions; and
6. to be responsible for other matters authorized by the Board of Directors.

The Working Rules of Audit Committee has been published on the websites of the Company and the Hong Kong Stock Exchange. During the Reporting Period, the Audit Committee convened a total of four meetings, and the detail is as follows:

- On January 14, 2016, the 1<sup>st</sup> meeting of the fourth session of Audit Committee of the Board of Directors in 2016 considered and approved the Proposal on Changing the Use of Funds Raised through Non-public Issuance.
- On February 25, 2016, the 2<sup>nd</sup> meeting of the fourth session of Audit Committee of the Board of Directors in 2016 considered and approved the Proposal on the Company's Financial Report for 2015 and the Proposal on the Statement of Net Capital and Risk Control Parameters Supervision Statement of the Company for 2015.
- On August 26, 2016, the 3<sup>rd</sup> meeting of the fourth session of Audit Committee of the Board of Directors in 2016 considered and approved the Proposal on the Company's Interim Financial Report for 2016 and the Proposal on the Engagement of the Company's External Auditors for 2016.
- On October 28, 2016, the 4<sup>th</sup> meeting of the fourth session of Audit Committee of the Board of Directors in 2016 considered and approved the Proposal on the Company's 2016 Third Quarterly Report.

## SECTION VIII CORPORATE GOVERNANCE

During the Reporting Period, the attendances of the members of the Audit Committee at the meetings held are as follows:

| Name          | Position                           | Number of actual attendances/<br>Number of meetings requiring attendance |
|---------------|------------------------------------|--|
| Xu Jingchang  | Independent non-executive Director | 4/4  |
| Chan Ming Kin | Non-executive Director             | 4/4  |
| Yang Guoping  | Non-executive Director             | 4/4  |
| Xiong Yan     | Independent non-executive Director | 4/4  |
| Li Zheping    | Independent non-executive Director | 4/4  |

*Overview of the audit work of the Company:*

KPMG Huazhen LLP (Special General Partnership) and KPMG ("KPMG") carried out the 2016 audit on the Company by two stages, the preliminary audit and year-end audit. In the preliminary audit stage, KPMG conducted the audit on internal control, carried out internal control test at the entity level to the Company's level and business process level (including the business processes of the headquarters and securities brokerage branches), and evaluated the effectiveness of the internal control design and whether it has been effectively implemented during the audit. Through the interview, KPMG understood the Company's control environment, the main operation conditions, business innovation, system updates and fraud risk. KPMG conducted a preliminary audit on major subjects of financial statements, such as financial instruments, operating income, investment income and other subjects. KPMG also made a testing and evaluation on the main information system used by the Company and discussed timely the finding of preliminary audit with the Company's management. At the end of year-end audit, KPMG followed up the finding on the preliminary audit stage and conducted detailed audit procedures for all major subjects, and communicated the finding of year-end audit with the Company's management.

In order to successfully complete the audit in 2016 and issue relevant reports, the Audit Committee of the fourth session of the Board of Directors authorized the planning and finance department of the Company to discuss with KPMG about the planning of audit work, audit progress, valuation of financial instruments, scope of consolidation, timing of initial draft and final draft of the audit report, etc. During the audited period, the Audit Committee made multiple rounds of supervision. On March 29, 2017, KPMG issued the standard unqualified audit reports to the Company within the scheduled time.

**SECTION VIII CORPORATE GOVERNANCE**

The Audit Committee reviewed the independence, objectivity and audit procedure of KPMG to ensure that the reports issued are true and objective. KPMG has taken the necessary protective measures in accordance with the relevant ethical requirements to prevent possible threats to independence.

The Audit Committee was of the opinion that KPMG has implemented the appropriate audit procedures in accordance with the requirements of the relevant accountants auditing standards, issued audit opinion on the base of obtaining sufficient, appropriate and effective audit evidence and adhered to the independent auditing standards, which hereby ensured the smooth development of the Company's annual audit work.

***Risk Management Committee***

The Risk Management Committee is mainly responsible for monitoring the overall risk management of the Company and controlling such risks within reasonable limits, so as to ensure that the Company may implement effective risk management plans with respect to various risks in the business related activities of the Company. The Risk Management Committee is responsible to the Board of Directors and report to it, as follows:

1. to evaluate and express opinions with respect to the overall target and basic policies of compliance management and risk management;
2. to evaluate and express opinions with respect to the establishment of compliance management and risk management organizations and the powers and duties thereof;
3. to evaluate and express opinions with respect to the risks of material decisions to be considered by the Board of Directors and the solution of such material risks;
4. to review and express opinions with respect to the compliance report and risk evaluation report to be considered by the Board of Directors; and
5. to be responsible for other powers and duties as stipulated in the Articles of Association.

## SECTION VIII CORPORATE GOVERNANCE

The Working Rules of Risk Management Committee has been published on the websites of the Company and the Hong Kong Stock Exchange. During the Reporting Period, the Risk Management Committee convened a total of five meetings, and the detail is as follows:

- On January 18, 2016, the 1<sup>st</sup> meeting of the fourth session of Risk Management Committee of the Board of Directors in 2016 considered and approved the Proposal on Granting Authorisation to the President for Operation and Management in 2016 by the Board, the Proposal on the Scale of the Proprietary Business of the Company in 2016, the Proposal on Capital Increase in Everbright Futures by the Company, the Proposal on Capital Increase in Everbright Fortune by the Company and the Proposal on Risk Appetites of the Company in 2016.
- On February 25, 2016, the 2<sup>nd</sup> meeting of the fourth session of Risk Management Committee of the Board of Directors in 2016 considered and approved the Company's Compliance Report for 2015.
- On March 25, 2016, the 3<sup>rd</sup> meeting of the fourth session of Risk Management Committee of the Board of Directors in 2016 considered and approved the Proposal on the Amendments to the Relevant Terms of the Authorisation to the Management of the Company by the Board in 2016.
- On April 19, 2016, the 4<sup>th</sup> meeting of the fourth session of Risk Management Committee of the Board of Directors in 2016 considered and approved the Proposal on the Application for the Commencement of Carbon Emission Business by the Company.
- On August 26, 2016, the 5<sup>th</sup> meeting of the fourth session of Risk Management Committee of the Board of Directors in 2016 considered and approved the Proposal on the Company's Interim Compliance Report for 2016 and the Proposal on Capital Increase in EBSHK by the Company.

During the Reporting Period, the attendances of the members of the Risk Management Committee at the meetings held are as follows:

| Name         | Position                           | Number of actual attendances/<br>Number of meetings required attendance |
|--------------|------------------------------------|---|
| Zhu Ning     | Independent non-executive Director | 5/5   |
| Yang Guoping | Non-executive Director             | 5/5   |
| Yin Lianchen | Non-executive Director             | 5/5   |
| Xu Jingchang | Independent non-executive Director | 5/5   |
| Li Zheping   | Independent non-executive Director | 5/5   |

**SECTION VIII CORPORATE GOVERNANCE****V. Supervisory Committee**

The Supervisory Committee is a supervisory body of the Company and shall be accountable to the general meeting. As required by the Company Law and Articles of Association, the Supervisory Committee is responsible for monitoring the Company's financial activities and internal control, and overseeing the legality and compliance of the performance of duties by the Board, the management and its members.

For the year of 2016, in strict compliance with the relevant requirements of the Company Law, the Securities Law, the Articles of Association and the Rules of Procedures for the Supervisory Committee, the Supervisory Committee of the Company performed its duties earnestly and diligently.

**(I) The meetings of the Supervisory Committee and the attendance of Supervisors during the Reporting Period**

During the Reporting Period, the Supervisory Committee held a total of five meetings, including four on-site meetings and one meeting via telecommunication, and supervised the Company's legal compliance, financial status, and the duty performance by the Board of Directors and the Company's management.

Before attending the meetings of the Supervisory Committee, the Supervisors carefully reviewed the meeting materials, and fully discussed and considered the proposals. The Supervisors failing to attend on site obtained detailed understanding and made in-depth analysis of meeting materials and proposal background, and authorized other Supervisors to exercise their rights of voting and fulfill the duty of Supervisors. The details of the meetings of the Supervisory Committee held during the Reporting Period are as follows:

1. The 9<sup>th</sup> meeting of the fourth session of the Supervisory Committee was held on January 19, 2016. The meeting considered and approved the Proposal on Changing the Use of Funds Raised through Non-public Issuance.
2. The 10<sup>th</sup> meeting of the fourth session of the Supervisory Committee was held on February 26, 2016. The meeting considered and approved the Proposal on the Supervisory Committee Work Report for 2015, the Proposal on the Company's Annual Report for 2015 and its Summary, the Proposal on the Company's Internal Control Evaluation Report for 2015, the Proposal on the Company's Compliance Report for 2015, and the Special Report on the Depositing and Actual Use of the Company's Subscription Funds in 2015.
3. The 11<sup>th</sup> meeting of the fourth session of the Supervisory Committee was held on April 25, 2016. The meeting considered and approved the Proposal on the Company's 2016 First Quarterly Report.
4. The 12<sup>th</sup> meeting of the fourth session of the Supervisory Committee was held on August 29, 2016. The meeting considered and approved the Company's Interim Report for 2016 and the Company's Interim Compliance Report for 2016.
5. The 13<sup>th</sup> meeting of the fourth session of the Supervisory Committee was held on October 28, 2016. The meeting considered and approved the Proposal on the Company's 2016 Third Quarterly Report.

## SECTION VIII CORPORATE GOVERNANCE

During the Reporting Period, the attendances by the members of the Supervisory Committee at the meetings held are as follows:

| Name          | Number of meetings of Supervisory Committee requiring attendance | Attendance in person | Attendance by the way of teleconference | Attendance by proxy | Absence |
|---------------|--|----------------------|---|---------------------|---------|
| Liu Jiping    | 5  | 5                    | 1                                       | 0                   | 0       |
| Jiang Bo      | 5  | 3                    | 1                                       | 2                   | 0       |
| Nie Ting Ming | 4  | 2                    | 0                                       | 2                   | 0       |
| Zhu Wuxiang   | 5  | 2                    | 1                                       | 3                   | 0       |
| Zhang Limin   | 5  | 4                    | 1                                       | 1                   | 0       |
| Wang Wenyi    | 5  | 5                    | 1                                       | 0                   | 0       |
| Li Bingtao    | 5  | 5                    | 1                                       | 0                   | 0       |
| Huang Qin     | 5  | 5                    | 1                                       | 0                   | 0       |

Note: Members of the Fourth Session of Supervisory Committee include Liu Jiping (chairman of the Supervisory Committee), Jiang Bo (resigned from the position of Supervisor of the Company on February 24, 2017), Nie Ting Ming (resigned as a Supervisor of the Company on March 27, 2017), Zhu Wuxiang, Zhang Limin, Wang Wenyi, Li Bingtao (resigned as a Supervisor of the Company on January 16, 2017) and Huang Qin.

The Supervisory Committee of the Company had no objections towards the matters under supervision during the Reporting Period.

### (II) Trainings of Supervisors

The Company attaches great importance to the continuous trainings of Supervisors to ensure they have proper understanding of the Company's operation, business and the latest regulatory requirements. During the Reporting Period:

1. In May 2016, Jiang Bo, Nie Ting Ming and Zhang Limin, the Supervisors of the Company, attended the 2016 phase one of the training programme for directors and supervisors of listed companies in Shanghai held by CSRC's Shanghai branch and the Listed Companies Association of Shanghai.
2. In August 2016, all the then Supervisors attended the special trainings on Responsibilities and Obligations of Directors of Companies Listed in Hong Kong, Responsibilities and Obligations of Directors of Companies Listed in Hong Kong in respect of the Prospectus, Legal Issues Regarding Publicity Before Publication of the Prospectus and Daily Compliance After the Listing of H Shares delivered by Latham & Watkins, the Company's Hong Kong legal adviser.

## VI. The Evaluation of Senior Management as well as the Establishment and Implementation of Incentive Mechanism during the Reporting Period

The Remuneration, Nomination and Credentials Committee under the Company's Board of Directors carried out evaluation of the Company's senior management according to the Board of Directors' authorization, based on which it developed the remuneration and reward and punishment matters on senior management. The remuneration of the Company's senior management is determined by the Board of Directors. The Company has not yet developed any equity incentive system.

## SECTION VIII CORPORATE GOVERNANCE

## VII. Internal Control

### (I) Internal control construction

The Company has made clear the responsibilities of the Board of Directors, the Supervisory Committee, the audit department and other internal bodies in the supervision, inspection and evaluation of internal control: the Supervisory Committee is responsible for assessing and determining the nature and extent of the risks that the Company is willing to accept when the Company achieves its strategic objectives and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems, including evaluating their effectiveness. These systems are designed to manage rather than eliminate the risks of failure to meet business objectives and only to make reasonable and non-absolute guarantees that there will be no material misconduct. The Audit Committee under the Board of Directors is responsible for reviewing the Company's internal controls and the effectiveness of their implementation, as well as for the supervision and inspection of the Company's internal and external audit. The Supervisory Committee independently exercises the supervisory authority and is responsible to all the shareholders. It supervises and questions the Company's finance and the duty performance by the Company's Directors and senior management so as to protect the legitimate rights and interests of the Company and its shareholders. The audit department, the risk management department, the legal compliance department, and various business and management departments work cooperate and also perform their duties, and carry out periodic and ad hoc supervision and inspection of the establishment and implementation of the Company's internal control systems. The audit department carries out auditing and supervision of business, management departments and branches and supervises the rectification according to external requirements and the Company's operation and management needs.

The Company attaches great importance to the construction of internal control system and related mechanism. In accordance with the Company Law, the Securities Law, the Regulations on the Supervision and Administration of Securities Companies, the Guidelines on Internal Control of Securities Companies, the Hong Kong Listing Rules, the Basic Standards for Enterprise Internal Control and their supporting guidelines, the Company constantly improves the internal control system, and has established a set of internal control systems that match the Company's business nature, size and complexity, according to the Company's actual situation, with comprehensive consideration of factors such as internal environment, risk assessment, control activities, information and communication, internal supervision, etc.

In carrying out the risk management, the Company follows the basic procedures such as risk identification, assessment, measurement, monitoring, reporting, response and disposal, etc., and continuously improves the risk information feedback mechanism to ensure that all kinds of risks are handled in a timely manner. In the aspect of risk identification, the Company fully utilizes tools and methods such as qualitative analysis, quantitative model and due diligence, carries out sufficient identification and analysis of the various potential risks involved in the business carried out, the products developed, the services provided and the programs invested, further determines the risks faced by the Company and their nature, assesses their change trend, and develops sound risk management measures. On the basis of risk identification, the Company selects the appropriate qualitative assessment method and quantitative model according to the type and characteristic of business risks so as to measure and evaluate risks effectively. According to business risk measurement and assessment situation, the Company establishes reasonable and effective risk response and relief mechanism in response to the risks of different categories, different probabilities of occurrence and different degrees of losses, and develops appropriate risk control measures to manage and mitigate the additional risks that may be triggered by tools or methods, and minimizes the impact that is or may be caused by the risk events incurred on the Company.



## SECTION VIII CORPORATE GOVERNANCE

In view of the significant risks arising in operation and management activities, the Company conducts close monitoring of potential significant risks on the basis of strict implementation of relevant business entry, risk decision-making processes and risk limits, and fully assesses and analyzes the adverse effects brought by them, actively takes appropriate mitigation measures, prepares well for emergency, carries out assessment in accordance with the timely, effective, rapid and legal disclosure principles, develops emergency response plan, and organizes relevant departments to quickly and effectively complete the emergency treatment and recovery plans so as to ensure the sustainable operation of the Company and the compliance with regulatory requirements.

In consideration of internal and external environment changes and business development, the Company determines the key entities, businesses and matters to be included in the evaluation scope and identifies high risk areas according to the risk-oriented principle, covering the major aspects of the Company's operation and management, and timely tracked, discovered and improved the Company's internal control defects. Through the above work, the Company has supplemented and amended the institutional provisions that are lacked or imperfect, and has refined and optimized some business processes and internal control measures to make the Company's processes more reasonable and effective enough.

### (II) The Board of Directors' statement on the responsibility for internal control

It is the responsibility of the Board of Directors to establish a sound and effective internal control system, evaluate its effectiveness and truthfully disclose the internal control evaluation report according to the provisions of enterprise internal control system. The Supervisory Committee supervises the establishment and implementation of internal control by the Board of Directors. The senior management is responsible for organizing and leading the daily operation of the internal control of the Company.

The objective of the Company's internal control is to ensure that the operation and management are legal and compliant, the assets are safe, the financial reports and related information are true and complete so as to improve operational efficiency and effectiveness, and to promote the realization of the development strategy. Due to the inherent limitations of internal control, it can only provide reasonable assurance for achieving the above objectives. In addition, due to changes in the situation, internal control may become inappropriate, or the degree of compliance with control policies and procedures will reduce, and there will be certain risks in predicting the effectiveness of future internal control according to the results of internal control evaluation.

The Board of Directors of the Company has evaluated the internal control of the Company in accordance with the requirements of the Basic Standards for Enterprise Internal Control, and concluded that the Company's internal control continued to be effective as of December 31, 2016 and found no material or significant defects in the Company's financial and non-financial reports.

In 2017, the Company will continue to improve the internal control system, standardize the implementation of internal control system and strengthen the supervision and inspection of internal control according to the changes in the external business environment and the actual needs of the Company's development, and in accordance with the provisions and requirements of the Basic Standards for Enterprise Internal Control and the Code of Corporate Governance so as to promote the sound and sustainable development of the Company.

**SECTION VIII CORPORATE GOVERNANCE****(III) The basis for the establishment of internal control related to financial reporting**

The Company attaches importance to the establishment and perfection of the internal control system related to financial report. According to the requirements of accounting law, accounting standard and related financial system, the Company has established corresponding rules and regulations in business accounting, costs and expenses, financial management and accounting information system management. According to the requirements of the Basic Standards for Enterprise Internal Control and the Guidelines on the Application of Enterprise Internal Control, the Company has set up a scientific financial and accounting structure, equipped with qualified financial and accounting professionals, used standardized and rigorous financial and accounting management system, and selected appropriate accounting policies and reasonable accounting estimates to ensure that the financial report prepared by the Company meets the requirements of accounting standards, and can truthfully, accurately and completely reflect the Company's financial situation, operating results, cash flow and other relevant information.

During the Reporting Period, the Company's internal control system related to financial report was sound and the operation was in good condition, which could guarantee the quality of financial report and ensure the high reliability of financial information. Since the listing of the shares of the Company, all regular reports have been timely disclosed and there was no material defect in financial reporting internal control.

**(IV) Report on self-evaluation of internal control**

The Board of Directors reviewed the effectiveness of the Company's internal control design and operation as of December 31, 2016, in accordance with laws and regulations such as the Basic Standards for Enterprise Internal Control. For details, please refer to the 2016 Annual Internal Control Evaluation Report of Everbright Securities disclosed by the Company on the SSE's website ([www.sse.com.cn](http://www.sse.com.cn)).

During the Reporting Period, the Company has established internal control on the business and matters included in the evaluation scope and effectively implemented it, and achieved the objectives of internal control of the Company. There were no material defects in the design or implementation of internal control. There was no significant change in the internal control that had a material impact on the evaluation conclusion during the period from the base date to the issuance date of internal control evaluation report.

**(V) Description of the relevant contents of the internal control audit report**

The Board of Directors has engaged external auditors to conduct auditing on the internal control design and operation of the Company as of December 31, 2016, in accordance with laws and regulations such as the Basic Standards for Enterprise Internal Control. The auditor has also issued an auditors' report on the Company internal control system. For details, please refer to the 2016 Annual Internal Control Audit Report of Everbright Securities disclosed by the Company on the SSE's website ([www.sse.com.cn](http://www.sse.com.cn)).

## SECTION VIII CORPORATE GOVERNANCE

### (VI) The defects of internal control and their identification

In accordance with the requirements on the identification of major defects, important defects and general defects as provided in the Basic Standards for Enterprise Internal Control, the Guidelines on Internal Control of Enterprises, the Guidelines on Internal Control of Securities Companies and the Guidelines on Internal Control of the Companies listed on the SSE. Taking into account the Company's size, industry characteristics and risk level, etc., the Board of Directors studied and determined the internal control defects and the specific identification criteria applicable to the Company, which includes material defects, significant defects and general defects according to the degree of the impacts of defects.

Material defects refer to the combination of one or more control defects that may cause the enterprise to seriously deviate from control objectives. Significant defects refer to the combination of one or more control defects, which have inferior severity and economic consequences compared to material defects, but are still likely to cause the enterprise to deviate from control objectives. General defects refer to other defects other than material defects and significant defects.

### (VII) Management of inside information

The Company attaches great importance to insider information management. In order to strengthen the insider information confidentiality work, safeguard the fairness of information disclosure and protect the legitimate rights and interests of investors, the Company has Measures on the Administration of Information Disclosure Matters and Measures of Registration of Insiders in accordance with the PRC Company Law, the PRC Securities Law, Provisions on Listed Companies' Establishment of Insider Registration Management System, the Hong Kong Listing Rules, and other domestic and foreign laws, regulations and other normative documents (including the relevant laws, regulations, stock listing rules or other normative documents promulgated by the stock exchange where the Company's securities are listed).

According to the laws and regulations promulgated at the place where the Company's securities are listed, the Company has clearly defined the following in the Measures of Registration of Insiders: the coverage of the information that involves the Company's operation and finance, or that may have significant impact on the market prices of the Company's stocks and that has not been publicly disclosed on the information disclosure media designated by securities regulatory authorities, and the scope of insiders. In addition, the Company has specified in detail the insider management, the insider information confidentiality management and the penalties for the disclosure of insider information.

In accordance with the relevant provisions of the Measures of Registration of Insiders, the Company has issued a confidentiality prompt letter to the Directors, Supervisors, senior management and related personnel of the Company, prompting them to fulfill the confidentiality obligation before information disclosure, and timely conducted registration of insiders. During the Reporting Period, the Company was not involved in any circumstance of violating the Measures of Registration of Insiders.

The Company carried out information disclosure strictly according to regulatory requirements. In the Measures on the Administration of Information Disclosure Matters, the Company has clearly defined the basic principles of information disclosure and the disclosure rules. In addition, the Company has specified that the Board of Directors is responsible for developing and implementing the Measures on the Administration of Information Disclosure Matters, the Company's president is the first responsible person for the implementation of information disclosure matters management system, and the secretary to the Board of Directors is responsible for the specific coordination. The Supervisory Committee is responsible for supervising the Company's information disclosure, carrying out periodic or ad hoc inspection of the implementation of the Measures on the Administration of Information Disclosure Matters, supervising the Board of Directors to timely correct the material defects identified, and requiring the Board of Directors when necessary to revise the relevant system.

## SECTION VIII CORPORATE GOVERNANCE

## VIII. The Company's Risk Management, Compliance and Audit Work

## (I) The Company's risk management work and the establishment of dynamic risk control indicators monitoring and complementing mechanism

## 1. Introduction to risk management

The Company attaches great importance to risk control work. In accordance with the requirements of the Measures on the Administration of Risk Control Indicators of Securities Companies, the Provisions on the Comprehensive Risk Management of Securities Companies, and other regulatory and self-disciplinary requirements, and in consideration of the Company's actual situation, the Company has established the comprehensive risk management system that matches the Company's own development strategy. The Company's risk management organization consists of four levels including the Board of Directors and its Risk Management Committee, the management and its subordinate professional committees, the risk management functional departments and the business departments. The Company has appointed the chief risk officer to take full responsibility for risk management and set up a professional risk management responsible for risk identification, evaluation, monitoring and reporting. The Company monitors and manages the credit risk, market risk, liquidity risk, operational risk, compliance risk and legal risk faced by it through various means and methods.

*Board of Directors and its Risk Management Committee*

The Board of Directors is the highest level of risk management and internal control management, responsible for supervising, inspecting and evaluating the Company's risk management. The Board of Directors has set up a subordinate Risk Management Committee that carries out risk management within the scope of authorization by the Board of Directors.

*The management and its subordinate professional committees*

The Company's management is responsible for the implementation of the basic risk management and risk tolerance approved by the Board of Directors and developing an effective risk management performance evaluation system. The professional committees under the Company's management include the Risk Management Committee, the Asset and Liability Committee and the Compliance Working Committee.

*Chief Risk Officer*

The chief risk officer is nominated by the president and appointed by the Board of Directors. The chief risk officer is responsible for promoting the establishment of a comprehensive risk management system and process of the Company, developing risk management policies, monitoring the overall effectiveness of day-to-day risk management and reporting to the chairman and the president on risk management.

## SECTION VIII CORPORATE GOVERNANCE

### *Risk management functional departments*

Risk management functional departments include risk management department, legal and compliance department, audit department, planning and finance department, information technology department and the general office. Being independent from the business departments that generate income, these departments perform day-to-day internal control and risk management functions, and report to the Board of Directors and senior management on the implementation of risk management processes and internal control policies.

### *Business departments*

The business departments generating income and the sales departments of the Company have set up independent risk control positions and report risk management events timely to the departments that bear the risk management functions.

The Company has promoted a risk management culture of sound operation, developed a set of comprehensive and implementable risk management system, established a management mechanism with risk appetite and limit management and multi-level risk reporting, and set up a three lines of risk management composed of business departments, risk management functional departments and audit department. The Company has ensured the implementation of risk management system through auditing, inspection, performance appraisal and other means.

## 2. Dynamic risk control indicators monitoring and complement mechanism

The Company has strictly enforced the relevant requirements of the regulatory authorities, and comprehensively established a mechanism for the dynamic monitoring and complementing of risk control indicators such as net capital: firstly, the Company has established a system for the monitoring of net capital and other risk control indicators, and constantly updated it according to regulatory guidelines; secondly, the Company has developed and implemented the organization system and supporting internal control system to guarantee monitoring system construction and operation, and clearly standardized net capital dynamic monitoring, stress testing, emergency disposal and net capital complementing process and mechanism; thirdly, the Company has designated risk management department as the functional department for management of risk control indicators, and carries out periodic or ad hoc stress testing of risk control indicators such as net capital according to the needs.

During the Reporting Period, the Company promptly carried out the investigation of compliance with the new risk control indicators, the development and implementation of rectification plan, launched trainings on the new rules on risk control indicators, timely upgraded its net capital monitoring system in strict accordance with the Measures on the Administration of Risk Control Indicators of Securities Companies and supporting rules promulgated by the CSRC, and has achieved the effective implementation of the new rules on risk control indicators in the Company.

**SECTION VIII CORPORATE GOVERNANCE****(II) Compliance work**

In accordance with the requirements of the CSRC, and in consideration of the Company's actual situation, the Company has established a scientific, rational and well-defined compliance management structure system. The system consists of four levels including the Board of Directors and its subordinate Risk Management Committee, chief compliance officer, legal compliance department, and the compliance officers of the Company's departments and branches.

In 2016, surrounding the Company's strategic planning, the Company's compliance department continued to promote the system construction and improvement, optimized the compliance management work processes, strengthened the construction of Chinese Wall and anti-money laundering work, enhanced the legal protection and compliance support of business, and actively launched legal publicity and compliance training so as to promote the historical issues and litigation disputes to be properly resolved.

In 2016, the Company's compliance department carried out nearly 30 compliance checks and self-inspections, covering the NEEQ business, bond business, asset management business, Internet finance business, proxy sale of financial products, anti-money laundering, proposed compliance recommendations on the problems identified through inspection, and supervised the completion of various rectification matters.

**(III) Internal audit work**

During the Reporting Period, under the guidance of the Board of Directors, the Supervisory Committee and the management of the Company, the internal audit department of the Company actively carried out the auditing work by actively changing the working mode, strengthening the management of the project process and improving the means of off-site auditing, earnestly performed supervisory functions, and implemented 99 audit projects.

According to the further requirements on auditing works made by the Audit Committee of the Board of Directors and the Supervisory Committee, the Company's audit department will continue to improve and innovate the audit means to promote the construction of information-based auditing, implement the supervision and evaluation of the audited departments, reveal the main risks and problems, supervise the audited departments to implement rectification, and promote them to further improve risk prevention awareness, improve internal management and improve internal control construction.

## SECTION VIII CORPORATE GOVERNANCE

### IX Investor Relations

#### (I) Overview of investor relations

The shareholders' general meeting is the highest authoritative organ of the Company, and the shareholders exercise their rights through the shareholders' general meeting. The Company convenes and holds shareholders' general meetings in strict compliance with the relevant provisions to ensure the equal status of all shareholders, in particular the minority shareholders, and enable them to exercise their rights completely. Under the Articles of Association, the Company has orderly operated and maintained a sound and stable development, as well as effectively protected the interests of the Company and shareholders.

The Company pays high attention to the shareholders' opinions and advice, actively and regularly carries out various investor relations activities to keep communications with shareholders and meet their reasonable needs timely. Meanwhile, the Company publishes the Company's announcements, financial information and other relevant information through the Company's website [www.ebscn.com](http://www.ebscn.com) acting as a channel for the effective communication with the shareholders. If the shareholder has any inquiries, he/she can make the inquiries through e-mail, hotline and letter to the office address of the Company, and the Company will promptly deal with the relevant inquiries in a proper manner.

Shareholders who wish to know more about the matters related to the Company's investor relations can contact the Company's investor relations team:

Facsimile : +86-21-2216 9964  
E-mail : [ebs@ebscn.com](mailto:ebs@ebscn.com)  
Postal address : No. 1508, Xinzha Road Jing'an District, Shanghai, China  
Postal code : 200040

**SECTION VIII CORPORATE GOVERNANCE****(II) Revision of the Articles of Association during the Reporting Period**

During the Reporting Period, since the foreign shares (H shares) of the Company were issued and listed on the Main Board of the Hong Kong Stock Exchange, the Company revised the Articles of Association in accordance with laws, regulations of Mandatory Provisions of Articles of Association of Companies Listing Overseas and the Hong Kong Listing Rules, which became effective upon the Company's H shares were issued and listed. The revision was considered and approved at the 2014 annual general meeting and the 2016 first extraordinary general meeting. At the same time, the general meeting of the Company authorized the Board and such persons authorized by the Board to further adjust and modify the Articles of Association considered by the Board of Directors and approved for revision in accordance with the provisions of domestic and overseas laws and regulations or domestic and overseas governmental authorities and supervisory authorities' request and suggestion and the actual situation of this issuance and listing (including but not limited to adjustments and modifications to the texts, chapters, terms, conditions coming into force, registered capital, etc.). Before and after the issuance, the Company shall submit to the CSRC, the State Administration for Industry and Commerce and other relevant authorities for approval, change registration, filing and other matters. The amendments to the Articles of Association have been approved by the CSRC Shanghai Bureau. The amended Articles of Association is available on the website of the Hong Kong Stock Exchange and the Company's website. Save as disclosed above, there was no significant change to the Articles of Association during the Reporting Period.

**X. Other Matters on Corporate Governance****(I) Responsibilities of the Directors in respect of the financial statement**

The following responsibility statement of Directors regarding the financial statements shall be read in conjunction with the responsibility statement of the certified public accountants included in the audit report of this report. Each statement shall be understood separately.

The Company's Directors shall compile genuine and fair combined financial statements according to the disclosure requirements under the PRC GAAP, International Financial Reporting Standards issued by the International Accounting Standards Committee and the Hong Kong Companies Ordinance. The Company's Directors will also be responsible for the necessary internal monitoring of the combined financial statements so that there will not be any material misstatements as a result of fraud or errors. The Company is not subject to any event or circumstance of material uncertainty, as a result of which significant doubt may be cast upon the ability of the on-going operation of the Company.

For the reporting responsibility of external auditors of the Company, KPMG, please refer to the independent auditors' report.



## SECTION VIII CORPORATE GOVERNANCE

### (II) Appointment of external auditors and their remuneration

On October 26, 2016, the Company's second extraordinary general meeting in 2016 resolved to (1) re-appoint KPMG Huazhen LLP (Special General Partnership) as the external auditors of the Company (domestic) in 2016 to provide relevant domestic auditing service in accordance with the PRC GAAP, and its term of appointment will expire at the next annual general meeting of the Company; (2) appoint KPMG as the external auditors of the Company (overseas) in 2016 to provide relevant overseas auditing and review service in accordance with the IFRS, and its term of appointment will expire at the next annual general meeting of the Company.

In view of the fact that KPMG Huazhen LLP (Special General Partnership) and KPMG are able to complete the work entrusted by the Company, adhere to the principles of independence, objectivity and impartiality, comply with the relevant accounting standards and professional ethics of accountants and perform audit duties diligently, the Company has continued to appoint KPMG Huazhen LLP (Special General Partnership) as the external auditors of the Company (domestic) and KPMG as the external auditors of the Company (overseas) in the past three years.

In the year of 2016, the Company paid the remuneration to KPMG Huazhen LLP (Special General Partnership) and KPMG in respect of auditing the annual financial statements with a total of RMB6.5 million.

During the Reporting Period, there was no occasion where the Board of Directors did not agree with the opinions of the Audit Committee on the selection and appointment of external auditors.

### (III) Compliance with model code for securities transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Appendix 10 to the Hong Kong Listing Rules as the code for all Directors and Supervisors to conduct transactions of the Company's securities. After specific inquiries to all Directors and Supervisors made by the Company, they all confirmed that they strictly complied with the standards specified in the Model Code during the Reporting Period. The Company has also set up guidelines, at least as strict as the Model Code, on transactions of the Company's securities by relevant employees (within the meaning of the Hong Kong Listing Rules). The Company did not find that relevant employees violated any of the guidelines.

The Board of Directors will examine corporate governance and operation of the Company from time to time to comply with the relevant provisions of the Hong Kong Listing Rules and protect the interests of the shareholders.

### (IV) Company secretary

Dr. Ngai Wai Fung serves as the company secretary of the Company. Dr. Ngai is a director and chief executive officer of SW Corporate Services Group Limited. During the Reporting Period, pursuant to the Hong Kong Listing Rules, Dr. Ngai had taken no less than 15 hours of professional training.

During the Reporting Period, the primary contact person of Dr. Ngai and the Company is Ms. Zhu Qin (secretary to the Board of Directors and representative of securities affairs of the Company).

## SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

### I Overview of Corporate Bonds

| Bond name   | Abbreviation                | Code   | Issue date        | Date of expiry    | Balance of bonds (RMB in billions) | Interest rate | Principal and interest payment method   | Places of transaction |
|---|-----------------------------|--------|-------------------|-------------------|------------------------------------|---------------|---|-----------------------|
| 1501 EBS Subordinated Bonds (Type 1)                  | 15 EVERBRIGHT 01            | 123259 | January 29, 2015  | January 29, 2018  | 4                                  | 5.85%         | Payment of interest on a yearly basis   | SSE                   |
| 1504 EBS Subordinated Bonds                           | 15 EVERBRIGHT 04            | 123085 | April 27, 2015    | April 27, 2020    | 6                                  | 5.70%         | Payment of interest on a yearly basis   | SSE                   |
| 1506 EBS Subordinated Bonds (Type 2)                  | 15 EVERBRIGHT 06            | 123071 | May 26, 2015      | May 26, 2018      | 6                                  | 5.30%         | Payment of interest on a yearly basis   | SSE                   |
| 1602 EBS Non-public Offering Corporate Bonds (Type 2) | 16 EVERBRIGHT SECURITIES 02 | 135435 | April 27, 2016    | October 27, 2018  | 2.5                                | 3.66%         | Payment of interest in every six months | SSE                   |
| 1604 EBS Non-public Offering Corporate Bonds (Type 2) | 16 EVERBRIGHT SECURITIES 04 | 135494 | May 26, 2016      | November 26, 2018 | 3                                  | 3.59%         | Payment of interest in every six months | SSE                   |
| 1605 EBS Non-public Offering Corporate Bonds (Type 1) | 16 EVERBRIGHT SECURITIES 05 | 145071 | October 24, 2016  | October 24, 2018  | 1                                  | 3.13%         | Payment of interest on a yearly basis   | SSE                   |
| 1606 EBS Non-public Offering Corporate Bonds (Type 2) | 16 EVERBRIGHT SECURITIES 06 | 145072 | October 24, 2016  | October 24, 2019  | 3                                  | 3.20%         | Payment of interest on a yearly basis   | SSE                   |
| 1701 EBS Non-public Offering Corporate Bonds (Type 1) | 17 EVERBRIGHT SECURITIES 01 | 145287 | January 11, 2017  | July 11, 2018     | 2                                  | 4.00%         | Payment of interest in every six months | SSE                   |
| 1702 EBS Non-public Offering Corporate Bonds (Type 2) | 17 EVERBRIGHT SECURITIES 02 | 145288 | January 11, 2017  | July 11, 2018     | 2                                  | 4.10%         | Payment of interest in every six months | SSE                   |
| 1703 EBS Non-public Offering Corporate Bonds (Type 1) | 17 EVERBRIGHT SECURITIES 03 | 145336 | February 14, 2017 | February 14, 2019 | 2                                  | 4.30%         | Payment of interest on a yearly basis   | SSE                   |
| 1704 EBS Non-public Offering Corporate Bonds (Type 2) | 17 EVERBRIGHT SECURITIES 04 | 145337 | February 14, 2017 | February 14, 2020 | 2                                  | 4.45%         | Payment of interest on a yearly basis   | SSE                   |

In 2016, the interests of all bonds issued by the Company were paid on time.

An overseas subsidiary of the Company issued overseas bonds of US\$450 million in August 2015. Please refer to Announcement No. 2015-062 published by the Company on the SSE for details.

15 EVERBRIGHT 04, 15 EVERBRIGHT 06, 16 EVERBRIGHT SECURITIES 02 and 16 EVERBRIGHT SECURITIES 04 provide the issuer with the right of early redemption. For details, please refer to note 47 of the 2016 audit report.

17 EVERBRIGHT SECURITIES 01 provides the issuer with the option for early redemption at the end of the sixth month. If the issuer does not exercise the option, the coupon rate of the subordinated bonds for the current period in the following two interest periods will increase by 300 basis points.

## SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

## II. Contact Persons and Contact Methods of Bonds Trustee, Contact Methods of Credit Rating Agency

|                             |                |   |
|-----------------------------|----------------|---|
| <b>Credit Rating Agency</b> | Name           | China Chengxin Securities Rating Co. Ltd.                                   |
|                             | Office address | Room 968 One Building, No.599 Xingye Road, Qingpu District, Shanghai, China |

| Bond name                   | Name                                 | Bond trustee manager  |                |                |
|-----------------------------|--------------------------------------|---|----------------|----------------|
|                             |                                      | Office address  | Contact person | Contact number |
| 15 EVERBRIGHT 01            | -                                    | -   | -              | -              |
| 15 EVERBRIGHT 04            | China Merchants Securities Co., Ltd. | Floor 38-45, Tower A, Jiangsu Building, Yitian Road, Futian District, Shenzhen, China | Luo Li         | 0755-82944669  |
| 15 EVERBRIGHT 06            | Industrial Securities Co., Ltd.      | No. 268, Hudong Road, Fuzhou, China   | Wu Xiaodong    | 021-38565891   |
| 16 EVERBRIGHT SECURITIES 02 | Industrial Securities Co., Ltd.      | No.36 Changliu Road, Pudong New Area, Shanghai, China                                 | Fang Renbin    | 021-38565891   |
| 16 EVERBRIGHT SECURITIES 04 | Industrial Securities Co., Ltd.      | No.36 Changliu Road, Pudong New Area, Shanghai, China                                 | Fang Renbin    | 021-38565891   |
| 16 EVERBRIGHT SECURITIES 05 | Industrial Securities Co., Ltd.      | No.36 Changliu Road, Pudong New Area, Shanghai, China                                 | Fang Renbin    | 021-38565891   |
| 16 EVERBRIGHT SECURITIES 06 | Industrial Securities Co., Ltd.      | No.36 Changliu Road, Pudong New Area, Shanghai, China                                 | Fang Renbin    | 021-38565891   |
| 17 EVERBRIGHT SECURITIES 01 | China Galaxy Securities Co., Ltd.    | 2-6/F, 35 Finance Street, Xicheng District, Beijing                                   | Chen Qu        | 010-83574504   |
| 17 EVERBRIGHT SECURITIES 02 | China Galaxy Securities Co., Ltd.    | 2-6/F, 35 Finance Street, Xicheng District, Beijing                                   | Chen Qu        | 010-83574504   |
| 17 EVERBRIGHT SECURITIES 03 | China Galaxy Securities Co., Ltd.    | 2-6/F, 35 Finance Street, Xicheng District, Beijing                                   | Chen Qu        | 010-83574504   |
| 17 EVERBRIGHT SECURITIES 04 | China Galaxy Securities Co., Ltd.    | 2-6/F, 35 Finance Street, Xicheng District, Beijing                                   | Chen Qu        | 010-83574504   |

## SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

### III. Use of Proceeds Raised from Issuance of Corporate Bonds

The proceeds raised from the issuance of each term of bonds by the Company (except for the second tranche of 2017 Non-public Offering Corporate Bonds), after deducting issuance expenses and other related expenses, were all used in the replenishment of working capital of the Company to meet the medium and long-term business needs. The capital was mainly used to invest in the margin financing and securities lending, collateralized stock repurchase transactions and other innovative business.

The proceeds raised from the issuance of the second tranche of 2017 Non-public Offering Corporate Bonds, after deducting issuance expenses and other related expenses, will be applied in the replenishment of working capital of the Company to meet the medium and long-term business needs; or be used for adjusting the Company's debt structure and improve the financial structure.

### IV. Information on Credit Rating Agency of Corporate Bonds

China Chengxin Securities Rating Co., Ltd. was engaged by the Company to conduct entity credit rating. Pursuant to the credit rating report issued by China Chengxin Securities Rating Co., Ltd. in January 2017, the entity credit rating was AAA in accordance with the final conclusion of its credit rating committee.

### V. Corporate Bonds Credit Enhancement Mechanism, Debt Repayment Plan and Others during the Reporting Period

The Company will perform its obligations in annual interest payment and principal repayment with interest upon expiry of each term of bonds in a timely manner. The Company enjoys good solvency. The Company's funds for debt repayment will be financed by accumulated profits generated from the ordinary course of business and cash flows generated from the Company's operating activities. The Company's income scale and accumulated profits largely ensures the capability of the Company of repaying the principal amount and the corresponding interest on time.

### VI. Performance of Trustee Manager of Corporate Bonds

15 EVERBRIGHT 01 was issued in January 2015 and was filed in accordance with the Administrative Provisions on the Subordinated Bonds of Securities Firms, so no bond trustee manager was engaged. China Merchants Securities Co., Ltd. was engaged as the bond trustee manager of 15 EVERBRIGHT 04. Industrial Securities Co., Ltd. was engaged as the bond trustee manager of 15 EVERBRIGHT 06. Industrial Securities Co., Ltd. was engaged as the bond trustee manager of 16 EVERBRIGHT SECURITIES 02, 16 EVERBRIGHT SECURITIES 04, 16 EVERBRIGHT SECURITIES 05 and 16 EVERBRIGHT SECURITIES 06. China Galaxy Securities Co., Ltd. was engaged as the bond trustee manager of 17 EVERBRIGHT SECURITIES 01, EVERBRIGHT SECURITIES 02, EVERBRIGHT SECURITIES 03 and EVERBRIGHT SECURITIES 04. The Company entered into the relevant bond trustee management agreements with the above bond trustee managers. During the Reporting Period, the bond trustee managers performed their duties according to the bonds trustee management agreements. According to the bonds trustee management agreements, the bonds trustee management reports for the bonds mentioned above of 2016 are expected to be disclosed by June 30, 2017 for the attention of investors.

## SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

## VII. Accounting Data and Financial Indicators of the Company for the Past Two Years up to the End of the Reporting Period

| Main indicator  | 2016                   | 2015               | Increase/<br>decrease for<br>the period over<br>the same period<br>last year (%) | Reason for the change   |
|---|------------------------|--------------------|--|---|
| EBITDA  | 6,061,658,650.78       | 11,882,433,930.77  | (48.99)  | the significant decrease in total profit for the period           |
| Net cash flow generated from investing activities             | (5,288,964,194.86)     | (4,511,362,012.28) | N/A  |   |
| Net cash flow generated from financing activities             | 1,806,452,249.76       | 43,701,654,710.56  | (95.87)  | the increase in cash paid for repayment of due bonds              |
| Balance of cash and cash equivalents at the end of the period | 60,510,628,178.92      | 83,323,877,724.33  | (27.38)  |   |
| Current ratio   | 2.38                   | 2.72               | (12.50)  |   |
| Quick ratio   | 1.07                   | 1.23               | (13.01)  |   |
| Gearing ratio   | 60.26%                 | 66.34%             | decreased by<br>6.08 percentage<br>points  |   |
| EBITDA to total debts ratio                                   | 0.16                   | 0.28               | (42.86)  | the decrease in EBITDA  |
| Interest coverage ratio                                       | 3.38                   | 7.10               | (52.39)  | the decrease in profit before tax                                 |
| Cash interest coverage ratio                                  | 1.63 <sup>Note 2</sup> | 3.60               | (54.72)  | the decrease in net cash flow generated from operating activities |
| EBITDA interest coverage ratio                                | 3.62                   | 7.36               | (50.82)  | the decrease in EBITDA  |
| Interest payment ratio  | 137.04%                | 37.55%             | increased by<br>99.49 percentage<br>points                                       | the increase in cash interest expense                             |

Note 1: The above financial indicators are based on calculation in accordance with the PRC GAAP.

Note 2: The effect of client funds has been excluded from the net cash flow generated from operating activities.

## VIII. Interest Payment of Other Bonds and Debt Financing Instruments of the Company

In 2016, the Company's other debt financing instruments included debt income right transfer of financing business, debt income right transfer of collateralized stock repurchase, structured notes, margin refinancing from CSFC, inter-bank borrowing and gold leasing. The principle and interest of the financing instruments were all paid in a timely manner.

## IX. Banking Facilities of the Company during the Reporting Period

In 2016, the Company obtained banking facilities from 37 banks with an aggregated amount of RMB177.7 billion, representing an increase of RMB31.1 billion.

## X. Other Matters

1. During the Reporting Period, no creditors' meeting was convened by the bondholders of the Company.

Everbright Securities Company  
Limited  
(Stock Code: 6178)

Financial statements  
For the year ended 31 December 2016



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## Independent auditor's report to the shareholders of Everbright Securities Company Limited (Incorporated in the People's Republic of China with limited liability)

### Opinion

We have audited the consolidated financial statements of Everbright Securities Company Limited ("the Company") and its subsidiaries ("the Group") set out on page 1 to 139, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the People's Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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.



Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)  
*(Incorporated in the People's Republic of China with limited liability)*

**Key audit matters (continued)**

| <b>Revenue recognition: Fee and commission income</b>  |   |
|--|---|
| <i>Refer to note 4 to the consolidated financial statements and the significant accounting policies in note 2(21).</i>   |   |
| <b>The Key Audit Matter</b>  | <b>How the matter was addressed in our audit</b>  |
| <p>Fee and commission income represented over 56% of the total revenue of the Group for the year ended 31 December 2016.</p> <p>Fee and commission income principally comprises brokerage commission income, underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees.</p> <p>Brokerage commission income arising from brokerage trading of securities is recognised on a trade date basis. Underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees are recognised when the corresponding service is provided and when the Group is entitled to receive the fees in accordance with the terms of the related client service agreements. The determination of the timing of recognition of underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees can involve significant management judgement in assessing when the Group is entitled to receive the fees.</p> | <p>Our audit procedures to assess the recognition of fee and commission income included the following:</p> <ul style="list-style-type: none"><li>• assessing the design, implementation and operating effectiveness of key internal controls which govern revenue recognition;</li><li>• reading client service agreements, on a sample basis and considering the Group's accounting policies for the recognition of revenue with reference to the terms of the agreements and the requirements of the prevailing accounting standards;</li><li>• for brokerage commission income, reconciling the daily transaction volume recorded by the Group with transaction data received from the exchanges and clearing houses and comparing the commission rates for individual clients with relevant client service agreements, on a sample basis;</li></ul> |





Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)  
*(Incorporated in the People's Republic of China with limited liability)*

**Key audit matters (continued)**

| <b>Revenue recognition: Fee and commission income (continued)</b>  |  |
|--|--|
| <i>Refer to note 4 to the consolidated financial statements and the significant accounting policies in note 2(21).</i>   |  |
| <b>The Key Audit Matter</b>  | <b>How the matter was addressed in our audit</b>   |
| We identified the recognition of fee and commission income as a key audit matter because revenue is one of the key performance indicators of the Group and therefore there is an inherent risk that the timing of revenue could be manipulated to meet specific targets or expectations and because the determination of the timing of recognition of fee and commission income can require management judgement, which could have a significant impact on the Group's net profit. | <ul style="list-style-type: none"><li>• selecting a sample of underwriting and sponsoring and financial advisory transactions active during the current year and performing the following procedures:<ul style="list-style-type: none"><li>- inquiring of project teams about the status of the selected projects;</li><li>- reading client correspondence and information published on the websites of regulators or exchanges to ascertain the status of completion of the selected projects;</li><li>- comparing the fee income recognised with details in the related client service agreement and client correspondence to assess whether the revenue was recognised in the appropriate accounting year;</li></ul></li><li>• for a sample of investment advisory fees and asset management fees recognised during the current year, reading the client service agreements and relevant client correspondence and assessing whether the revenue recorded by the Group was recognised in accordance with the terms of the client service agreements and the Group's accounting policies for the recognition of revenue;</li></ul> |



Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)  
*(Incorporated in the People's Republic of China with limited liability)*

**Key audit matters (continued)**

| <b>Revenue recognition: Fee and commission income (continued)</b>  |  |
|--|--|
| <i>Refer to note 4 to the consolidated financial statements and the significant accounting policies in note 2(21).</i> |  |
| <b>The Key Audit Matter</b>  | <b>How the matter was addressed in our audit</b>   |
|  | <ul style="list-style-type: none"><li>• comparing underwriting and sponsoring fees, financial advisory fees, investment advisory fees and asset management fees recognised subsequent to the financial year end with the relevant client service agreements and client correspondence, on a sample basis, and making inquiries of management to assess whether the related revenue was recognised in the appropriate accounting year;</li><li>• inspecting manual adjustments to revenue raised during and after the reporting year, on a sample basis, enquiring of management about the reasons for such adjustments and comparing the details of the adjustments with relevant underlying documentation;</li><li>• for the key underlying systems used for processing transactions in relation to fee and commission income, utilising our information technology ("IT") specialists to assess the design, implementation and operating effectiveness of a selection of relevant IT application controls within these systems. We also assessed the design, implementation and operating effectiveness of the general IT controls over these underlying systems, including controls over access to these systems and controls over data, program change and computer operation.</li></ul> |



Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)  
*(Incorporated in the People's Republic of China with limited liability)*

**Key audit matters (continued)**

| <b>Assessing the fair value of financial instruments</b>  |  |
|---|--|
| <i>Refer to note 58 to the consolidated financial statements and the significant accounting policies in note 2(9)(ii).</i>  |  |
| <b>The Key Audit Matter</b>   | <b>How the matter was addressed in our audit</b>   |
| <p>As at 31 December 2016, the fair value of the Group's financial assets totalled RMB 42,442 million of which RMB 12,468 million, RMB 23,356 million and RMB 6,618 million were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively.</p> <p>As at 31 December 2016, the fair value of the Group's financial liabilities totalled RMB 679 million of which RMB 12 million, RMB 465 million and RMB 202 million were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively.</p> <p>The valuation of the Group's financial instruments is based on a combination of market data and valuation models which often require a considerable number of inputs.</p> <p>Many of these inputs are obtained from readily available data for liquid markets. Where such observable data is not readily available, as in the case of level 3 financial instruments, estimates need to be developed which can involve significant management judgement.</p> | <p>Our audit procedures to assess the fair value of financial instruments included the following:</p> <ul style="list-style-type: none"><li>• assessing the design, implementation and operating effectiveness of key internal controls over the valuation, independent price verification, front office/back office reconciliations and valuation model approval for financial instruments;</li><li>• assessing the fair values of all financial instruments traded in active markets by comparing the fair values applied by the Group with publicly available market data;</li><li>• reading investment agreements entered into during the current year, on a sample basis, to understand the relevant investment terms and identify any conditions that were relevant to the valuation of financial instruments;</li></ul> |



# Independent auditor's report to the shareholders of Everbright Securities Company Limited (continued)

(Incorporated in the People's Republic of China with limited liability)

## Key audit matters (continued)

| <b>Assessing the fair value of financial instruments (continued)</b>  |   |
|---|---|
| <i>Refer to note 58 to the consolidated financial statements and the significant accounting policies in note 2(9)(ii).</i>  |   |
| <b>The Key Audit Matter</b>   | <b>How the matter was addressed in our audit</b>  |
| <p>The Group has developed its own models to value certain financial instruments, which also involves significant management judgement.</p> <p>We identified assessing the fair value of financial instruments as a key audit matter because of the degree of complexity involved in valuing certain financial instruments and because of the significant degree of judgement exercised by management in determining the inputs used in the valuation models.</p> | <ul style="list-style-type: none"><li>• engaging our internal valuation specialists to assist us in evaluating the valuation models used by the Group to value certain financial instruments and to perform, on a sample basis, independent valuations of financial instruments and compare these valuations with the Group's valuations. This included comparing the Group's valuation models with our knowledge of current and emerging practice, testing inputs to the fair value calculations and establishing our own valuation models to perform revaluations;</li><li>• assessing whether the disclosures in the consolidated financial statements reflected the Group's exposure to financial instrument valuation risk with reference to the requirements of the prevailing accounting standards;</li><li>• for the key underlying systems used for the processing of transactions in relation to financial instruments, utilising our IT specialists to assess the design, implementation and operating effectiveness of a selection of relevant IT application controls within these systems. We also assessed the design, implementation and operating effectiveness of the general IT controls over these underlying systems, including controls over access to these systems and controls over data, program change and computer operation.</li></ul> |



Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)  
(Incorporated in the People's Republic of China with limited liability)

**Key audit matters (continued)**

| <b>Consolidation of structured entities</b>   |   |
|---|---|
| <i>Refer to note 53 to the consolidated financial statements and the significant accounting policies in note 2(5).</i>  |   |
| <b>The Key Audit Matter</b>   | <b>How the matter was addressed in our audit</b>  |
| <p>Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. The Group may acquire or retain an ownership interest in, or act as a sponsor of, a structured entity through issuing or acquiring a wealth management product, an investment fund, an asset management scheme, a trust product or an asset-backed security.</p> <p>In determining whether a structured entity is required to be consolidated by the Group, management is required to consider the power the Group is able to exercise over the activities of the entity and its exposure to and ability to influence the Group's returns from the entity. In certain circumstances the Group may be required to consolidate a structured entity even though it has no equity interest therein.</p> <p>The factors which management needs to consider when determining whether a structured entity should be consolidated or not are not purely quantitative and need to be considered collectively.</p> | <p>Our audit procedures to assess the consolidation of structured entities included the following:</p> <ul style="list-style-type: none"><li>• making enquiries of management and inspecting documents relating to the judgement process over whether a structured entity is consolidated or not to assess whether the Group has a robust process in this regard;</li><li>• selecting significant structured entities for each key product type and performing the following procedures for each entity selected:<ul style="list-style-type: none"><li>- inspecting the related contracts, internal establishment documents and information disclosed to the investors to understand the purpose of the establishment of the structured entity and the involvement the Group has with the structured entity and to assess management's judgement over whether the Group has the ability to exercise power over the structured entity;</li></ul></li></ul> |



Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)  
*(Incorporated in the People's Republic of China with limited liability)*

**Key audit matters (continued)**

| <b>Consolidation of structured entities (continued)</b>   |   |
|---|---|
| <i>Refer to note 53 to the consolidated financial statements and the significant accounting policies in note 2(5).</i>  |   |
| <b>The Key Audit Matter</b>   | <b>How the matter was addressed in our audit</b>  |
| <p>As at 31 December 2016, the carrying amount of the Group's [HW(1)] interests in structured entities sponsored by third party institutions which were not consolidated by the Group was RMB 15,719 million. The amount of assets held by the Group in the structured entities sponsored by the Group which the Group did not consolidate but in which it held an interest was RMB 4,266 million.</p> <p>We identified the consolidation of structured entities as a key audit matter because significant management judgement can be required in determining whether a structured entity is required to be consolidated by the Group or not and because the impact of consolidating a structured entity on the consolidated statement of financial position could be significant.</p> | <ul style="list-style-type: none"><li>- evaluating the risk and reward structure of the structured entity including any capital or return guarantee, provision of liquidity support, commission paid and distribution of the returns to assess management's judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity;</li><li>- evaluating management's analysis of the structured entity including qualitative analyses and calculations of the magnitude and variability associated with the Group's economic interests in the structured entity to assess management's judgement over the Group's ability to influence its own returns from the structured entity;</li><li>- evaluating management's judgement over whether the structured entity should be consolidated or not;</li><li>• assessing the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.</li></ul> |



Independent auditor's report to the shareholders of  
**Everbright Securities Company Limited (continued)**  
*(Incorporated in the People's Republic of China with limited liability)*

**Key audit matters (continued)**

| <b>Assessing potential impairment of goodwill</b>  |  |
|--|--|
| <i>Refer to note 19 to the consolidated financial statements and the significant accounting policies in note 2(6).</i>   |  |
| <b>The Key Audit Matter</b>  | <b>How the matter was addressed in our audit</b>   |
| <p>As at 31 December 2016, the carrying amount of goodwill, which mainly arose from the acquisition of Everbright Securities (International) Limited ("EBSI") and Sun Hung Kai Financial Group Limited ("SHKFG") in 2011 and 2015 respectively, was RMB 1,507 million, representing 3% of the Group's net assets as at that date.</p> <p>There is a risk that the carrying value of goodwill may not be recoverable in full through the future cash flows to be generated from the relevant cash-generating units (the "CGUs") to which the goodwill has been allocated. In order to assess the recoverable amount of goodwill, management engaged an external appraiser to calculate the value-in-use of the relevant CGUs using the discounted cash flow model with a cash flow forecast compiled by management.</p> | <p>Our audit procedures to assess potential impairment of goodwill included the following:</p> <ul style="list-style-type: none"> <li>• assessing management's identification of CGUs and the allocation of goodwill and other assets to each CGU with reference to our understanding of the Group's business and the requirements of the prevailing accounting standards;</li> <li>• evaluating the competence, capabilities and objectivity of the external appraiser appointed by management;</li> <li>• engaging our internal valuation specialists to evaluate the methodology and assumptions adopted in the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards;</li> <li>• challenging the assumptions and critical judgments adopted in the discounted cash flow forecasts by comparing key inputs, including budgeted income, the long-term growth rate and profit margins with the historical performance of the relevant subsidiaries, details in the financial budgets approved by board of directors, recent business pipeline reports, industry research reports and industry statistics;</li> </ul> |



Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)  
*(Incorporated in the People's Republic of China with limited liability)*

**Key audit matters (continued)**

| <b>Assessing potential impairment of goodwill (continued)</b>  |  |
|--|--|
| <i>Refer to note 19 to the consolidated financial statements and the significant accounting policies in note 2(6).</i>   |  |
| <b>The Key Audit Matter</b>  | <b>How the matter was addressed in our audit</b>   |
| We identified assessing potential impairment of goodwill as a key audit matter because of its significance to the consolidated financial statements and because determining whether any impairment is required involves a significant degree of management judgement and estimation, particularly in forecasting future cash flows, including budgeted income, the long-term growth rate and profit margins and in determining appropriate discount rates, all of which can be inherently uncertain and could be subject to management bias. | <ul style="list-style-type: none"><li>• evaluating the discount rates applied in the discounted cash flow forecasts by recalculating the discount rates based on market data for similar companies in the same industry and comparing our calculations with the discount rates adopted in the discounted cash flow forecasts;</li><li>• performing sensitivity analyses for the key assumptions, including budgeted income and the discount rates applied, to assess the impact of changes in these key assumptions on the results of impairment assessments and considering whether there were any indicators of management bias in the selection of key assumptions;</li><li>• assessing the results of the value-in-use calculations by comparison with valuations derived from price/book multiples of comparable companies in the market; and</li><li>• assessing the disclosures in the consolidated financial statements in relation to the assessment of potential impairment of goodwill with reference to the requirements of the prevailing accounting standards.</li></ul> |





# Independent auditor's report to the shareholders of Everbright Securities Company Limited (continued)

*(Incorporated in the People's Republic of China with limited liability)*

## **Information other than the consolidated financial statements and auditor's report thereon**

The directors are responsible for the other information. The other information comprises all 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 are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of 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 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 either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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



# Independent auditor's report to the shareholders of Everbright Securities Company Limited (continued)

*(Incorporated in the People's Republic of China with limited liability)*

## **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. This report is made solely to you, as a body, 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 HKSA's 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 HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



# Independent auditor's report to the shareholders of Everbright Securities Company Limited (continued)

*(Incorporated in the People's Republic of China with limited liability)*

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

- 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 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 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.



**Independent auditor's report to the shareholders of  
Everbright Securities Company Limited (continued)**  
*(Incorporated in the People's Republic of China with limited liability)*

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

From the matters communicated with the Audit 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 Pang Shing Chor Eric.

A handwritten signature in black ink that reads 'KPMG'.

KPMG  
Certified Public Accountants

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

29 March 2017

## Consolidated income statements for the year ended 31 December 2016 (Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note | <u>2016</u>                                 | <u>2015</u>                                 |
|---|------|---|---|
| <b>Revenue</b>  |      |   |   |
| Fee and commission income                                       | 4    | 7,358,470                                   | 12,334,172                                  |
| Interest income   | 5    | 4,867,387                                   | 6,839,323                                   |
| Net investment gains  | 6    | 972,261                                     | 3,970,777                                   |
|   |      | <hr/>                                       | <hr/>                                       |
| <b>Total revenue</b>  |      | 13,198,118                                  | 23,144,272                                  |
| Other income and gains  | 7    | 670,411                                     | 148,457                                     |
|   |      | <hr/>                                       | <hr/>                                       |
| <b>Total revenue and other income</b>                           |      | 13,868,529                                  | 23,292,729                                  |
|   |      | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Fee and commission expenses                                     | 8    | (1,265,215)                                 | (2,071,865)                                 |
| Interest expenses   | 9    | (3,271,665)                                 | (4,619,505)                                 |
| Staff costs   | 10   | (3,037,902)                                 | (4,109,700)                                 |
| Depreciation and amortisation expenses                          | 11   | (394,680)                                   | (421,282)                                   |
| Tax and surcharges  |      | (214,309)                                   | (971,218)                                   |
| Other operating expenses  | 12   | (1,417,457)                                 | (1,336,877)                                 |
| (Provision for)/reversal of impairment losses                   | 13   | (335,242)                                   | 10,437                                      |
|   |      | <hr/>                                       | <hr/>                                       |
| <b>Total expenses</b>   |      | (9,936,470)                                 | (13,520,010)                                |
|   |      | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| <b>Operating profit</b>   |      | 3,932,059                                   | 9,772,719                                   |
| Share of profit of associates and joint ventures                |      | 59,399                                      | 73,570                                      |
|   |      | <hr/>                                       | <hr/>                                       |
| <b>Profit before income tax</b>                                 |      | 3,991,458                                   | 9,846,289                                   |
| Income tax expense  | 14   | (914,768)                                   | (2,099,434)                                 |
|   |      | <hr/>                                       | <hr/>                                       |
| <b>Profit for the year</b>                                      |      | 3,076,690                                   | 7,746,855                                   |
|   |      | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |
| Attributable to:  |      |   |   |
| Shareholders of the Company                                     |      | 3,013,019                                   | 7,646,516                                   |
| Non-controlling interests                                       |      | 63,671                                      | 100,339                                     |
|   |      | <hr/>                                       | <hr/>                                       |
| Total   |      | 3,076,690                                   | 7,746,855                                   |
|   |      | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |
| Basic and diluted earnings per share<br>(in Renminbi per share) | 17   | 0.7389                                      | 2.1359                                      |
|   |      | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |

The notes on pages 12 to 139 form part of these financial statements.

Consolidated statements of profit or loss and other  
 comprehensive income  
 for the year ended 31 December 2016  
 (Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note | <u>2016</u> | <u>2015</u> |
|---|------|-------------|-------------|
| <b>Profit for the year</b>  |      | 3,076,690   | 7,746,855   |
| <b>Other comprehensive income for the year</b>                                    |      |             |             |
| Items that may be reclassified subsequently to profit or loss:                    |      |             |             |
| Available-for-sale financial assets   |      |             |             |
| – Net change in fair value  |      | (1,106,626) | 2,292,229   |
| – Reclassified to profit or loss  |      | (157,346)   | (1,044,186) |
| Share of other comprehensive income of associates                                 |      | (6,630)     | (2,176)     |
| Exchange differences on translation of financial statements in foreign currencies |      | (12,008)    | 27,627      |
| Income tax impact   |      | 315,993     | (311,646)   |
| <b>Total other comprehensive income for the year, net of tax</b>                  | 50   | (966,617)   | 961,848     |
| <b>Total comprehensive income for the year</b>                                    |      | 2,110,073   | 8,708,703   |
| Attributable to:  |      |             |             |
| Shareholders of the Company   |      | 1,971,631   | 8,518,310   |
| Non-controlling interests   |      | 138,442     | 190,393     |
| <b>Total</b>  |      | 2,110,073   | 8,708,703   |

The notes on pages 12 to 139 form part of these financial statements.

## Consolidated statements of financial position as at 31 December 2016

(Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note  | As at 31 December |             |
|---|-------|-------------------|-------------|
|   |       | 2016              | 2015        |
| <b>Non-current assets</b>                             |       |                   |             |
| Property and equipment                                | 18    | 860,227           | 879,372     |
| Goodwill  | 19    | 1,506,746         | 1,411,783   |
| Other intangible assets                               | 20    | 761,860           | 885,817     |
| Interest in associates and joint ventures             | 22    | 1,737,404         | 874,763     |
| Held-to-maturity investments                          | 23    | 159,340           | 129,531     |
| Available-for-sale financial assets                   | 24    | 10,409,409        | 7,864,984   |
| Financial assets held under resale agreements         | 25    | 4,208,468         | 1,344,690   |
| Refundable deposits                                   | 26    | 5,784,187         | 3,995,018   |
| Deferred tax assets                                   | 27(c) | 509,005           | 79,969      |
| Finance lease receivables                             | 28    | 2,740,139         | 2,450,900   |
| Other non-current assets                              | 29    | 1,085,304         | 269,318     |
|   |       | 29,762,089        | 20,186,145  |
| <b>Current assets</b>                                 |       |                   |             |
| Accounts receivable                                   | 30    | 2,484,480         | 2,069,298   |
| Finance lease receivables                             | 28    | 1,318,855         | 1,450,942   |
| Other receivables and prepayments                     | 31    | 2,196,624         | 3,692,973   |
| Margin accounts receivable                            | 32    | 37,427,744        | 43,404,467  |
| Available-for-sale financial assets                   | 24    | 7,285,465         | 9,777,815   |
| Financial assets held under resale agreements         | 25    | 5,377,987         | 5,003,931   |
| Financial assets at fair value through profit or loss | 33    | 24,650,113        | 25,539,897  |
| Derivative financial assets                           | 34    | 97,317            | 168,519     |
| Clearing settlement funds                             | 35    | 150,433           | 360,034     |
| Cash held on behalf of brokerage clients              | 36    | 51,573,237        | 70,327,108  |
| Cash and bank balances                                | 37    | 15,312,915        | 15,091,692  |
|   |       | 147,875,170       | 176,886,676 |
| <b>Total current assets</b>                           |       | 147,875,170       | 176,886,676 |
| <b>Total assets</b>                                   |       | 177,637,259       | 197,072,821 |

The notes on pages 12 to 139 form part of these financial statements.

Consolidated statements of financial position  
 as at 31 December 2016 (continued)  
 (Expressed in thousands of Renminbi, unless otherwise stated)

|  | Note  | <u>As at 31 December</u> |             |
|--|-------|--------------------------|-------------|
|  |       | <u>2016</u>              | <u>2015</u> |
| <b>Current liabilities</b>                                 |       |                          |             |
| Loans and borrowings                                       | 39    | 7,345,161                | 3,014,161   |
| Short-term debt instruments issued                         | 40    | 5,929,702                | 2,100,000   |
| Placements from other financial institutions               | 41    | 9,107,560                | 500,000     |
| Financial liabilities at fair value through profit or loss | 42    | 596,900                  | -           |
| Accounts payable to brokerage clients                      | 43    | 55,343,327               | 71,102,044  |
| Employee benefits payable                                  | 44    | 2,268,881                | 2,642,761   |
| Other payables and accruals                                | 45    | 5,482,436                | 9,347,420   |
| Current tax liabilities                                    | 27(a) | 603,214                  | 1,627,768   |
| Financial assets sold under repurchase agreements          | 46    | 8,516,901                | 20,555,441  |
| Derivative financial liabilities                           | 34    | 81,623                   | 1,022,572   |
| Long-term bonds due within one year                        | 47    | 11,492,244               | 18,986,177  |
|  |       | <hr/>                    | <hr/>       |
| <b>Total current liabilities</b>                           |       | 106,767,949              | 130,898,344 |
|  |       | <hr/>                    | <hr/>       |
| <b>Net current assets</b>                                  |       | 41,107,221               | 45,988,332  |
|  |       | <hr/>                    | <hr/>       |
| <b>Total assets less current liabilities</b>               |       | 70,869,310               | 66,174,477  |
| <b>Non-current liabilities</b>                             |       |                          |             |
| Loans and borrowings                                       | 39    | 2,646,456                | 2,262,341   |
| Long-term bonds  | 47    | 17,134,486               | 18,853,355  |
| Deferred tax liabilities                                   | 27(c) | 269,961                  | 551,184     |
| Financial assets sold under repurchase agreements          | 46    | -                        | 230,000     |
| Other non-current liabilities                              | 48    | 2,181,743                | 1,853,981   |
|  |       | <hr/>                    | <hr/>       |
| <b>Total non-current liabilities</b>                       |       | 22,232,646               | 23,750,861  |
|  |       | <hr/>                    | <hr/>       |
| <b>Net assets</b>  |       | 48,636,664               | 42,423,616  |
|  |       | <hr/>                    | <hr/>       |

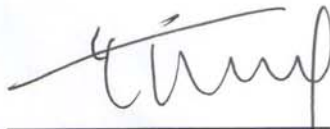
The notes on pages 12 to 139 form part of these financial statements.



Consolidated statements of financial position  
 as at 31 December 2016 (continued)  
 (Expressed in thousands of Renminbi, unless otherwise stated)

|   | Note | As at 31 December |                   |
|---|------|-------------------|-------------------|
|   |      | <u>2016</u>       | <u>2015</u>       |
| <b>Equity</b>   |      |                   |                   |
| Share capital   | 49   | 4,610,788         | 3,906,699         |
| Reserves  | 50   | 32,078,114        | 25,760,459        |
| Retained profits  | 50   | 10,506,810        | 10,815,441        |
|   |      |                   |                   |
| Total equity attributable to shareholders of<br>the Company |      | 47,195,712        | 40,482,599        |
| Non-controlling interests                                   |      | 1,440,952         | 1,941,017         |
|   |      |                   |                   |
| <b>Total equity</b>   |      | <u>48,636,664</u> | <u>42,423,616</u> |

Approved and authorized for issue by the board of directors on 29 March 2017.



Xue Feng  
 Chairman of the Board,  
 Executive Director  
 and President



Xu Jingchang  
 Director

(company chop)

The notes on pages 12 to 139 form part of these financial statements.

Consolidated statements of changes in equity  
 for the year ended 31 December 2016  
 (Expressed in thousands of Renminbi, unless otherwise stated)

|  | Attributable to shareholders of the Company |                              |                              |                              |                                 |                                  |                               | Total       | Non-controlling interests | Total equity |
|--|---|------------------------------|------------------------------|------------------------------|---------------------------------|----------------------------------|-------------------------------|-------------|---------------------------|--------------|
|  | Reserves                                    |                              |                              |                              |                                 |                                  |                               |             |                           |              |
|  | Share capital<br>(Note 49)                  | Capital reserve<br>(Note 50) | Surplus reserve<br>(Note 50) | General reserve<br>(Note 50) | Fair value reserve<br>(Note 50) | Translation reserve<br>(Note 50) | Retained profits<br>(Note 50) |             |                           |              |
| As at 1 January 2016                               | 3,906,699                                   | 17,125,863                   | 2,352,880                    | 4,966,636                    | 1,437,621                       | (122,541)                        | 10,815,441                    | 40,482,599  | 1,941,017                 | 42,423,616   |
| Change in equity for 2016                          |   |                              |                              |                              |                                 |                                  |                               |             |                           |              |
| Profit for the year                                | -   | -                            | -                            | -                            | -                               | -                                | 3,013,019                     | 3,013,019   | 63,671                    | 3,076,690    |
| Other comprehensive income                         | -   | -                            | -                            | -                            | (953,559)                       | (87,829)                         | -                             | (1,041,388) | 74,771                    | (966,617)    |
| Total comprehensive income                         | -   | -                            | -                            | -                            | (953,559)                       | (87,829)                         | 3,013,019                     | 1,971,631   | 138,442                   | 2,110,073    |
| Shares issued                                      | 704,089                                     | 6,733,649                    | -                            | -                            | -                               | -                                | -                             | 7,437,738   | -                         | 7,437,738    |
| Transaction with non-controlling interests         | -   | (227,311)                    | -                            | -                            | -                               | -                                | -                             | (227,311)   | (567,532)                 | (794,843)    |
| Other movement in capital reserve                  | -   | (124,926)                    | -                            | -                            | -                               | -                                | -                             | (124,926)   | -                         | (124,926)    |
| Appropriation to surplus reserve                   | -   | -                            | 284,988                      | -                            | -                               | -                                | (284,988)                     | -           | -                         | -            |
| Appropriation to general reserve                   | -   | -                            | -                            | 692,643                      | -                               | -                                | (692,643)                     | -           | -                         | -            |
| Dividends approved in respect of the previous year | -   | -                            | -                            | -                            | -                               | -                                | (2,344,019)                   | (2,344,019) | (70,975)                  | (2,414,994)  |
| As at 31 December 2016                             | 4,610,788                                   | 23,507,275                   | 2,637,868                    | 5,659,279                    | 484,062                         | (210,370)                        | 10,506,810                    | 47,195,712  | 1,440,952                 | 48,636,664   |

|   | Attributable to shareholders of the Company |                              |                              |                              |                                 |                                  |                               | Total       | Non-controlling interests | Total equity |
|---|---|------------------------------|------------------------------|------------------------------|---------------------------------|----------------------------------|-------------------------------|-------------|---------------------------|--------------|
|   | Reserves                                    |                              |                              |                              |                                 |                                  |                               |             |                           |              |
|   | Share capital<br>(Note 49)                  | Capital reserve<br>(Note 50) | Surplus reserve<br>(Note 50) | General reserve<br>(Note 50) | Fair value reserve<br>(Note 50) | Translation reserve<br>(Note 50) | Retained profits<br>(Note 50) |             |                           |              |
| As at 1 January 2015  | 3,418,000                                   | 11,185,895                   | 1,695,933                    | 3,514,037                    | 504,204                         | (60,918)                         | 5,551,911                     | 25,809,062  | 811,252                   | 26,620,314   |
| Change in equity for 2015   |   |                              |                              |                              |                                 |                                  |                               |             |                           |              |
| Profit for the year   | -   | -                            | -                            | -                            | -                               | -                                | 7,646,516                     | 7,646,516   | 100,339                   | 7,746,855    |
| Other comprehensive income  | -   | -                            | -                            | -                            | 933,417                         | (61,623)                         | -                             | 871,794     | 90,054                    | 961,848      |
| Total comprehensive income  | -   | -                            | -                            | -                            | 933,417                         | (61,623)                         | 7,646,516                     | 8,518,310   | 190,393                   | 8,708,703    |
| Shares issued   | 488,699                                     | 7,479,839                    | -                            | -                            | -                               | -                                | -                             | 7,968,538   | -                         | 7,968,538    |
| Capital injection by non-controlling shareholders of subsidiaries | -   | -                            | -                            | -                            | -                               | -                                | -                             | -           | 20                        | 20           |
| Changes due to business combination                               | -   | (1,471,054)                  | -                            | -                            | -                               | -                                | -                             | (1,471,054) | 990,114                   | (480,940)    |
| Other movement in capital reserve                                 | -   | (68,817)                     | -                            | -                            | -                               | -                                | -                             | (68,817)    | -                         | (68,817)     |
| Appropriation to surplus reserve                                  | -   | -                            | 656,947                      | -                            | -                               | -                                | (656,947)                     | -           | -                         | -            |
| Appropriation to general reserve                                  | -   | -                            | -                            | 1,452,599                    | -                               | -                                | (1,452,599)                   | -           | -                         | -            |
| Dividends approved in respect of the previous year                | -   | -                            | -                            | -                            | -                               | -                                | (273,440)                     | (273,440)   | (50,762)                  | (324,202)    |
| As at 31 December 2015  | 3,906,699                                   | 17,125,863                   | 2,352,880                    | 4,966,636                    | 1,437,621                       | (122,541)                        | 10,815,441                    | 40,482,599  | 1,941,017                 | 42,423,616   |

The notes on pages 12 to 139 form part of these financial statements.

**Consolidated cash flow statements**  
**for the year ended 31 December 2016**  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

|   | <i>Year ended 31 December</i> |             |
|---|-------------------------------|-------------|
|   | <u>2016</u>                   | <u>2015</u> |
| <b>Cash flows from operating activities:</b>  |                               |             |
| Profit before income tax  | 3,991,457                     | 9,846,289   |
| Adjustments for:  |                               |             |
| Interest expenses   | 1,916,111                     | 1,842,444   |
| Share of profit of associates and joint ventures  | (59,399)                      | (73,570)    |
| Depreciation and amortisation expenses  | 394,680                       | 421,282     |
| Provision for/(reversal of) impairment losses   | 335,242                       | (10,437)    |
| Gain on disposal of property and equipment and other intangible assets                      | (9)                           | (18)        |
| Foreign exchange (gains)/losses   | (314,828)                     | 39,114      |
| Dividend income and interest income from available-for-sale financial assets                | (74,963)                      | (38,062)    |
| Unrealised fair value changes of financial instruments at fair value through profit or loss | 1,185,752                     | (694,632)   |
| Unrealised fair value changes of derivative financial instruments                           | (776,204)                     | 551,336     |
|   | 6,597,839                     | 11,883,746  |
| Operating cash flows before movements in working capital                                    | 6,597,839                     | 11,883,746  |

The notes on pages 12 to 139 form part of these financial statements.

**Consolidated cash flow statements**  
**for the year ended 31 December 2016 (continued)**  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

|   | <u>Year ended 31 December</u> |              |
|---|-------------------------------|--------------|
|   | <u>2016</u>                   | <u>2015</u>  |
| <b>Cash flows from operating activities:</b>                                      |                               |              |
| <b>(continued)</b>  |                               |              |
| <i>Changes in operating assets</i>  |                               |              |
| (Increase)/decrease in refundable deposits  | (1,789,169)                   | 1,094,105    |
| Decrease/(increase) in margin accounts receivable                                 | 5,979,038                     | (1,504,875)  |
| Increase in finance lease receivables   | (195,393)                     | (3,420,746)  |
| (Increase)/decrease in accounts receivable, other receivables and prepayments     | (17,492)                      | 2,219,230    |
| Increase in financial assets held under resale agreements                         | (3,237,834)                   | (2,516,953)  |
| Decrease/(increase) in financial instruments at fair value through profit or loss | 217,090                       | (13,736,296) |
| (Increase)/decrease in derivative financial instruments                           | (93,543)                      | 226,446      |
| Increase in restricted bank deposits  | (7,875)                       | (379,215)    |
| Decrease/(increase) in cash held on behalf of brokerage clients                   | 18,753,871                    | (32,667,121) |
| Increase in other investments <sup>(1)</sup>                                      | (1,669,597)                   | (10,513,568) |

The notes on pages 12 to 139 form part of these financial statements.

<sup>(1)</sup>The contribution to the designated accounts managed by China Securities Finance Corporation Limited is included in other investments for the year ended 31 December 2015.

**Consolidated cash flow statements**  
**for the year ended 31 December 2016 (continued)**  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

|   | <i>Year ended 31 December</i> |              |
|---|-------------------------------|--------------|
|   | <u>2016</u>                   | <u>2015</u>  |
| <b>Cash flows from operating activities:</b>                        |                               |              |
| <b>(continued)</b>  |                               |              |
| <i>Changes in operating liabilities</i>                             |                               |              |
| (Decrease)/increase in accounts payable to brokerage clients        | (15,758,717)                  | 27,918,770   |
| (Decrease)/increase in other payables and accruals                  | (1,662,493)                   | 6,486,172    |
| (Decrease)/increase in employee benefits payable                    | (373,880)                     | 1,717,029    |
| Decrease in financial assets sold under repurchase agreements       | (12,268,540)                  | (10,035,198) |
| Increase/(decrease) in placements from other financial institutions | 8,607,560                     | (5,035,000)  |
| Cash generated from/(used in) operations                            | 3,080,865                     | (28,263,474) |
| Income taxes paid   | (2,333,588)                   | (1,028,611)  |
| Interest paid for operating activities                              | (1,638,970)                   | (2,832,363)  |
| <br>  |                               |              |
| Net cash used in operating activities                               | (891,693)                     | (32,124,448) |

The notes on pages 12 to 139 form part of these financial statements.

**Consolidated cash flow statements**  
**for the year ended 31 December 2016 (continued)**  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

|   | <i>Year ended 31 December</i> |             |
|---|-------------------------------|-------------|
|   | <u>2016</u>                   | <u>2015</u> |
| <b>Cash flows from investing activities:</b>  |                               |             |
| Proceeds from disposal of property and equipment and other intangible assets                      | 1,667                         | 4,241       |
| Dividends received from associates and joint ventures   | 20,571                        | 12,500      |
| Dividends and interest received from available-for-sale financial assets                          | 74,963                        | 38,062      |
| Purchases of property and equipment, other intangible assets and other non-current assets         | (289,549)                     | (260,356)   |
| Purchases of held-to-maturity investments   | (29,809)                      | (127,544)   |
| Purchases of associates and joint ventures  | (883,420)                     | (314,115)   |
| Acquisition of subsidiaries, net of cash acquired   | -                             | (2,603,936) |
| Proceeds from disposal /(purchases) of available-for-sale financial assets for investment purpose | 67,197                        | (71,819)    |
| Purchases of non-controlling interests shareholding in a subsidiary                               | (794,843)                     | -           |
| Purchases of investments classified as receivables and other investments                          | (3,455,741)                   | (1,188,395) |
|   | (5,288,964)                   | (4,511,362) |
| Net cash used in investing activities   | (5,288,964)                   | (4,511,362) |

The notes on pages 12 to 139 form part of these financial statements.

**Consolidated cash flow statements**  
**for the year ended 31 December 2016 (continued)**  
*(Expressed in thousands of Renminbi, unless otherwise stated)*

|  | <i>Year ended 31 December</i> |             |
|--|-------------------------------|-------------|
|  | <u>2016</u>                   | <u>2015</u> |
| <b>Cash flows from financing activities:</b>           |                               |             |
| Capital injection from non-controlling interests       | -                             | 20          |
| Proceeds from issuance of ordinary shares              | 7,437,738                     | 7,968,538   |
| Proceeds from issuance of long-term bonds              | 14,035,000                    | 32,767,412  |
| Proceeds from issuance of short-term debt instruments  | 8,378,205                     | 5,301,000   |
| Proceeds from bank loans                               | 7,994,056                     | 9,413,907   |
| Long-term bonds repaid                                 | (23,500,000)                  | (1,996,391) |
| Short-term debt instruments repaid                     | (4,548,503)                   | (3,201,000) |
| Bank loans repaid                                      | (3,278,941)                   | (5,579,714) |
| Loans, bonds and debt instruments interest paid        | (2,296,109)                   | (647,916)   |
| Dividends paid   | (2,414,994)                   | (324,202)   |
|  | 1,806,452                     | 43,701,654  |
| Net cash generated from financing activities           | 1,806,452                     | 43,701,654  |
| Net (decrease)/increase in cash and cash equivalents   | (4,374,205)                   | 7,065,844   |
| Cash and cash equivalents at the beginning of the year | 12,996,769                    | 5,970,039   |
| Effect of foreign exchange rate changes                | 314,828                       | (39,114)    |
|  | 8,937,392                     | 12,996,769  |
| Cash and cash equivalents at the end of the year       | 8,937,392                     | 12,996,769  |

The notes on pages 12 to 139 form part of these financial statements.

## Notes to the financial statements

*(Expressed in thousands of Renminbi unless otherwise indicated)*

### 1 General information

Everbright Securities Company Limited (光大證券股份有限公司) (the “Company”), formerly known as Everbright Securities Limited Liability Company (光大證券有限責任公司), approved by the People’s Bank of China (“PBOC”), was incorporated in Beijing on 23 April 1996. The Company was renamed as Everbright Securities Company Limited (光大證券股份有限公司) on 14 July 2005 as a result of the conversion into a joint stock limited liability company.

As approved by the China Securities Regulatory Commission (“CSRC”), the Company publicly issued 520,000,000 ordinary shares (A shares) and was listed on the Shanghai Stock Exchange on 18 August 2009.

On 1 September 2015, the Company completed the change of registration procedures for securities sold in a private placement to certain investors. Following the completion of this private placement the total number of share capital of the Company increased from 3,418,000,000 A Shares to 3,906,698,839 A Shares, the registered share capital of the Company increased from RMB3,418,000,000 to RMB3,906,698,839.

As at 18 August 2016, the Company completed its initial public offering of H shares on the Main Board of the Hong Kong Stock Exchange, and issued 680,000,000 shares with a par value of RMB1.00 each. As at 19 September 2016, the Company exercised the Over-allotment Option, in respect of 24,088,800 H Shares with a par value of RMB1.00 each.

As at 31 December 2016, the Company’s registered capital was RMB 4,610,787,639 and the Company has a total of 4,610,787,639 issued shares of RMB1.00 each.

The registered address of the Company is No. 1508 Xinzha Road, Shanghai, the PRC. The Company and its subsidiaries (the “Group”) principally engaged in securities and futures brokerage, securities proprietary trading, securities underwriting and sponsorship, securities investment advisory, asset management, margin financing and securities lending, distribution of financial products, and other business activities approved by CSRC.



## **2 Significant accounting policies**

### **(1) Statement of compliance**

These financial statements set out in this report has been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations, issued by the International Accounting Standards Board (the “IASB”), and the disclosure requirements of Hong Kong Companies Ordinance. Further details of the significant accounting policies adopted by the Group are disclosed below.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing the financial statements, the Group has adopted all applicable new and revised IFRSs to the year ended 31 December 2016, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 December 2016. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period ended 31 December are set out in Note 60.

The 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 (the “Stock Exchange”).

### **(2) Basis of measurement**

The financial statements have been prepared on the historical cost basis except that the following assets and liabilities are measured at their fair value: financial derivatives, non-derivative financial assets and liabilities at fair value through profit or loss and available-for-sale financial assets. The measurement of fair value is stated in Note 2(9).

### **(3) Functional and presentation currency**

The financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company and its subsidiaries established in the PRC. All financial information presented in RMB has been rounded to the nearest thousand, except when otherwise indicated. The Group translates the financial statements of subsidiaries from their respective functional currencies into the Group’s functional currency if the subsidiaries’ functional currencies are not the same as that of the Group.

### **(4) Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

## 2 Significant accounting policies (continued)

### (4) Use of estimates and judgments (continued)

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.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 2(27).

### (5) Basis of consolidation

#### (i) 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 gains 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 meet the definition of a financial liability.

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

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(9)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (see Note 2(5) (ii)).

## 2 Significant accounting policies (continued)

### (5) Basis of consolidation (continued)

#### (ii) Associates and joint ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted 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(6) and Note 2(15)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other 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 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 venture 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.

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(9)).

In the Company's statement of financial position, investments in associates and joint venture of the Company are accounted for using the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

## 2 Significant accounting policies (continued)

### (6) Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest 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 ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 2(15)).

On disposal of a CGU during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (7) Foreign currency

When the Group receives capital in foreign currencies from investors, the capital is translated to RMB at the spot exchange rate on the date of receipt. Other foreign currency transactions are, on initial recognition, translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates on the dates of the transactions.

A spot exchange rate is an exchange rate quoted by the PBOC, the State Administrative of Foreign Exchange or a cross rate determined based on quoted exchange rates. A rate that approximates the spot exchange rate is a rate determined under a systematic and rational method, normally the average exchange rate of the current period.

Monetary items denominated in foreign currencies are translated to RMB at the spot exchange rate at the end of the reporting period. The resulting exchange differences are recognised in profit or loss. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated to RMB using the foreign exchange rate at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rate at the date the fair value is determined; the resulting exchange differences are recognised in profit or loss, except for the differences arising from the translation of available-for-sale financial assets, which are recognised as other comprehensive income in capital reserve.

## 2 Significant accounting policies (continued)

### (7) Foreign currency (continued)

The assets and liabilities of foreign operation are translated to RMB at the spot exchange rate at the end of the reporting period. The equity items, excluding “retained profits”, are translated to RMB at the spot exchange rates at the transaction dates. The income and expenses of foreign operations are translated to RMB at the spot exchange rates or the rates that approximate the spot exchange rates at the transaction dates. The resulting translation differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. Upon disposal of a foreign operation, the cumulative amount of the translation differences recognised in shareholders’ equity which relates to that foreign operation is transferred to profit or loss in the period in which the disposal occurs.

### (8) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term, highly liquid investments, which are readily convertible into known amounts of cash and are subject to insignificant risk of change in value.

### (9) Financial instruments

#### (i) Recognition and measurement of financial assets and financial liabilities

A financial asset or financial liability is recognised in the statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument.

The Group classifies financial assets and liabilities into different categories at initial recognition based on the purpose of acquiring assets or assuming liabilities: financial assets and financial liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value. For financial assets and financial liabilities at fair value through profit or loss, any directly attributable transaction costs are charged to profit or loss; for other categories of financial assets and financial liabilities, any attributable transaction costs are included in their initial costs.

Financial assets and financial liabilities are categorised as follows:

*Financial assets and financial liabilities at fair value through profit or loss (including financial assets or financial liabilities held for trading)*

A financial asset or financial liability is classified at fair value through profit or loss if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, a financial instrument managed in a pattern of short-term profit taking, a derivative, or if it is designated as at fair value through profit or loss.

## 2 Significant accounting policies (continued)

### (9) Financial instruments (continued)

#### (i) Recognition and measurement of financial assets and financial liabilities (continued)

Financial assets and financial liabilities are designated as at fair value through profit or loss upon initial recognition in either of the following circumstances:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces the discrepancies in the recognition or measurement of relevant gains or losses arising from the different basis of measurement of the financial assets or financial liabilities;
- the financial assets or financial liabilities contain an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

Subsequent to initial recognition, financial assets and financial liabilities at fair value through profit or loss are measured at fair value, without any deduction for transaction costs that may occur on sale, and changes therein are recognised in profit or loss.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 2(9)(iii)).

#### *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than

- those that the Group, upon initial recognition, designated as at fair value through profit or loss or as available-for-sale; or
- those that meet the definition of loans and receivables.

## 2 Significant accounting policies (continued)

### (9) Financial instruments (continued)

#### (i) Recognition and measurement of financial assets and financial liabilities (continued)

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses (see Note 2(9)(iii)). A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications that are attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

#### *Available-for-sale financial assets*

Available-for-sale financial assets include non-derivative financial assets that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise equity securities and debt securities. Unquoted equity securities whose fair value cannot be measured reliably are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend (see Note 2(21)(vi)). Foreign exchange gains or losses on available-for-sale financial assets are recognised in profit or loss (see Note 2(7)). Impairment losses are recognised in profit or loss (see Note 2(9)(iii)).

Other fair value changes, other than impairment losses (see Note 2(9)(iii)), are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

#### *Other financial liabilities*

Financial liabilities other than the financial liabilities at fair value through profit or loss are classified as other financial liabilities.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost using the effective interest method.

## 2 Significant accounting policies (continued)

### (9) Financial instruments (continued)

#### (i) Recognition and measurement of financial assets and financial liabilities (continued)

- Put right liabilities arising from business combination

The Group recognizes the put option granted by the Group to the non-controlling shareholders providing for settlement in cash or in other financial asset as a financial liability. The financial liability is recognised initially at the present value of the redemption amount, and is reclassified from equity. Subsequently, the financial liability is measured at amortised cost. If the contract expires without delivery, the carrying amount of the financial liability is reclassified to equity.

#### (ii) Fair value measurement

If there is an active market for a financial asset or financial liability, the quoted price in the active market without adjusting for transaction costs that may be incurred upon future disposal or settlement is used to establish the fair value of the financial asset or financial liability. For a financial asset held or a financial liability to be assumed, the quoted price is the current bid price. For a financial asset to be acquired or a financial liability assumed, the quoted price is the current asking price. Quoted prices from an active market are prices that are readily and regularly available from an exchange, dealer, broker, industry group or pricing service agency, and represent actual and regularly occurring market transactions on an arm's length basis.

If no active market exists for a financial instrument, a valuation technique is used to establish the fair value. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Where discounted cash flow technique is used, future cash flows are estimated based on management's best estimates and the discount rate used is the prevailing market rate applicable for instrument with similar terms and conditions at the end of the reporting period. Where other pricing models are used, inputs are based on market data at the end of the reporting period.

In estimating the fair value of a financial asset and financial liability, the Group considers all factors including, but not limited to, risk-free interest rate, credit risk, foreign exchange rate and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The Group obtains market data from the same market where the financial instrument was originated or purchased.

#### (iii) Impairment of financial assets

The carrying amounts of financial assets other than those at fair value through profit or loss are reviewed by the Group at the end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment losses are provided. Objective evidence of impairment in the financial asset represents events that occur after the initial recognition of the financial assets and have impact on the estimated future cash flows of the asset, which can be estimated reliably.



## 2 Significant accounting policies (continued)

### (9) Financial instruments (continued)

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

Objective evidence that financial assets are impaired includes, but not limited to:

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

#### *Loans and receivables*

Loans and receivables are assessed for impairment on an individual basis and/or on a collective group basis as follows.

Where impairment is assessed on an individual basis, an impairment loss in respect of a loan and receivable is calculated as the excess of its carrying amount over the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. Impairment losses are recognised in profit or loss.

The assessment is made collectively where loans and receivables share similar credit risk characteristics (including those having not been individually assessed as impaired), based on their historical loss experiences, and adjusted by the observable factors reflecting current economic conditions.

#### *Held-to-maturity investments*

The impairment loss is calculated based on the excess of its carrying amount over the present value of the estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate. All impairment losses are recognised in profit or loss.

If, in a subsequent period the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds the amortised cost at the date of the reversal had the impairment not been recognised.

## 2 Significant accounting policies (continued)

### (9) Financial instruments (continued)

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

##### *Available-for-sale financial assets*

The Group assess impairment losses on both individual and collective basis. Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost net of any principal repayment and amortisation and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

For the available-for-sale equity investment, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is “significant” or “prolonged” requires judgement. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. The group generally considers a significant decline to be one in which the fair value is below its original cost by 50% or more or a prolonged decline to be one in which fair value is below cost in declining trend for twelve months or longer, upon which impairment loss is recognised. The Group also takes into consideration of other specific relevant factors through the whole investing period when assessing whether there is objective evidence that the available-for-sale equity investment is under a significant or prolonged decline in the fair value.

If, in a subsequent period, the fair value of an impaired available-for-sale debt investments increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity investment is recognised in other comprehensive income.

For investments in equity instruments measured at cost, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and recognised in profit or loss. Any impairment loss in respect of available-for-sale equity investments carried at cost should not be reversed.

#### (iv) Derecognition of financial assets and financial liabilities

Financial assets (or a part of a financial asset or group of financial assets) are derecognised when the financial assets meet one of the following conditions:

- the contractual rights to the cash flows from the financial asset expire; or
- the Group transfers substantially all the risks and rewards of ownership of the financial assets or where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the control over that asset is relinquished.

## 2 Significant accounting policies (continued)

### (9) Financial instruments (continued)

#### (iv) Derecognition of financial assets and financial liabilities (continued)

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but retains control, the Group continues to recognise the financial asset and relevant liability to the extent of its continuing involvement in the financial asset.

The financial liability (or part of it) is derecognised only when the underlying present obligation (or part of it) specified in the contracts is discharged, cancelled or expired. An agreement between the Group and an existing lender to replace the original financial liability with a new financial liability with substantially different terms, or a substantial modification of the terms of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new financial liability. The difference between the carrying amount of the derecognised financial liability and the consideration paid is recognised in profit or loss.

#### (v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis, or by realising the asset and settling the liability simultaneously.

#### (vi) Equity instruments

An equity instrument is a contract that proves the ownership interest of the residual assets after deducting all liabilities of the Group. Considerations received from issuance of equity instruments net of transaction costs are recognised in equity. Considerations and transaction costs paid by the Group for repurchasing its own equity instruments are deducted from equity.

#### (vii) Derivative financial instruments

Derivative financial instruments are initially measured at fair value at the date a derivative contract is entered into and are subsequently measured at fair value. Changes in fair value of these derivative financial instruments other than those designed as hedge instrument are recognised in profit or loss. Fair values are obtained from quoted market prices in active market or are determined using valuation techniques, including discounted cash flow model and options pricing model as appropriate.

All derivatives are recognised as assets when the fair value is positive and as liabilities when the fair value is negative.

Derivative embedded in non-derivative host contracts are treated as separate derivative when their characteristics and risks are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in profit or loss.

## **2 Significant accounting policies (continued)**

### **(10) Margin financing and securities lending**

Margin financing and securities lending refer to the lending of funds by the Group to customers for purchase of securities, or lending of securities by the Group to customers for securities selling, for which the customers provide the Group with collateral.

The Group recognises margin financing receivables as loans and receivables, and recognises interest income using effective interest rate method. Securities lent are not derecognised when the risk and rewards are not transferred, and interest income is recognised using effective interest rate method.

The collateral is not recognised on the statement of financial position, the transfer of the collateral from counterparties is only reflected on the statement of financial position if the risks and rewards of ownership are also transferred.

Securities trading on behalf of margin financing or securities lending customers are accounted for as securities brokerage business.

### **(11) Financial assets held under resale and sold under repurchase agreements**

Financial assets held under resale agreements are transactions where the Group acquires financial assets which will be resold at a predetermined price at a future date under resale agreements. Financial assets sold under repurchase agreements are transactions where the Group sells financial assets which will be repurchased at a predetermined price at a future date under repurchase agreements.

The cash advanced or received is recognised as amounts held under resale or sold under repurchase agreements in the statement of financial position. Assets held under resale agreements are recorded in memorandum accounts as off-balance sheet items. Assets sold under repurchase agreements continue to be recognised in the statement of financial position.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, is amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

### **(12) Investments in subsidiaries**

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2(5).

In the Company's statements of financial position, investments in subsidiaries are accounted for using the cost method. The investment is stated at cost less impairment loss (Note 2(15)) in the company level statements of financial position. Except for declared but not yet distributed cash dividends or profits distribution that have been included in the price or consideration paid in obtaining the investments, the Group recognises its share of the cash dividends or profit distribution declared by the investees as investment income.

## 2 Significant accounting policies (continued)

### (13) Property and equipment and construction in progress

#### (i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use;
- when the Group has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which they are located; and
- capitalised borrowing costs.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

Costs of construction in progress are determined based on the actual expenditures incurred which include all necessary expenditures incurred during the construction period, borrowing costs eligible for capitalisation and other costs incurred to bring the asset to its intended use.

Items classified as construction in progress are transferred to property and equipment when such assets are ready for their intended use.

#### (ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

#### (iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use.

## 2 Significant accounting policies (continued)

### (13) Property and equipment and construction in progress (continued)

#### (iii) Depreciation (continued)

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives.

Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives for the current and comparative years of significant items of property and equipment are as follows:

| <u>Types of assets</u> | <u>Estimated useful lives</u> | <u>Estimated residual values</u> | <u>Depreciation rates</u> |
|------------------------|-------------------------------|----------------------------------|---------------------------|
| Buildings              | 40 years                      | -                                | 2.50%                     |
| Motor vehicles         | 5 years                       | -                                | 20.00%                    |
| Electronic equipment   | 3 years                       | -                                | 33.33%                    |
| Furniture and fixtures | 5 years                       | -                                | 20.00%                    |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### (14) Other intangible assets

Intangible assets are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment loss (see Note 2(15)). For an intangible asset with finite useful life, its cost less impairment loss is amortised on the straight-line method over its estimated useful life.

The respective amortisation periods for major intangible assets are as follows:

| <u>Types of assets</u> | <u>Estimated useful lives</u> |
|------------------------|-------------------------------|
| Software               | 3 years                       |
| Customer relationship  | 2.5 - 10 years                |

An intangible asset is regarded as having an indefinite useful life and is not amortised when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

## 2 Significant accounting policies (continued)

### (15) Impairment of non-financial assets

The carrying amounts of the following assets are reviewed at each reporting date to determine whether there is any indication of impairment:

- property and equipment
- investment property
- other intangible assets
- equity investment in subsidiaries
- goodwill
- leasehold improvements and long-term deferred expenses

If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 asset or CGU. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

## 2 Significant accounting policies (continued)

### (16) Employee benefits

#### (i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

#### (ii) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

#### (iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The discount rate is the yield at the reporting date on corporate bonds, which have a credit rating of at least AA from rating agency, that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognised in profit or loss in the period in which they arise.

#### (iv) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.



## 2 Significant accounting policies (continued)

### (17) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

#### (i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

#### (ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For investment property that is measured at fair value, the presumption that the carrying amount of the investment property will be recovered through sale has not been rebutted.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

## 2 Significant accounting policies (continued)

### (17) Income tax (continued)

#### (ii) Deferred tax (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (iii) Tax exposures

In determining the amount of current and deferred tax, the Group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### (18) Operating leases and finance leases

A lease is classified as either a finance lease or an operating lease. A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of a leased asset to the lessee, irrespective of whether the legal title to the asset is eventually transferred. An operating lease is a lease other than a finance lease.

#### (i) Operating lease charges

Rental payments under operating leases are recognised as costs or expenses on a straight-line basis over the lease term. Contingent rental payments are recognised as expenses in the accounting period in which they are incurred.

#### (ii) Assets leased out under operating leases

Property and equipment leased out under operating leases are depreciated in accordance with the Group's depreciation policies described in Note 2(13)(iii). Impairment losses are recognised in accordance with the accounting policies described in Note 2(15). Income derived from operating leases is recognised in the profit or loss using the straight-line method over the lease term. If initial direct costs incurred in respect of the assets leased out are material, the costs are initially capitalised and subsequently amortised in profit or loss over the lease term on the same basis as the lease income. Otherwise, the costs are charged to profit or loss immediately. Contingent rentals are recognised as income in the accounting period in which they are earned.

## **2 Significant accounting policies (continued)**

### **(18) Operating leases and finance leases (continued)**

#### **(iii) Assets leased out under finance leases**

At the commencement of the lease term, the Group recognises the aggregate of the minimum lease receipts determined at the inception of a lease and the initial direct costs as finance lease receivable, and recognises unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the aggregate of their present value is recognised as unearned finance income.

Unearned finance income is allocated to each accounting period during the lease term using the effective interest method. At the balance sheet date, finance lease receivables, net of unearned finance income, are analysed and separately presented as long-term receivables or non-current assets due within one year. Contingent rentals are recognised as income when they are earned.

### **(19) Provisions and contingent liabilities**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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.

### **(20) Fiduciary activities**

The Group acts in a fiduciary activity as a manager, a custodian, or an agent for customers. Assets held by the Group and the related undertakings to return such assets to customers are recorded as off-balance sheet items as the risks and rewards of the assets reside with customers.

## 2 Significant accounting policies (continued)

### (21) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when revenue can be measured reliably, on the following basis:

(i) Commission income from brokerage business

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling and settlement fee income arising from brokerage business is recognised when the related services are rendered.

(ii) Underwriting and sponsoring fees

Underwriting and sponsoring fees are recognised when the obligation of underwriting or sponsoring is completed, that is, the economic interests may flow into the Group and the relevant revenue and costs may be measured reliably.

(iii) Advisory fees

Consultancy and financial advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

(iv) Asset management fees

Asset management fees are recognised when the Group is entitled to receive the income under the asset management agreement.

(v) Interest income

Interest income is recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

(vi) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity investments.

(vii) Other income

Other income is recognised on an accrual basis.

## **2 Significant accounting policies (continued)**

### **(22) Expenses recognition**

#### **(i) Commission expenses**

Commission expenses relate mainly to transactions, which are recognised as expenses when the services are received.

#### **(ii) Interest expenses**

Interest expenses are recognised based on the principal outstanding and at the effective interest rate applicable.

#### **(iii) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the terms of the respective leases. Lease incentives received are recognised as an integral part of the total lease expenses, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant Periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### **(iv) Other expenses**

Other expenses are recognised on an accrual basis.

### **(23) Dividend distribution**

Dividends or profit distributions proposed in the profit appropriation plan, which will be authorised and declared after the end of the reporting period, are not recognised as a liability at the end of the reporting period but disclosed in the notes to the financial statements separately.

### **(24) Government grants**

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant, and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the periods in which the expenses are recognised.

## 2 Significant accounting policies (continued)

### (25) Related parties

- (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;
  - (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.

## 2 Significant accounting policies (continued)

### (26) Segment reporting

Reportable segments are identified based on operating segments which are determined based on the structure of the Group's internal organisation, management requirements and internal reporting system. An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose financial performance are regularly reviewed by the Group's management to make decisions about resource to be allocated to the segment and assess its performance, and for which financial information regarding financial performance is available.

Two or more operating segments may be aggregated into a single operating segment if the segments have same or similar economic characteristics and are similar in respect of the nature of each products and service, the nature of production processes, the type or class of customers for the products and services, the methods used to distribute the products or provide the services, and the nature of the regulatory environment.

Inter-segment revenues are measured on the basis of actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

### (27) Significant accounting estimates and judgements

The preparation of financial statements require management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. 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 and in any future periods affected.

#### (i) Impairment of available-for-sale financial assets and held-to-maturity investments

In determining whether there is any objective evidence that impairment has occurred on available-for-sale financial assets and held-to-maturity investments, we assess periodically whether there has been a significant or prolonged decline in the fair value of the investments below its cost or carrying amount, or whether other objective evidence of impairment exists based on the investee's financial conditions and business prospects, including industry outlook, technological changes as well as operating and financing cash flows. This requires a significant level of management judgment which would affect the amount of impairment losses.

## 2 Significant accounting policies (continued)

### (27) Significant accounting estimates and judgements (continued)

#### (ii) Fair value of financial instruments

There are no quoted prices from an active market for a number of financial instruments. The fair values for these financial instruments are established by using valuation techniques. These techniques include using recent arm's length market transactions by referring to the current fair value of similar instruments, discounted cash flow analysis and option pricing models. The Group has established a work flow to ensure that the valuation techniques are constructed by qualified personnel and are validated and reviewed by independent personnel. Valuation techniques are certified and calibrated before implementation to ensure the valuation result reflects the actual market conditions. Valuation models established by the Group make maximum use of market input and rely as little as possible on the Group's specific data. However, it should be noted that some input, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustment if necessary.

#### (iii) Classification of financial asset and liability

The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the definition of trading assets and liabilities set out in Note 2(9)(i).
- In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in Note 2(9)(i).
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intent and ability to hold the assets until their maturity date as required by accounting policy set out in Note 2(9)(i). In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgments. Failure in correctly assessing the Group's intent and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

#### (iv) Impairment of receivables

Receivables that are measured at amortised cost are reviewed at each end of the reporting period to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided. Objective evidence of impairment includes observable data that comes to the attention of the Group about loss events such as a significant decline in the estimated future cash flow of an individual debtor and other factors. If there is an indication that there has been a change in the factors used to determine the provision for impairment, the impairment loss recognised in prior years is reversed.



## 2 Significant accounting policies (continued)

### (27) Significant accounting estimates and judgements (continued)

#### (v) Impairment of non-financial assets

Non-financial assets are reviewed regularly to determine whether the carrying amount exceeds the recoverable amount of the assets. If any such indication exists, an impairment loss is provided.

Since the market price of an asset (the asset group) cannot be obtained reliably, the fair value of the asset cannot be estimated reliably. In assessing the present value of future cash flows, significant judgements are exercised over the asset's selling price, related operating expenses and discounting rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the selling price and related operating expenses based on reasonable and supportable assumption.

#### (vi) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

#### (vii) Depreciation and amortisation

Property and equipment, intangible assets, leasehold improvements and long-term deferred expenses are depreciated and amortised using the straight-line method over their estimated useful lives after taking into account residual values. The estimated useful lives are regularly reviewed to determine the depreciation and amortisation costs charged in each of the reporting period. The estimated useful lives are determined based on historical experiences of similar assets and the estimated technical changes. If there is an indication that there has been a change in the factors used to determine the depreciation or amortisation, the amount of depreciation or amortisation will be revised.

#### (viii) Determination of consolidation scope

All facts and circumstances must be taken into consideration in the assessment of whether the Group controls an entity. The principle of control includes three elements: (i) power over the entity; (ii) exposure, or rights, to variable returns from involvement with the entity; and (iii) the ability to use power over the entity to affect the amount of entity's returns. The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

## 2 Significant accounting policies (continued)

### (27) Significant accounting estimates and judgements (continued)

#### (viii) Determination of consolidation scope (continued)

For asset management schemes where the Group involves as the manager, the Group assesses whether the combination of investments it holds, if any, together with its remuneration creates exposure to variability of returns from the activities of the asset management schemes that is of such significance indicating that the Group is a principal. The asset management scheme shall be consolidated if the Group acts in the role of principal.

## 3 Taxation

The Group's main applicable taxes and tax rates are as follows:

| <u>Tax type</u>                       | <u>Tax basis</u>                         | <u>Tax rate</u> |
|---------------------------------------|--|-----------------|
| Corporate income tax                  | Taxable profits                          | 16.5%、25%       |
| Business tax                          | Taxable revenue<br>(prior to 1 May 2016) | 5%              |
| Value added tax ("VAT")               | Taxable revenue                          | 3%-17%          |
| City maintenance and construction tax | Business tax and value<br>added tax paid | 1%-7%           |
| Education surcharge                   | Business tax and value<br>added tax paid | 3%              |

The income tax rate applicable to the Company and its domestic subsidiaries is 25%. The income tax rate applicable to subsidiaries in Hong Kong is 16.5%.

According to Cai Shui [2016] No. 36, jointly issued by MOF and the State Administration of Taxation, all taxpayers subject to business tax in China are included in the scope of the VAT pilot scheme. Effective from 1 May 2016, those taxpayers are required to pay VAT in lieu of business tax.

According to Notice on Clarifying VAT Policies for Financial Services, Real Estate Development, and Educational Ancillary Services (Cai Shui [2016] No. 140) issued by the Ministry of Finance and State Administration of Taxation on 21 December 2016, managers of asset management products shall pay VAT for their taxable activities during the operation of asset management products.

### 3 Taxation (continued)

According to Supplementary Notice on Issues concerning VAT Policies for Asset Management Products (Cai Shui [2017] No. 2) issued by the Ministry of Finance and State Administration of Taxation on 6 January 2017, effective from 1 July 2017, managers of asset management products shall pay VAT for their taxable activities during the operation of asset management products according to the current regulations. Where taxable activities occur before 1 July 2017 during the operation of asset management products and VAT has not been paid for such activities yet, VAT will not be paid any longer.

### 4 Fee and commission income

|   | <u>2016</u>      | <u>2015</u>       |
|---|------------------|-------------------|
| Income from securities brokerage and investment advisory business | 4,035,242        | 9,314,867         |
| Income from asset management business                             | 1,435,490        | 1,393,135         |
| Income from underwriting and sponsorship business                 | 1,353,610        | 1,126,195         |
| Income from futures brokerage business                            | 307,962          | 299,012           |
| Income from financial advisory business                           | 207,714          | 200,963           |
| Others  | 18,452           | -                 |
|   | <u>7,358,470</u> | <u>12,334,172</u> |
| Total   | <u>7,358,470</u> | <u>12,334,172</u> |

### 5 Interest income

|   | <u>2016</u>      | <u>2015</u>      |
|---|------------------|------------------|
| Interest income arising from                      |                  |                  |
| – Deposit in financial institutions               | 1,951,741        | 2,342,245        |
| – Margin financing and securities lending         | 2,315,624        | 4,064,211        |
| – Financial assets held under resale agreements   | 35,437           | 21,452           |
| – Securities-backed lending and stock repurchases | 361,375          | 319,701          |
| – Finance lease                                   | 163,743          | 56,865           |
| – Others  | 39,467           | 34,849           |
|   | <u>4,867,387</u> | <u>6,839,323</u> |
| Total   | <u>4,867,387</u> | <u>6,839,323</u> |

## 6 Net investment gains

|   | <u>2016</u>    | <u>2015</u>      |
|---|----------------|------------------|
| Net realised gains from disposal of available-for-sale financial assets                                 | 436,185        | 1,050,608        |
| Dividend income and interest income from available-for-sale financial assets                            | 258,786        | 252,740          |
| Net realised (losses)/gains from disposal of financial instruments at fair value through profit or loss | (307,014)      | 546,501          |
| Dividend income and interest income from financial instruments at fair value through profit or loss     | 1,202,091      | 1,585,801        |
| Net realised (losses)/gains from disposal of derivative financial instruments                           | (208,239)      | 391,831          |
| Unrealised fair value changes of financial instruments at fair value through profit or loss             | (1,185,752)    | 694,632          |
| Unrealised fair value changes of derivative financial instruments                                       | 776,204        | (551,336)        |
| Total   | <u>972,261</u> | <u>3,970,777</u> |

## 7 Other income and gains

|                               | <u>2016</u>    | <u>2015</u>    |
|-------------------------------|----------------|----------------|
| Government grants             | 209,936        | 78,111         |
| Rental income                 | 13,463         | 12,466         |
| Income from agent business    | 70,989         | 48,486         |
| Income from advisory business | 7,716          | 4,708          |
| Exchange gains/(losses)       | 314,828        | (39,114)       |
| Others                        | 53,479         | 43,800         |
| Total                         | <u>670,411</u> | <u>148,457</u> |

## 8 Fee and commission expenses

|  | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|
| Expenses arising from                        |                  |                  |
| – Securities brokerage and advisory business | 1,013,990        | 1,877,939        |
| – Asset management business                  | 106,416          | 21,149           |
| – Underwriting and sponsorship business      | 90,593           | 109,837          |
| – Futures brokerage business                 | 49,077           | 56,802           |
| – Financial advisory business                | 5,139            | 6,138            |
|  | <hr/>            | <hr/>            |
| Total  | <u>1,265,215</u> | <u>2,071,865</u> |

## 9 Interest expenses

|   | <u>2016</u>      | <u>2015</u>      |
|---|------------------|------------------|
| Interest expenses for                               |                  |                  |
| – Long-term bonds                                   | 1,675,521        | 1,614,863        |
| – Financial assets sold under repurchase agreements | 570,798          | 2,007,532        |
| – Other structured entities' holders                | 406,034          | 177,283          |
| – Accounts payable to brokerage clients             | 190,213          | 239,090          |
| – Loans and borrowings                              | 187,152          | 122,302          |
| – Placements from other financial institutions      | 149,564          | 337,299          |
| – Short-term debt instruments issued                | 53,438           | 105,279          |
| – Others  | 38,945           | 15,857           |
|   | <hr/>            | <hr/>            |
| Total   | <u>3,271,665</u> | <u>4,619,505</u> |

## 10 Staff costs

|                                  | <u>2016</u>      | <u>2015</u>      |
|----------------------------------|------------------|------------------|
| Salaries, bonuses and allowances | 2,644,299        | 3,757,769        |
| Contribution to pension schemes  | 160,914          | 123,014          |
| Other social welfare             | 232,689          | 228,917          |
|                                  | <hr/>            | <hr/>            |
| Total                            | <u>3,037,902</u> | <u>4,109,700</u> |

The domestic employees of the Group in the PRC participate in social welfare plans, including pension, medical, housing, and other welfare benefits, organised and administered by the governmental authorities. The Group also operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes Ordinance. According to the relevant regulations, the premiums and welfare benefits contributions that should be borne by the Group are calculated on regular basis and paid to the labor and social welfare authorities based on certain percentage of the employees' salaries. These social welfare plans are defined contribution plans and contributions to the plans are expensed as incurred.

**11 Depreciation and amortisation expenses**

|  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Depreciation of property and equipment                                 | 122,959     | 214,170     |
| Amortisation of other intangible assets                                | 229,728     | 160,213     |
| Amortisation of leasehold improvements and long-term deferred expenses | 41,993      | 46,899      |
|  | 394,680     | 421,282     |
| Total  | 394,680     | 421,282     |

**12 Other operating expenses**

|  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| Rental expenses and utilities  | 361,741     | 268,981     |
| IT expenses  | 218,440     | 190,676     |
| Funds and asset management plans distribution and custodian expenses | 180,977     | 208,991     |
| Business travel expenses   | 138,127     | 113,120     |
| Promotion and entertainment expenses                                 | 128,839     | 151,389     |
| Postal and communication expenses                                    | 75,905      | 70,962      |
| Securities/futures investor protection funds                         | 61,334      | 159,384     |
| Stock exchanges management fees                                      | 60,025      | 72,970      |
| Labour outsourcing expenses  | 45,915      | 37,756      |
| Compensation and penalties   | 41,693      | 147         |
| Consulting and professional services                                 | 19,640      | 14,030      |
| Auditors' remuneration   | 7,477       | 4,180       |
| Others   | 77,344      | 44,291      |
|  | 1,417,457   | 1,336,877   |
| Total  | 1,417,457   | 1,336,877   |

### 13 Provision for / (reversal of) impairment losses

|  | <u>2016</u>           | <u>2015</u>            |
|--|-----------------------|------------------------|
| Provision for impairment losses against available-for-sale financial assets                | 276,080               | -                      |
| Reversal of for impairment losses against accounts receivable and other non-current assets | (15,994)              | (52,407)               |
| Provision for/(reversal of) for impairment losses against other receivables                | 45,710                | (5,626)                |
| Provision for impairment losses against accounts receivable of finance lease               | 38,241                | 26,759                 |
| (Reversal of)/provision for impairment losses against margin accounts receivable           | <u>(8,795)</u>        | <u>20,837</u>          |
| Total  | <u><u>335,242</u></u> | <u><u>(10,437)</u></u> |

### 14 Income tax expense

**(a) Taxation in the consolidated income statements represents:**

|   | <u>2016</u>           | <u>2015</u>             |
|---|-----------------------|-------------------------|
| Current tax                                       |                       |                         |
| – PRC income tax                                  | 1,149,898             | 2,177,664               |
| – Hong Kong profits tax                           | <u>42,478</u>         | <u>28,454</u>           |
|   | 1,192,376             | 2,206,118               |
| Adjustment in respect of prior years              |                       |                         |
| – PRC income tax                                  | 116,658               | (76,319)                |
| Deferred tax                                      |                       |                         |
| Origination and reversal of temporary differences | <u>(394,266)</u>      | <u>(30,365)</u>         |
| Total   | <u><u>914,768</u></u> | <u><u>2,099,434</u></u> |

According to the PRC Corporate Income Tax (“CIT”) Law that took effect on 1 January 2008, the Company and the Group’s PRC subsidiaries are subject to CIT at the statutory tax rate of 25%.

For the Group’s Hong Kong subsidiaries, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the year.

**14 Income tax expense (continued)**

**(b) Reconciliation between income tax expense and accounting profit at applicable tax rate:**

|   | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Profit before income tax  | 3,991,457   | 9,846,289   |
| Notional tax calculated using PRC statutory tax rate                      | 997,865     | 2,461,571   |
| Tax effect of non-deductible expenses                                     | 49,174      | 54,320      |
| Tax effect of non-taxable income  | (132,141)   | (341,467)   |
| Effect of losses and different tax rates of subsidiaries                  | 3,302       | 239         |
| Recognition of deductible temporary differences previously not recognised | (119,344)   | -           |
| Adjustment for prior years  | 116,658     | (76,319)    |
| Others  | (746)       | 1,090       |
| Total   | 914,768     | 2,099,434   |



## 15 Directors' and supervisors' remuneration

The remuneration of directors and supervisors paid by the Group who held office during the reporting period is as follows:

| Name                             | Year ended 31 December 2016 |   |                                 |                       | Total         |
|----------------------------------|-----------------------------|---|---------------------------------|-----------------------|---------------|
|                                  | Directors' fees             | Salaries, allowances and benefits in kind | Contribution to pension schemes | Discretionary bonuses |               |
| <b>Directors</b>                 |                             |   |                                 |                       |               |
| Guo Xinshuang <sup>(1) (2)</sup> | -                           | -   | -                               | -                     | -             |
| Xue Feng                         | -                           | 2,680                                     | 50                              | 603                   | 3,333         |
| Tang Shuangning <sup>(1)</sup>   | -                           | -   | -                               | -                     | -             |
| Gao Yunlong <sup>(1)</sup>       | -                           | -   | -                               | -                     | -             |
| Yin Lianchen <sup>(1)</sup>      | -                           | -   | -                               | -                     | -             |
| Chan Ming Kin <sup>(1)</sup>     | -                           | -   | -                               | -                     | -             |
| Yang Guoping <sup>(1)</sup>      | -                           | -   | -                               | -                     | -             |
| <b>Independent directors</b>     |                             |   |                                 |                       |               |
| Zhu Ning                         | 141                         | -   | -                               | -                     | 141           |
| Xu Jingchang                     | 141                         | -   | -                               | -                     | 141           |
| Xiong Yan <sup>(1)</sup>         | 141                         | -   | -                               | -                     | 141           |
| Li Zheping                       | 141                         | -   | -                               | -                     | 141           |
| Au Sing Kun <sup>(3)</sup>       | 54                          | -   | -                               | -                     | 54            |
| <b>Supervisors</b>               |                             |   |                                 |                       |               |
| Liu Jiping                       | -                           | 1,748                                     | 50                              | 360                   | 2,158         |
| Jiang Bo <sup>(1)</sup>          | -                           | -   | -                               | -                     | -             |
| Nie Tingming <sup>(1) (4)</sup>  | -                           | -   | -                               | -                     | -             |
| Zhu Wuxiang                      | 96                          | -   | -                               | -                     | 96            |
| Zhang Limin                      | 96                          | -   | -                               | -                     | 96            |
| Wang Wenyi                       | -                           | 744                                       | 50                              | 2,613                 | 3,407         |
| Li Bingtao                       | -                           | 1,714                                     | 50                              | 2,331                 | 4,095         |
| Huang Qin                        | -                           | 907                                       | 50                              | 2,131                 | 3,088         |
| <b>Total</b>                     | <b>810</b>                  | <b>7,793</b>                              | <b>250</b>                      | <b>8,038</b>          | <b>16,891</b> |

## 15 Directors' and supervisors' remuneration (continued)

| Name                             | Year ended 31 December 2015 |   |                                 |                       | Total  |
|----------------------------------|-----------------------------|---|---------------------------------|-----------------------|--------|
|                                  | Directors' fees             | Salaries, allowances and benefits in kind | Contribution to pension schemes | Discretionary bonuses |        |
| <b>Directors</b>                 |                             |   |                                 |                       |        |
| Guo Xinshuang <sup>(1) (2)</sup> | -                           | -   | -                               | -                     | -      |
| Xue Feng                         | -                           | 2,618                                     | 60                              | 1,009                 | 3,687  |
| Tang Shuangning <sup>(1)</sup>   | -                           | -   | -                               | -                     | -      |
| Gao Yunlong <sup>(1)</sup>       | -                           | -   | -                               | -                     | -      |
| Yin Lianchen <sup>(1)</sup>      | -                           | -   | -                               | -                     | -      |
| Chan Ming Kin <sup>(1)</sup>     | -                           | -   | -                               | -                     | -      |
| Yang Guoping <sup>(1)</sup>      | -                           | -   | -                               | -                     | -      |
| <b>Independent directors</b>     |                             |   |                                 |                       |        |
| Zhu Ning                         | 121                         | -   | -                               | -                     | 121    |
| Xu Jingchang                     | 121                         | -   | -                               | -                     | 121    |
| Xiong Yan <sup>(1)</sup>         | 121                         | -   | -                               | -                     | 121    |
| Li Zheping                       | 121                         | -   | -                               | -                     | 121    |
| <b>Supervisors</b>               |                             |   |                                 |                       |        |
| Liu Jiping                       | -                           | 1,687                                     | 58                              | 614                   | 2,359  |
| Jiang Bo <sup>(1)</sup>          | -                           | -   | -                               | -                     | -      |
| Liu Yan <sup>(1) (5)</sup>       | -                           | -   | -                               | -                     | -      |
| Zhao Jin <sup>(6)</sup>          | -                           | -   | -                               | -                     | -      |
| Zhu Wuxiang                      | 83                          | -   | -                               | -                     | 83     |
| Zhang Limin                      | 83                          | -   | -                               | -                     | 83     |
| Wang Wenyi                       | -                           | 587                                       | 48                              | 1,381                 | 2,016  |
| Li Bingtao                       | -                           | 1,555                                     | 46                              | 1,487                 | 3,088  |
| Huang Qin                        | -                           | 769                                       | 51                              | 976                   | 1,796  |
| Total                            | 650                         | 7,216                                     | 263                             | 5,467                 | 13,596 |

<sup>(1)</sup> The remunerations of these directors and supervisors of the Company were borne by its shareholders and other related parties including China Everbright (Group) Company Limited and China Everbright Limited. No allocation of the remunerations between these related parties and the Group has been made during the reporting period.

## 15 Directors' and supervisors' remuneration (continued)

- (2) Resigned as director on 2 November 2016.
- (3) Appointed as independent director on 18 August 2016.
- (4) Appointed as supervisor on 2 February 2016.
- (5) Resigned as supervisor on 13 August 2015.
- (6) Resigned as supervisor on 24 August 2015.

There were no amounts paid during the reporting period to the directors and supervisors in connection with their retirement from employment or compensation for loss of office with the Company, or inducement to join. There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the reporting period.

## 16 Individuals with highest emoluments

Of the five individuals with the highest emoluments, none are directors or supervisors whose emoluments are disclosed in Note 15. The aggregate of the emoluments are as follows:

|  | <u>2016</u>   | <u>2015</u>   |
|--|---------------|---------------|
| Salaries and allowances                    | 14,743        | 9,138         |
| Discretionary bonuses                      | 44,462        | 14,695        |
| Employer's contribution to pension schemes | 134           | 207           |
|  | <hr/>         | <hr/>         |
| Total                                      | <u>59,339</u> | <u>24,040</u> |

The emoluments with the highest emoluments are within the following bands:

|                                | <u>2016</u>              | <u>2015</u>              |
|--------------------------------|--------------------------|--------------------------|
|                                | Number of<br>individuals | Number of<br>individuals |
| HKD nil to HKD 1,000,000       | -                        | -                        |
| HKD 1,000,001 to HKD 1,500,000 | -                        | -                        |
| HKD 1,500,001 to HKD 2,000,000 | -                        | -                        |
| HKD 2,000,001 to HKD 2,500,000 | -                        | -                        |
| HKD 2,500,001 to HKD 3,000,000 | -                        | -                        |
| HKD 3,000,001 to HKD 3,500,000 | -                        | -                        |
| HKD 3,500,001 to HKD 4,000,000 | -                        | -                        |
| HKD 4,000,001 to HKD 4,500,000 | -                        | -                        |
| HKD 4,500,001 to HKD 5,000,000 | -                        | -                        |
| HKD 5,000,001 to HKD 5,500,000 | -                        | -                        |
| HKD 5,500,001 to HKD 6,000,000 | -                        | 4                        |
| HKD 6,000,001 to HKD 6,500,000 | -                        | -                        |
| HKD 6,500,001 to HKD 7,000,000 | -                        | -                        |
| HKD 7,000,001 to HKD 7,500,000 | -                        | 1                        |
| More than HKD 10,000,000       | 5                        | -                        |

No emoluments are paid or payable to these individuals as retirement from employment or as an inducement to join or upon joining the Company or as compensation for loss of office during the reporting period.

## 17 Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the year attributable to shareholders of the Company by the weighted average number of ordinary shares in issue. There has been no change in the number of ordinary shares during the reporting period.

|  | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|
| Profit attributable to shareholders of the Company   | <u>3,013,019</u> | <u>7,646,516</u> |
| Weighted average number of ordinary shares in issue (thousands) (a)                              | <u>4,077,891</u> | <u>3,580,007</u> |
| Basic and diluted earnings per share attributable to equity shareholders (in Renminbi per share) | <u>0.7389</u>    | <u>2.1359</u>    |

During the reporting period, there were no potential dilutive ordinary shares, so the diluted earnings per share were the same as the basic earnings per share.

(a) Weighted average number of ordinary shares (in thousands)

|  | <u>2016</u>      | <u>2015</u>      |
|--|------------------|------------------|
| Number of ordinary shares as at 1 January              | 3,906,699        | 3,418,000        |
| Increase in weighted average number of ordinary shares | <u>171,192</u>   | <u>162,007</u>   |
| Weighted average number of ordinary shares in issue    | <u>4,077,891</u> | <u>3,580,007</u> |

## 18 Property and equipment

|  | <i>Buildings</i> | <i>Motor vehicles</i> | <i>Electric equipment</i> | <i>Furniture and fixtures</i> | <i>Construction in progress</i> | <i>Total</i> |
|--|------------------|-----------------------|---------------------------|-------------------------------|---------------------------------|--------------|
| <b>Cost:</b>                           |                  |                       |                           |                               |                                 |              |
| At 1 January 2015                      | 914,958          | 24,808                | 435,681                   | 105,632                       | 2,313                           | 1,483,392    |
| Additions through business combination | -                | 372                   | -                         | 164,418                       | -                               | 164,790      |
| Additions                              | 35               | 2,698                 | 105,938                   | 19,792                        | 1,032                           | 129,495      |
| Transfer during the year (Note 29)     | -                | -                     | -                         | -                             | (2,925)                         | (2,925)      |
| Disposals                              | -                | (1,327)               | (20,802)                  | (2,540)                       | -                               | (24,669)     |
| At 31 December 2015                    | 914,993          | 26,551                | 520,817                   | 287,302                       | 420                             | 1,750,083    |
| Additions                              | -                | 1,842                 | 72,812                    | 28,760                        | 3,750                           | 107,164      |
| Transfer during the year (Note 29)     | -                | -                     | -                         | -                             | (1,609)                         | (1,609)      |
| Disposals                              | -                | (2,878)               | (32,091)                  | (12,030)                      | -                               | (46,999)     |
| At 31 December 2016                    | 914,993          | 25,515                | 561,538                   | 304,032                       | 2,561                           | 1,808,639    |
| <b>Accumulated depreciation:</b>       |                  |                       |                           |                               |                                 |              |
| At 1 January 2015                      | (198,775)        | (14,287)              | (291,641)                 | (35,122)                      | -                               | (539,825)    |
| Additions through business combination | -                | (30)                  | -                         | (140,153)                     | -                               | (140,183)    |
| Charge for the year                    | (23,769)         | (7,943)               | (132,475)                 | (49,983)                      | -                               | (214,170)    |
| Disposals                              | -                | 1,255                 | 19,888                    | 2,324                         | -                               | 23,467       |
| At 31 December 2015                    | (222,544)        | (21,005)              | (404,228)                 | (222,934)                     | -                               | (870,711)    |
| Charge for the year                    | (23,746)         | (2,400)               | (69,561)                  | (27,252)                      | -                               | (122,959)    |
| Disposals                              | -                | 2,152                 | 31,340                    | 11,766                        | -                               | 45,258       |
| At 31 December 2016                    | (246,290)        | (21,253)              | (442,449)                 | (238,420)                     | -                               | (948,412)    |
| <b>Carrying amount:</b>                |                  |                       |                           |                               |                                 |              |
| At 31 December 2016                    | 668,703          | 4,262                 | 119,089                   | 65,612                        | 2,561                           | 860,227      |
| At 31 December 2015                    | 692,449          | 5,546                 | 116,589                   | 64,368                        | 420                             | 879,372      |

As at the end of 31 December 2016 and 2015, included in buildings, there is a carrying amount of RMB 1,459 thousand and RMB 1,530 thousand respectively, for which the Group has yet to obtain the relevant land or building certificates.

## 19 Goodwill

|  | <i>As at 31 December</i> |                  |
|--|--------------------------|------------------|
|  | <u>2016</u>              | <u>2015</u>      |
| Cost   | 1,504,201                | 1,504,201        |
| Effect of exchange rate changes for cost                 | 190,392                  | 83,516           |
| Less: Provision for impairment losses                    | (166,394)                | (166,394)        |
| Effect of exchange rate changes for impairment provision | (21,453)                 | (9,540)          |
| Carrying amount  | <u>1,506,746</u>         | <u>1,411,783</u> |

### Impairment testing on goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segment as follows:

|   | <i>As at 31 December</i> |                  |
|---|--------------------------|------------------|
|   | <u>2016</u>              | <u>2015</u>      |
| Futures brokerage                                   | 9,380                    | 9,380            |
| Investment banking and brokerage                    | -                        | 231,104          |
| Wealth management and brokerage                     | -                        | 1,347,233        |
| Wealth management, investment banking and brokerage | 1,685,213                | -                |
| Total   | <u>1,694,593</u>         | <u>1,587,717</u> |

The Group acquired the futures brokerage business in the PRC together with the relevant assets and liabilities, and the interest in Everbright Futures Co., Ltd. in 2007. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the futures brokerage CGU.

The Group acquired the investment banking business and brokerage business in Hong Kong together with the relevant assets and liabilities, and the interest in Everbright Securities (International) Limited in 2011. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the investment banking and brokerage CGU.

The Group acquired the wealth management and brokerage business in Hong Kong together with the relevant assets and liabilities, and the interest in Sun Hung Kai Financial Group Limited in 2015. The Group recognised the excess of fair value of the consideration transferred over the fair value of the net identifiable assets acquired as the goodwill of the wealth management and brokerage CGU.

## 19 Goodwill (continued)

In the second half of 2016, the management commenced a business integration for the investment banking and brokerage CGU and wealth management and brokerage CGU. The Group has reasonably reallocated the goodwill arising from the acquisition of aforementioned CGU into a wealth management, investment banking and brokerage CGU.

The recoverable amount of wealth management, investment banking and brokerage CGU is based on the present value of expected future cash flows, which was determined on financial forecasts approved by management covering a six-year period and a pre-tax discount rate of 20.3%, which reflected specific risks related to the CGU. The cash flows beyond the six-year budget period were extrapolated using an estimated long-term growth rate of 3%, which does not exceed the long-term average growth rate for the business in which the CGU operates.

Other major assumptions for the recoverable amount estimation relate to the estimation of cash inflows/outflows which include budgeted income and profit margins, such estimation is based on the CGU's past performance and management's expectations for the market development.



**20 Other intangible assets**

|  | <i>Customer<br/>relationship</i> | <i>Software and<br/>others</i> | <i>Total</i>     |
|--|----------------------------------|--------------------------------|------------------|
| <b>Cost</b>                            |                                  |                                |                  |
| As at 1 January 2015                   | 115,270                          | 289,292                        | 404,562          |
| Additions through business combination | 720,441                          | 191,765                        | 912,206          |
| Additions                              | 45,526                           | 63,060                         | 108,586          |
| Disposals                              | -                                | (889)                          | (889)            |
|  | <hr/>                            | <hr/>                          | <hr/>            |
| As at 31 December 2015                 | 881,237                          | 543,228                        | 1,424,465        |
| Additions                              | 43,207                           | 62,588                         | 105,795          |
| Disposals                              | -                                | (1,255)                        | (1,255)          |
|  | <hr/>                            | <hr/>                          | <hr/>            |
| As at 31 December 2016                 | <u>924,444</u>                   | <u>604,561</u>                 | <u>1,529,005</u> |
| <b>Accumulated amortisation</b>        |                                  |                                |                  |
| As at 1 January 2015                   | (41,785)                         | (215,458)                      | (257,243)        |
| Additions through business combination | -                                | (122,081)                      | (122,081)        |
| Charge for the year                    | (93,253)                         | (66,960)                       | (160,213)        |
| Disposals                              | -                                | 889                            | 889              |
|  | <hr/>                            | <hr/>                          | <hr/>            |
| As at 31 December 2015                 | (135,038)                        | (403,610)                      | (538,648)        |
| Charge for the year                    | (161,259)                        | (68,469)                       | (229,728)        |
| Disposals                              | -                                | 1,231                          | 1,231            |
|  | <hr/>                            | <hr/>                          | <hr/>            |
| As at 31 December 2016                 | <u>(296,297)</u>                 | <u>(470,848)</u>               | <u>(767,145)</u> |
| <b>Carrying amount</b>                 |                                  |                                |                  |
| As at 31 December 2016                 | <u>628,147</u>                   | <u>133,713</u>                 | <u>761,860</u>   |
| As at 31 December 2015                 | <u>746,199</u>                   | <u>139,618</u>                 | <u>885,817</u>   |

## 21 Investments in subsidiaries

The following list contains the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

| Name of company  | Place and date of incorporation/ establishment | Issued and fully paid-up capital | Equity interest held as at |      | Principal activities                      | Auditor <sup>(2)</sup> and GAAP |                      |
|--|--|----------------------------------|----------------------------|------|---|---------------------------------|----------------------|
|  |  |                                  | 31 December 2016           | 2015 |   | 2016                            | 2015                 |
| Everbright Futures Co., Ltd.* <sup>(1)</sup><br>光大期貨有限公司                                     | PRC<br>8 April 1993                            | RMB<br>1,000,000,000             | 100%                       | 100% | Futures brokerage                         | KPMG PRC<br>PRC GAAP            | KPMG PRC<br>PRC GAAP |
| Everbright Pramerica Fund Management Co., Ltd.* <sup>(1)</sup><br>光大保德信基金管理有限公司              | PRC<br>22 April 2004                           | RMB<br>160,000,000               | 55%                        | 55%  | Fund management                           | PwC PRC<br>PRC GAAP             | PwC PRC<br>PRC GAAP  |
| Everbright Capital Investment Co., Ltd.* <sup>(1)</sup><br>光大資本投資有限公司                        | PRC<br>7 November 2008                         | RMB<br>2,000,000,000             | 100%                       | 100% | Direct investment                         | KPMG PRC<br>PRC GAAP            | KPMG PRC<br>PRC GAAP |
| Everbright Securities Financial Holdings Limited <sup>(1)</sup>                              | Hong Kong<br>19 November 2010                  | HKD<br>1,765,000,000             | 100%                       | 100% | Investment holding                        | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| Shanghai Everbright Securities Assets Management Co., Ltd.* <sup>(1)</sup><br>上海光大證券資產管理有限公司 | PRC<br>21 February 2012                        | RMB<br>200,000,000               | 100%                       | 100% | Asset management                          | KPMG PRC<br>PRC GAAP            | KPMG PRC<br>PRC GAAP |
| Everbright Fortune Investment Co., Ltd.* <sup>(1)</sup><br>光大富尊投資有限公司                        | PRC<br>26 September 2012                       | RMB<br>2,000,000,000             | 100%                       | 100% | Alternative Investment                    | KPMG PRC<br>PRC GAAP            | KPMG PRC<br>PRC GAAP |
| Everbright Securities (International) Limited  | British Virgin Islands<br>14 July 1992         | HKD<br>1,000                     | 100%                       | 51%  | Investment holding                        | N/A                             | N/A                  |
| Everbright Photon Investment Management Co., Ltd.*<br>光大光子投資管理有限公司                           | PRC<br>26 June 2014                            | RMB<br>120,000,000               | 100%                       | 100% | Risk management service                   | KPMG PRC<br>PRC GAAP            | KPMG PRC<br>PRC GAAP |
| Everbright Financial Investment Limited  | Hong Kong<br>14 August 2014                    | HKD<br>650,000,000               | 100%                       | 100% | Investment holding                        | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| China Everbright Securities (HK) Limited <sup>(3)</sup>                                      | Hong Kong<br>4 January 1991                    | HKD<br>650,000,000               | 100%                       | 100% | Securities brokerage and margin financing | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |

## 21 Investments in subsidiaries (continued)

| Name of company  | Place and date of incorporation/ establishment | Issued and fully paid-up capital | Equity interest held as at 31 December |      | Principal activities                                    | Auditor <sup>(2)</sup> and GAAP |                       |
|--|--|----------------------------------|--|------|---|---------------------------------|-----------------------|
|  |  |                                  | 2016                                   | 2015 |   | 2016                            | 2015                  |
| China Everbright Research Limited <sup>(3)</sup>   | Hong Kong<br>30 July 1992                      | HKD<br>5,500,000                 | 100%                                   | 100% | Investment research                                     | KPMG<br>HKFRS                   | KPMG<br>HKFRS         |
| China Everbright Forex & Futures (HK) Limited <sup>(3)</sup>   | Hong Kong<br>19 August 1993                    | HKD<br>100,000,000               | 100%                                   | 100% | Futures brokerage and leveraged foreign exchange        | KPMG<br>HKFRS                   | KPMG<br>HKFRS         |
| China Everbright Securities International Limited <sup>(3)</sup>                                     | Hong Kong<br>4 January 1994                    | HKD<br>5,000,000                 | 100%                                   | 100% | Investment holding and provision of management services | KPMG<br>HKFRS                   | KPMG<br>HKFRS         |
| China Everbright Capital Limited <sup>(3)</sup>  | Hong Kong<br>4 January 1994                    | HKD<br>10,000,000                | 100%                                   | 100% | Corporate finance advisory                              | KPMG<br>HKFRS                   | KPMG<br>HKFRS         |
| Luxfull Limited <sup>(3)</sup>   | British Virgin Islands<br>7 March 1997         | USD1                             | 100%                                   | 100% | Investment holding                                      | N/A                             | N/A                   |
| Timbo Investment Limited <sup>(3)</sup>  | British Virgin Islands<br>8 April 1997         | USD1                             | 100%                                   | 100% | Investment holding                                      | N/A                             | N/A                   |
| China Everbright Wealth Management Limited <sup>(3)</sup>  | Hong Kong<br>6 December 2002                   | HKD<br>500,000                   | 100%                                   | 100% | Wealth management                                       | KPMG<br>HKFRS                   | KPMG<br>HKFRS         |
| China Everbright Bullion Investment Limited <sup>(3)</sup>   | Hong Kong<br>20 August 2004                    | HKD1,000                         | 100%                                   | 100% | Bullion trading services                                | KPMG<br>HKFRS                   | KPMG<br>HKFRS         |
| Bolson Limited <sup>(3)</sup>  | Hong Kong<br>2 November 2007                   | HKD10,000                        | 100%                                   | 100% | Holding of motor vehicle and license                    | KPMG<br>HKFRS                   | KPMG<br>HKFRS         |
| Shenzhen Baoyoudi Technology Co., Ltd.* <sup>(3)</sup><br>深圳寶又迪科技有限<br>公司                            | PRC<br>18 January 2008                         | HKD<br>8,000,000                 | 100%                                   | 100% | Inactive  | Pengsheng<br>PRC GAAP           | Pengsheng<br>PRC GAAP |
| Majestic Luck Limited <sup>(3)</sup>   | British Virgin Islands<br>6 September 2011     | USD1                             | 100%                                   | 100% | Investment holding                                      | N/A                             | N/A                   |
| Everbright Fortune (Shenzhen) Financial Services Co., Ltd.* <sup>(3)</sup><br>陽光富尊(深圳)金融<br>服務諮詢有限公司 | PRC<br>23 September 2011                       | HKD<br>30,000,000                | 100%                                   | 100% | Advisory services                                       | Bozhong<br>PRC GAAP             | Bozhong<br>PRC GAAP   |

## 21 Investments in subsidiaries (continued)

| Name of company  | Place and date of incorporation/ establishment | Issued and fully paid-up capital | Equity interest held as at |      | Principal activities | Auditor <sup>(2)</sup> and GAAP |                      |
|--|--|----------------------------------|----------------------------|------|----------------------|---------------------------------|----------------------|
|  |  |                                  | 31 December 2016           | 2015 |                      | 2016                            | 2015                 |
| China Everbright Securities Asset Management Limited <sup>(3)</sup>  | Hong Kong<br>23 September 2011                 | HKD<br>10,000,000                | 100%                       | 100% | Asset management     | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| China Everbright Fortune Immigration Services Limited <sup>(3)</sup> | Hong Kong<br>9 December 2011                   | HKD<br>1,000                     | 100%                       | 100% | Immigration services | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| Ever Rapid Limited <sup>(3)</sup>                                    | British Virgin Islands<br>18 April 2012        | USD1                             | 100%                       | 100% | Investment holding   | N/A                             | N/A                  |
| China Everbright Securities Finance Limited <sup>(3)</sup>           | Hong Kong<br>23 May 2012                       | HKD<br>1,000,000                 | 100%                       | 100% | Money lending        | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| China Everbright Fortune Investment Limited <sup>(3)</sup>           | Hong Kong<br>4 July 2013                       | HKD<br>1,000                     | 100%                       | 100% | Investment           | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| China Everbright Property Agency Limited <sup>(3)</sup>              | Hong Kong<br>7 October 2013                    | HKD<br>1,000                     | 100%                       | 100% | Property agency      | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| Sun Hung Kai Financial Group Limited                                 | British Virgin Islands<br>14 September 2010    | USD<br>301,217,140               | 70%                        | 70%  | Investment holding   | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| Everbright Fortune International Leasing Co., Ltd.*<br>光大幸福國際租賃有限公司  | PRC<br>29 September 2014                       | RMB<br>1,000,000,000             | 85%                        | 85%  | Finance lease        | KPMG PRC<br>PRC GAAP            | KPMG PRC<br>PRC GAAP |
| Sun Hung Kai Financial Limited <sup>(4)</sup>                        | Hong Kong<br>27 February 1973                  | HKD<br>157,748,221               | 100%                       | 100% | Investment holding   | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| Dynamic Force Investments Limited <sup>(4)</sup>                     | British Virgin Islands<br>8 January 2004       | USD1                             | 100%                       | 100% | Investment holding   | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| Lexshan Nominees Limited <sup>(3)</sup>                              | Hong Kong<br>11 August 1978                    | HKD2                             | 100%                       | 100% | Nominee services     | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| SHK Absolute Return Managers Ltd. <sup>(4)</sup>                     | Cayman Islands<br>15 April 2005                | USD10                            | 100%                       | 100% | Investment holding   | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |
| SHK Alpha Managers Ltd. <sup>(4)</sup>                               | Cayman Islands<br>14 February 2007             | USD10                            | 100%                       | 100% | Funds management     | KPMG<br>HKFRS                   | KPMG<br>HKFRS        |

## 21 Investments in subsidiaries (continued)

| Name of company                                    | Place and date of incorporation/ establishment | Issued and fully paid-up capital | Equity interest held as at |      | Principal activities                                    | Auditor <sup>(2)</sup> and GAAP |            |
|--|--|----------------------------------|----------------------------|------|---|---------------------------------|------------|
|  |  |                                  | 31 December 2016           | 2015 |   | 2016                            | 2015       |
| SHK Alternative Managers Limited <sup>(4)</sup>    | Cayman Islands<br>11 January 2006              | USD1                             | 100%                       | 100% | Funds management  | KPMG HKFRS                      | KPMG HKFRS |
| SHK Dynamic Managers Ltd. <sup>(4)</sup>           | Cayman Islands<br>30 March 2006                | USD10                            | 100%                       | 100% | Funds management  | KPMG HKFRS                      | KPMG HKFRS |
| SHK Fund Management Limited <sup>(4)</sup>         | Hong Kong<br>20 January 1989                   | HKD 106,000,000                  | 100%                       | 100% | Funds marketing investment advising and fund management | KPMG HKFRS                      | KPMG HKFRS |
| SHK Global Managers Limited <sup>(4)</sup>         | British Virgin Islands<br>23 April 2002        | USD 5,000                        | 100%                       | 100% | Funds management  | KPMG IFRS                       | KPMG IFRS  |
| SHK Income Fund Manager <sup>(4)</sup>             | Cayman Islands<br>23 October 2008              | USD 100                          | 100%                       | 100% | Investment holding                                      | KPMG HKFRS                      | KPMG HKFRS |
| SHK Online (Securities) Limited <sup>(4)</sup>     | Hong Kong<br>23 December 1975                  | HKD 40,000,000                   | 100%                       | 100% | Online securities broking and margin financing          | KPMG HKFRS                      | KPMG HKFRS |
| SHK Arbitrage Opportunities Limited <sup>(4)</sup> | Hong Kong<br>2 May 1975                        | HKD 20,000,000                   | 100%                       | 100% | Securities, futures and option trading                  | KPMG HKFRS                      | KPMG HKFRS |
| SHK Private Equity Managers Ltd. <sup>(4)</sup>    | Cayman Islands<br>14 February 2007             | USD10                            | 100%                       | 100% | Funds management and investment holding                 | KPMG HKFRS                      | KPMG HKFRS |
| SHK Private Limited <sup>(4)</sup>                 | Hong Kong<br>11 July 1975                      | HKD 100,000                      | 100%                       | 100% | Business marketing and promotion                        | KPMG HKFRS                      | KPMG HKFRS |
| SHK Quant Managers Ltd. <sup>(4)</sup>             | Cayman Islands<br>15 April 2005                | USD10                            | 100%                       | 100% | Funds management  | KPMG HKFRS                      | KPMG HKFRS |
| SHK Solutions Limited <sup>(4)</sup>               | Hong Kong<br>6 March 2000                      | HKD2                             | 100%                       | 100% | Inactive  | KPMG HKFRS                      | KPMG HKFRS |

## 21 Investments in subsidiaries (continued)

| Name of company   | Place and date of incorporation/ establishment | Issued and fully paid-up capital | Equity interest held as at 31 December |      | Principal activities                                       | Auditor <sup>(2)</sup> and GAAP |                   |
|---|--|----------------------------------|--|------|--|---------------------------------|-------------------|
|   |  |                                  | 2016                                   | 2015 |  | 2016                            | 2015              |
| Shun Loong Forex Company Limited <sup>(4)</sup>                 | Hong Kong<br>6 July 1973                       | HKD<br>32,000,000                | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Shun Loong Futures Limited <sup>(4)</sup>                       | Hong Kong<br>16 August 1977                    | HKD<br>15,000,000                | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Shun Loong Holdings Limited <sup>(4)</sup>                      | Hong Kong<br>1 August 1980                     | HKD<br>200,000,000               | 100%                                   | 100% | Investment holding   | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Shun Loong Securities Company Limited <sup>(4)</sup>            | Hong Kong<br>4 May 1995                        | HKD<br>50,000,000                | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hing Bullion Company Limited <sup>(4)</sup>                 | Hong Kong<br>24 November 1992                  | HKD<br>5,500,000                 | 100%                                   | 100% | Bullion trading  | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai (Nominees) Limited <sup>(4)</sup>                  | Hong Kong<br>18 April 1972                     | HKD<br>200                       | 100%                                   | 100% | Nominee services   | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai Bullion Company Limited <sup>(4)</sup>             | Hong Kong<br>12 September 1972                 | HKD<br>210,000,000               | 100%                                   | 100% | Bullion trading and investment holding                     | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai Commodities Limited <sup>(4)</sup>                 | Hong Kong<br>4 August 1976                     | HKD<br>133,300,000               | 100%                                   | 100% | Commodities broking  | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai Insurance Consultants Limited <sup>(4)</sup>       | Hong Kong<br>5 July 1988                       | HKD<br>21,000,000                | 100%                                   | 100% | Insurance broking and consultancy services                 | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai International Commodities Limited <sup>(4)</sup>   | Hong Kong<br>24 March 1972                     | HKD<br>25,000,000                | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai International Limited <sup>(4)</sup>               | Hong Kong<br>3 May 1974                        | HKD<br>22,000,000                | 100%                                   | 100% | Corporate finance services                                 | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai Investment Services (Macau) Limited <sup>(4)</sup> | Macau<br>5 February 1991                       | MOP<br>48,900,000                | 100%                                   | 100% | Inactive   | KPMG<br>Macau FRS               | KPMG<br>Macau FRS |
| Sun Hung Kai Investment Services Limited <sup>(4)</sup>         | Hong Kong<br>4 August 1972                     | HKD<br>1,130,000,000             | 100%                                   | 100% | Investment holding securities broking and margin financing | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |
| Sun Hung Kai Structured Products Limited <sup>(4)</sup>         | Hong Kong<br>21 March 1980                     | HKD2                             | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS     |

## 21 Investments in subsidiaries (continued)

| Name of company  | Place and date of incorporation/ establishment | Issued and fully paid-up capital | Equity interest held as at 31 December |      | Principal activities   | Auditor <sup>(2)</sup> and GAAP |                              |
|--|--|----------------------------------|--|------|--|---------------------------------|------------------------------|
|  |  |                                  | 2016                                   | 2015 |  | 2016                            | 2015                         |
| Sun Hung Kai Wealth Management Limited <sup>(4)</sup>                                    | Hong Kong<br>21 December 1990                  | HKD<br>5,000,000                 | 100%                                   | 100% | Investment advisory services, financial planning and wealth management | KPMG<br>HKFRS                   | KPMG<br>HKFRS                |
| Sun Tai Cheung Finance Company Limited <sup>(4)</sup>                                    | Hong Kong<br>24 December 1976                  | HKD<br>25,000,000                | 100%                                   | 100% | Financial services   | KPMG<br>HKFRS                   | KPMG<br>HKFRS                |
| Sun Yi Company Limited <sup>(4)</sup>  | Hong Kong<br>19 November 1982                  | HKD<br>15,000,000                | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS                |
| Sun Hung Kai (Shanghai) Investment Consultancy Limited <sup>(4)</sup><br>新鴻基(上海)投資顧問有限公司 | PRC<br>24 December 2009                        | HKD<br>22,300,000                | 100%                                   | 100% | Investment advisory and consultancy                                    | Fangyuan<br>PRC GAAP            | Fangyuan<br>PRC GAAP         |
| Sun Hung Kai Insurance Agency Limited <sup>(4)</sup>                                     | Hong Kong<br>30 October 2014                   | HKD<br>2,000,001                 | 100%                                   | 100% | Insurance Agency   | KPMG<br>HKFRS                   | KPMG<br>HKFRS                |
| SWAT Management S.A.R.L. <sup>(4)</sup>  | Luxembourg<br>8 May 2013                       | EUR<br>12,500                    | 100%                                   | 100% | Fund Management  | N/A                             | N/A                          |
| Sun Hung Kai Financial Australia Pty Ltd <sup>(4)</sup>                                  | Australia<br>18 January 2010                   | AUD1                             | 100%                                   | 100% | Investment advisory services   | Deloitte<br>Australia<br>FRS    | Deloitte<br>Australia<br>FRS |
| Sun Tai Cheung Credits Limited<br>新泰昌授信有限公司 <sup>(4)</sup>                               | Hong Kong<br>31 December 1973                  | HKD<br>167,400,000               | - <sup>(5)</sup>                       | 100% | Inactive   | N/A                             | KPMG<br>HKFRS                |
| Shun Loong Bullion Limited<br>順隆金業有限公司 <sup>(4)</sup>                                    | Hong Kong<br>7 September 1995                  | HKD<br>6,000,000                 | 100%                                   | 100% | Investment holding   | KPMG<br>HKFRS                   | KPMG<br>HKFRS                |
| Shun Loong Finance Limited<br>順隆財務有限公司 <sup>(4)</sup>                                    | Hong Kong<br>7 September 1995                  | HKD<br>1,000,000                 | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS                |
| Grand Securities Company Limited<br>大唐證券有限公司 <sup>(4)</sup>                              | Hong Kong<br>20 January 1993                   | HKD<br>20,000,000                | 100%                                   | 100% | Inactive   | KPMG<br>HKFRS                   | KPMG<br>HKFRS                |
| Double Charm Limited<br>倍昌有限公司   | British Virgin Islands<br>8 January 2015       | USD1                             | 100%                                   | 100% | Inactive   | N/A                             | N/A                          |

## 21 Investments in subsidiaries (continued)

| Name of company  | Place and date of incorporation/ establishment | Issued and fully paid-up capital | Equity interest held as at |      | Principal activities  | Auditor <sup>(2)</sup> and GAAP |                   |
|--|--|----------------------------------|----------------------------|------|-----------------------|---------------------------------|-------------------|
|  |  |                                  | 31 December 2016           | 2015 |                       | 2016                            | 2015              |
| Planup Limited<br>圖升有限公司   | British Virgin Islands<br>12 January 2015      | USD1                             | 100%                       | 100% | Investment holding    | N/A                             | N/A               |
| High Harvest Investments Limited<br>崇豐投資有限公司   | British Virgin Islands<br>21 May 2015          | USD1                             | 100%                       | 100% | Investment holding    | N/A                             | N/A               |
| China Everbright Sun Hung Kai Financial Company Limited<br>中國光大新鴻基金金融有限公司                        | Hong Kong<br>23 June 2015                      | HKD1                             | 100%                       | 100% | Investment holding    | KPMG HKFRS                      | KPMG HKFRS        |
| Everbright Jinhui Investment Management (Shanghai) Co., Ltd.*<br>光大浸輝投資管理(上海)有限公司                | PRC<br>4 May 2015                              | RMB<br>2,050,000                 | 100%                       | 100% | Investment management | KPMG PRC PRC GAAP               | KPMG PRC PRC GAAP |
| Everbright Pramerica Assets Management Co., Ltd.* <sup>(6)</sup><br>光大保德信資產管理有限公司                | PRC<br>27 August 2015                          | RMB<br>50,000,000                | 100%                       | 100% | Asset management      | PwC PRC PRC GAAP                | PwC PRC PRC GAAP  |
| Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.*<br>光大富尊泰鋒投資管理(上海)有限公司     | PRC<br>19 November 2015                        | RMB<br>3,000,000                 | 85%                        | 85%  | Investment management | KPMG PRC PRC GAAP               | KPMG PRC PRC GAAP |
| China Everbright Securities International Structured Finance Company Limited<br>中國光大證券國際結構融資有限公司 | Hong Kong<br>11 April 2016                     | USD<br>2,570,000                 | 100%                       | -    | Structured Finance    | KPMG HKFRS                      | N/A               |
| Everbright Capital Return Company Limited<br>光大資本回報有限公司  | Cayman Islands<br>20 October 2016              | USD1                             | 100%                       | -    | Inactive              | N/A                             | N/A               |
| Everbright Capital Investment Management (Cayman) Limited<br>光大資本投資管理(開曼)有限公司                    | Cayman Islands<br>20 October 2016              | USD1                             | 100%                       | -    | Investment holding    | N/A                             | N/A               |
| China Everbright Securities Value Fund SPC<br>中國光大證券價值基金獨立投資組合公司                                 | Cayman Islands<br>20 October 2016              | USD1                             | 100%                       | -    | Fund management       | N/A                             | N/A               |

\* The English translation of the names is for reference only. The official names of these entities are in Chinese.



## 21 Investments in subsidiaries (continued)

The Group acts as principal of several structured entities during the reporting period, according to relevant accounting policies of the Group, these structured entities were included in the financial statements. More detailed information of consolidated structured entities is disclosed in Note 53.

- (1) These subsidiaries are directly held by the Company.
- (2) Auditors of the respective subsidiaries of the Group are as follows:
  - KPMG PRC represents KPMG Huazhen LLP, a firm of certified public accountants registered in the PRC;
  - KPMG represents KPMG in Hong Kong, a firm of certified public accountants registered in Hong Kong;
  - PwC PRC represents PwC Zhong Tian LLP, a firm of certified public accountants registered in the PRC;
  - Bozhong represents Shenzhen Bozhong Certified Public Accountants, a firm of certified public accountants registered in the PRC;
  - Pengsheng represents Shenzhen Pengsheng Certified Public Accountants, a firm of certified public accountants registered in the PRC;
  - Fangyuan represents Fangyuan Certified Public Accountants, a firm of certified public accountants registered in the PRC;
  - Deloitte Australia represents Deloitte in Australia, a firm of certified public accountants registered in Australia.
- (3) The equity interest in the subsidiary represents the equity interest held directly or indirectly by Everbright Securities (International) Limited.
- (4) The equity interest in the subsidiary represents the equity interest held directly or indirectly by Sun Hung Kai Financial Group Limited.
- (5) The subsidiary was deregistered in 2016
- (6) The equity interest in the subsidiary represents the equity interest held directly or indirectly by Everbright Pramerica Fund Management Co., Ltd.

## 21 Investments in subsidiaries (continued)

The following table lists out the information related to major subsidiaries of the Group which have material non-controlling interest ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

### Everbright Pramerica Fund Management Co., Ltd.

|  | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|
| NCI percentage                                 | 45%         | 45%         |
| Assets   | 799,767     | 824,520     |
| Liabilities                                    | (111,830)   | (135,540)   |
| Net assets                                     | 687,937     | 688,980     |
| Carrying amount of NCI                         | 309,572     | 310,041     |
| Revenue  | 445,812     | 499,697     |
| Net profit for the year                        | 111,331     | 155,288     |
| Other comprehensive income                     | (3,737)     | (932)       |
| Total comprehensive income                     | 107,594     | 154,356     |
| Total comprehensive income attributable to NCI | 48,417      | 69,460      |
| Dividend paid to NCI                           | 48,887      | 50,762      |
| Cash flows from operating activities           | (3,094)     | 64,007      |
| Cash flows from investing activities           | 20,673      | 128,172     |
| Cash flows from financing activities           | (108,637)   | (112,804)   |

### Sun Hung Kai Financial Group Limited

|  | <u>2016</u>  | <i>For the period<br/>from 2 June<br/>2015<br/>(acquisition-date)<br/>to 31 December<br/><u>2015</u></i> |
|--|--------------|--|
| NCI percentage                                 | 30%          | 30%  |
| Assets   | 21,413,209   | 11,474,068   |
| Liabilities                                    | (18,288,974) | (8,368,647)  |
| Net assets                                     | 3,124,235    | 3,105,421  |
| Carrying amount of NCI                         | 937,271      | 931,626  |
| Revenue  | 858,854      | 485,016  |
| Loss for the year / period                     | (3,124)      | (6,048)  |
| Other comprehensive income                     | (266)        | -  |
| Total comprehensive income                     | (3,390)      | (6,048)  |
| Total comprehensive income attributable to NCI | (1,017)      | (1,814)  |
| Dividend paid to NCI                           | (22,088)     | -  |
| Cash flows from operating activities           | (1,773,679)  | (333,680)  |
| Cash flows from investing activities           | (274,700)    | 3,984  |
| Cash flows from financing activities           | 275,322      | 195,593  |

## 21 Investments in subsidiaries (continued)

Transactions that cause changes in the Group's interests in subsidiaries that do not result in loss of control

(a) Changes in the Group's interests in subsidiaries:

On 15 June 2016, Everbright Securities Financial Holdings Limited, the Company's subsidiary registered in Hong Kong, entered into a Sale and Purchase agreement with Action Globe Limited (a wholly owned subsidiary of China Everbright Limited, the second largest shareholder of the Company) to purchase the remaining 49% shares of Everbright Securities (International) Limited from Action Globe Limited with a consideration of HKD930 million. The two sides agreed that the transaction date was 29 June 2016.

(b) Impact from transactions with non-controlling interests and equity attributable to the shareholders of the Company:

|  | <i>Everbright Securities<br/>(International) Limited</i> |
|--|--|
| Acquisition cost   |  |
| - Cash   | 794,843  |
| Total  | 794,843  |
| Less: share of net assets in<br>subsidiaries based on the<br>shares acquired | 567,532  |
| Difference   | 227,311  |
| Including: Adjustment on capital reserve                                     | 227,311  |

## 22 Interest in associates and joint ventures

|                     | <i>As at 31 December</i> |             |
|---------------------|--------------------------|-------------|
|                     | <i>2016</i>              | <i>2015</i> |
| Share of net assets | 1,737,404                | 874,763     |

## 22 Interest in associates and joint ventures (continued)

The following list contains the particulars of material associates and joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

| Name of associates and joint ventures   | Place of incorporation | Registered capital    | Equity interest held as at 31 December |      | Principal activities      |
|---|------------------------|-----------------------|--|------|---------------------------|
|   |                        |                       | 2016                                   | 2015 |                           |
| Dacheng Fund Management Co., Ltd.*<br>大成基金管理有限公司  | Shenzhen               | RMB<br>200,000,000    | 25%                                    | 25%  | Fund management           |
| Everbright Yunfu Internet Co., Ltd.*<br>光大雲付互聯網股份有限公司   | Shanghai               | RMB<br>200,000,000    | 40%                                    | 40%  | Financial data processing |
| Everbright Easecreate Internet Co., Ltd.*<br>光大易創網絡科技股份有限公司                                       | Shanghai               | RMB<br>100,000,000    | 40%                                    | 40%  | Financial data processing |
| Everbright Ivy Investment Management (Shanghai) Co., Ltd.* <sup>(1)</sup><br>光大常春藤投資管理(上海)有限公司    | Shanghai               | RMB<br>10,000,000     | 51%                                    | 51%  | Investment management     |
| Everbright LeadBank Assets Management (Shanghai) Co., Ltd.* <sup>(1)</sup><br>光大利得資產管理(上海)有限公司    | Shanghai               | RMB<br>2,000,000      | 51%                                    | 51%  | Investment management     |
| Everbright Ivy (Shanghai) Investment Center (limited partnership)*<br>光大常春藤一期(上海)股權投資基金合夥企業(有限合夥) | Shanghai               | RMB<br>18,500,000,000 | 27%                                    | 27%  | Funds management          |
| Shanghai Everbright Sports & Culture Equity Fund (limited partnership)*<br>上海光大體育文化投資合夥企業(有限合夥)   | Shanghai               | RMB<br>200,000,000    | 25%                                    | 25%  | Funds management          |

## 22 Interest in associates and joint ventures (continued)

| Name of associates and joint ventures   | Place of incorporation | Registered capital | Equity interest held as at 31 December |        | Principal activities                       |
|---|------------------------|--------------------|--|--------|--|
|   |                        |                    | 2016                                   | 2015   |  |
| Sun Hung Kai Forex Limited <sup>(1)</sup>   | Hong Kong              | HKD<br>75,166,707  | 51%                                    | 51%    | Foreign exchange dealing                   |
| Tribridge Capital Management (Cayman) Limited   | Cayman Islands         | USD<br>1,001       | 20.13%                                 | 20.13% | Funds management                           |
| Sun Hung Kai Insurance Brokers (Shanghai) Co., Ltd.* <sup>(3)</sup><br>新鴻基保險經紀(上海)有限公司  | Shanghai               | RMB<br>10,000,000  | -                                      | 24.90% | Insurance broking and consultancy services |
| Jiaying Everbright BoPu Investment LLP (Limited Partnership)*<br>嘉興光大礪璞投資合夥企業(有限合夥)   | Jiaying                | RMB<br>100,000,000 | 25%                                    | 25%    | Investment management                      |
| EBS Fund Management Co., Ltd.* <sup>(1)</sup><br>上海光大光證股權投資基金管理有限公司   | Shanghai               | RMB<br>20,000,000  | 51%                                    | 51%    | Investment management                      |
| Jiaying Everbright Meiyin Investment Management Co., Ltd.* <sup>(1)</sup><br>嘉興光大美銀投資管理有限公司                                   | Jiaying                | RMB<br>2,000,000   | 51%                                    | 51%    | Investment management                      |
| Jiaying Everbright Meiyin No. 1 Investment LLP*<br>嘉興光大美銀壹號投資合夥企業   | Jiaying                | RMB<br>500,000,000 | 25%                                    | 25%    | Investment management                      |
| Shenzhen Qianhai Tunlan Investment Co., Ltd.* <sup>(1)</sup><br>深圳前海光大瞰瀾投資管理有限公司  | Shenzhen               | RMB<br>5,000,000   | 51%                                    | 51%    | Investment management                      |
| Hangzhou Everbright Tunlan Investment LLP* <sup>(1)</sup><br>杭州光大瞰瀾投資合夥企業(有限合夥)   | Hangzhou               | RMB<br>200,000,000 | 60%                                    | 60%    | Investment management                      |
| Beijing Wenzhi Guangda Cultural and Creative Industries Investment Management Co., Ltd.* <sup>(1)</sup><br>北京文資光大文創產業投資管理有限公司 | Beijing                | RMB<br>5,000,000   | 51%                                    | 51%    | Investment management                      |

## 22 Interest in associates and joint ventures (continued)

| Name of associates and joint ventures  | Place of incorporation | Registered capital   | Equity interest held as at 31 December |      | Principal activities  |
|--|------------------------|----------------------|--|------|-----------------------|
|  |                        |                      | 2016                                   | 2015 |                       |
| Shanghai Everbright Fortune Jingsheng Investment Center (Limited Partnership)* <sup>(2)</sup><br>上海光大富尊璟晟投資中心(有限合夥)          | Shanghai               | RMB<br>63,700,000    | 16.89%                                 | -    | Investment management |
| Shanghai Everbright Fortune Jingtian Investment Center (Limited Partnership)* <sup>(2)</sup><br>上海光大富尊璟闡投資中心s(有限合夥)          | Shanghai               | RMB<br>52,350,000    | 0.19%                                  | -    | Investment management |
| CRECG & EB Private Equity Fund Management (Shanghai) Co. Limited*<br>中鐵光大股權投資基金管理(上海)有限公司.                                   | Shanghai               | RMB<br>50,000,000    | 50%                                    | -    | Investment management |
| Xinglu Dingtai Big Data Equity Investment Fund L.P.<br>星路鼎泰(桐鄉)大數據產業股權投資基金合夥企業(有限合夥)   | Jiaxing                | RMB<br>200,000,000   | 32%                                    | -    | Investment management |
| Beijing Everbright Wudaokou Investment Fund Management Co., Ltd* <sup>(1)</sup><br>北京光大五道口投資基金管理有限公司.                        | Beijing                | RMB<br>10,000,000    | 51%                                    | -    | Investment management |
| Beijing BCID-EBS Cultural & Innovation No.1 Investment Fund (Limited Partnership)* <sup>(1)</sup><br>北京文資光大文創壹號產業投資基金(有限合夥). | Shanghai               | RMB<br>500,100,000   | 99.98%                                 | -    | Funds management      |
| Shanghai JinXin Investment Consultancy LLP (Limited Partnership)* <sup>(2)</sup><br>上海浸鑫投資諮詢合夥企業(有限合夥)                       | Shanghai               | RMB<br>5,203,000,000 | 1.15%                                  | -    | Funds management      |
| Beijing BCID-EBS Cultural & Innovation No.2 Investment Fund(Limited Partnership)* <sup>(1)</sup><br>北京文資光大文創貳號投資基金管理中心(有限合夥) | Beijing                | RMB<br>97,550,000    | 99.90%                                 | -    | Funds management      |

## 22 Interest in associates and joint ventures (continued)

| Name of associates and joint ventures   | Place of incorporation | Registered capital   | Equity interest held as at 31 December |      | Principal activities  |
|---|------------------------|----------------------|--|------|-----------------------|
|   |                        |                      | 2016                                   | 2015 |                       |
| Jingning She Autonomous Country-Everbright ECO Fund Management Co., Ltd <sup>(1)</sup><br>景宁畲族自治县光大生态经济产业基金管理有限公司 | Lishui                 | RMB<br>5,000,000     | 51%                                    | -    | Investment management |
| Jingning-Everbright ECO Investment Fund I L.P.* <sup>(2)</sup><br>景宁光大生态壹号投资管理中心(有限合伙)                            | Lishui                 | RMB<br>55,500,000    | 9.01%                                  | -    | Funds management      |
| Yan'an Everybright City Development Investment Fund Management Co., LTD* <sup>(1)</sup><br>延安光大城市发展投资基金管理有限公司     | Yan'an                 | RMB<br>30,000,000    | 70%                                    | -    | Investment management |
| Jingning Everbright Zhetong No.1 Investment Fund L.P.* <sup>(2)</sup><br>景宁光大浙通壹号投资管理合伙企业(有限合伙)                   | Lishui                 | RMB<br>65,600,000    | 15.40%                                 | -    | Funds management      |
| Jiaxing Zizhuo Private Equity Investment Fund L.P.* <sup>(2)</sup><br>嘉兴资卓股权投资基金合伙企业(有限合伙)                        | Jiaxing                | RMB<br>2,400,000,000 | 12.50%                                 | -    | Funds management      |
| Beijing Gelin Xiangyun Investment Management Centre L.P.* <sup>(2)</sup><br>北京格林翔云投资管理中心(有限合伙)                    | Beijing                | RMB<br>109,000,000   | 15.14%                                 | -    | Funds management      |
| Nanning Nantang Industry Merge & Acquisition Funds L.P.* <sup>(2)</sup><br>南宁南糖产业并购基金(有限合伙)                       | Guangxi                | RMB<br>2,500,000,000 | 0.01%                                  | -    | Funds management      |

\* The English translation of the names is for reference only. The official names of these entities are in Chinese.

All of the above associates and joint ventures are accounted for using equity method in the financial statements.

## 22 Interest in associates and joint ventures (continued)

- (1) The Group's shareholding of these investees is higher than 50%, however these investees are jointly controlled by the Group and other investors as a result of relevant arrangements stipulated in the Articles of Association and other corporate governance documents.
- (2) The Group's shareholding of these investees is lower than 20%, however these investees are jointly controlled by the Group and other investors as a result of relevant arrangements stipulated in the Articles of Association and other corporate governance documents.
- (3) This company was disposed in 2016.

Summarised financial information of the Group's material associates and joint ventures, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

*Dacheng Fund Management Co., Ltd.*

|   | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| <b>Gross amounts of the associate:</b>                      |             |             |
| Assets  | 2,787,193   | 2,739,436   |
| Liabilities   | (789,021)   | (648,487)   |
| Net assets  | 1,998,172   | 2,090,949   |
| Revenue   | 742,772     | 1,104,423   |
| Net profit for the year                                     | 138,897     | 281,121     |
| Other comprehensive income                                  | (26,520)    | (8,704)     |
| Total comprehensive income                                  | 112,377     | 272,417     |
| Dividend received from the associate                        | -           | 12,500      |
| <b>Reconciled to the Group's interest in the associate:</b> |             |             |
| Net assets  | 1,998,172   | 2,090,949   |
| The Group's effective interest                              | 25%         | 25%         |
| The Group's share of net assets of the associate            | 499,543     | 522,737     |
| Other adjustment  | (497)       | 964         |
|   | 499,046     | 523,701     |
| Carrying amount in the consolidated financial statements    | 499,046     | 523,701     |



## 22 Interest in associates and joint ventures (continued)

### *Everbright Yunfu Internet Co., Ltd.*

|   | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| <b>Gross amounts of the associate:</b>                      |             |             |
| Assets  | 2,602,839   | 892,005     |
| Liabilities   | (2,396,472) | (699,140)   |
| Net assets  | 206,367     | 192,865     |
| Revenue   | 188,808     | 166         |
| Net profit / (loss) for the year                            | 8,503       | (7,135)     |
| Other comprehensive income                                  | -           | -           |
| Total comprehensive income                                  | 8,503       | (7,135)     |
| Dividend received from the associate                        | -           | -           |
| <b>Reconciled to the Group's interest in the associate:</b> |             |             |
| Total equity attributable to shareholders of the Company    | 201,356     | 192,865     |
| The Group's effective interest                              | 40%         | 40%         |
| The Group's share of net assets of the associate            | 80,542      | 77,146      |
| Other adjustment  | 6           | -           |
|   | 80,548      | 77,146      |
| Carrying amount in the consolidated financial statements    | 80,548      | 77,146      |

### *Everbright Eascreate Internet Co., Ltd.*

|   | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| <b>Gross amounts of the associate:</b>                      |             |             |
| Assets  | 135,730     | 781,100     |
| Liabilities   | (33,418)    | (680,996)   |
| Net assets  | 102,312     | 100,104     |
| Revenue   | 62,044      | 2,751       |
| Net profit for the year                                     | 2,225       | 104         |
| Other comprehensive income                                  | -           | -           |
| Total comprehensive income                                  | 2,225       | 104         |
| Dividend received from the associate                        | -           | -           |
| <b>Reconciled to the Group's interest in the associate:</b> |             |             |
| Net assets  | 102,312     | 100,104     |
| The Group's effective interest                              | 40%         | 40%         |
| The Group's share of net assets of the associate            | 40,925      | 40,042      |
| Other adjustment  | 7           | -           |
|   | 40,932      | 40,042      |
| Carrying amount in the consolidated financial statements    | 40,932      | 40,042      |

## 22 Interest in associates and joint ventures (continued)

*Beijing BCID-EBS Cultural & Innovation No.1 Investment Fund (Limited Partnership).*

|   | <u>2016</u>    | <u>2015</u> |
|---|----------------|-------------|
| <b>Gross amounts of the joint venture:</b>                      |                |             |
| Assets  | 510,399        | -           |
| Liabilities   | (6,086)        | -           |
| Net assets  | 504,313        | -           |
| Revenue   | 20,992         | -           |
| Net profit for the year   | 20,778         | -           |
| Other comprehensive income                                      | -              | -           |
| Total comprehensive income                                      | 20,778         | -           |
| Dividend received from the joint venture                        | 15,097         | -           |
| <b>Reconciled to the Group's interest in the joint venture:</b> |                |             |
| Net assets  | 504,313        | -           |
| The Group's effective interest                                  | 99.98%         | -           |
| The Group's share of net assets of the joint venture            | 504,212        | -           |
| Other adjustment  | 1,465          | -           |
|   | <hr/>          | <hr/>       |
| Carrying amount in the consolidated financial statement         | <u>505,677</u> | <u>-</u>    |

Aggregated information of associates and joint ventures that are not individually material:

|   | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| Aggregate carrying amount of individually immaterial associates and joint ventures in the consolidated financial statements | 611,201     | 233,874     |
| Aggregate amounts of the Group's share of those associates and joint ventures' (loss)/net profits                           | (392)       | 3,296       |
| Other comprehensive income  | -           | -           |
| Total comprehensive income  | (392)       | 3,296       |

## 23 Held-to-maturity investments

|                           | <u>As at 31 December</u> |                |
|---------------------------|--------------------------|----------------|
|                           | <u>2016</u>              | <u>2015</u>    |
| Listed outside Hong Kong: |                          |                |
| – Debt securities         | <u>159,340</u>           | <u>129,531</u> |

## 24 Available-for-sale financial assets

### Non-current

|                                       | <i>As at 31 December</i> |                  |
|---------------------------------------|--------------------------|------------------|
|                                       | <i>2016</i>              | <i>2015</i>      |
| Equity securities                     | 3,634,871                | 1,270,375        |
| Debt securities                       | 360,792                  | 33,943           |
| Wealth management products and others | 6,502,708                | 6,651,534        |
| Less: Impairment losses               | (88,962)                 | (90,868)         |
|                                       | <u>10,409,409</u>        | <u>7,864,984</u> |
| Analysed as:                          |                          |                  |
| Listed outside Hong Kong              | 902,532                  | 443,701          |
| Listed inside Hong Kong               | 175,779                  | -                |
| Unlisted                              | 9,331,098                | 7,421,283        |
|                                       | <u>10,409,409</u>        | <u>7,864,984</u> |

### Current

|                            | <i>As at 31 December</i> |                  |
|----------------------------|--------------------------|------------------|
|                            | <i>2016</i>              | <i>2015</i>      |
| Equity securities          | 4,611,055                | 6,296,474        |
| Debt securities            | 2,651,560                | 1,832,728        |
| Fund                       | 234,003                  | 774,014          |
| Wealth management products | 64,927                   | 874,701          |
| Less: Impairment losses    | (276,080)                | (102)            |
|                            | <u>7,285,465</u>         | <u>9,777,815</u> |
| Analysed as:               |                          |                  |
| Listed outside Hong Kong   | 5,380,729                | 7,108,748        |
| Unlisted                   | 1,904,736                | 2,669,067        |
|                            | <u>7,285,465</u>         | <u>9,777,815</u> |

## 24 Available-for-sale financial assets (continued)

As at 31 December 2016 and 31 December 2015, the above non-current available-for-sale financial assets includes the Company's contributed funds, with various PRC securities firms, to designated accounts established and managed by China Securities Finance Corporation Limited (CSFC). Under the relevant agreements with CSFC, the Company totally contributed RMB 5,856.8 million in July and September 2015, respectively. Risk and income arising from the investment shall be shared by all securities firms according to the proportion of their respective contribution. The investment is under unified operation and management by CSFC. As at 31 December 2016, the fair value of the Company's contribution recognised by the Company was RMB 5,494.3 million (31 December 2015: RMB 5,564.9 million) based on the investment account statement provided by CSFC. As at 31 December 2016, considering the nature and purpose of this investment, special investment decision-making processes and treatment mode, management is of the view that there is no objective evidence of impairment due to significant or prolonged decline in fair value.

As at 31 December 2016 and 31 December 2015, there was no fund investments with lock-up periods included in the available-for-sale financial assets held by the Group.

As at 31 December 2016 and 31 December 2015, the equity securities in the available-for-sale financial assets with lock-up periods held by the Group were RMB 810,929 thousand and RMB1,539,101 thousand, respectively.

In the opinion of the directors of the Company, non-current available-for-sale investments are expected to be realised or restricted for sale beyond one year from the end of the reporting period. The fair value of the Group's investments in unlisted funds, which mainly invest in publicly traded equities listed in the PRC, are valued based on the net asset values of the funds calculated by the respective fund managers by reference to their underlying assets and liabilities' fair values.

The fair value of the Group's investments in equity securities without restriction, exchange-listed funds and debt securities are determined with reference to their quoted prices as at the end of the reporting period.

As at 31 December 2016 and 31 December 2015, the Group entered into securities lending arrangement with clients that resulted in the transfer of available-for-sale investments with a total fair value of nil and RMB207 thousand to external clients, respectively. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy detailed in Note 2(9). The fair value of collaterals received in respect of the securities lending business is analysed in Note 32(c) together with the fair value of collaterals of margin financing business.

**25 Financial assets held under resale agreements**

**(a) Analysed by collateral type:**

*Non-current*

|                   | <u>As at 31 December</u> |                  |
|-------------------|--------------------------|------------------|
|                   | <u>2016</u>              | <u>2015</u>      |
| Equity securities | 4,208,468                | 1,344,690        |
| Total             | <u>4,208,468</u>         | <u>1,344,690</u> |

*Current*

|                   | <u>As at 31 December</u> |                  |
|-------------------|--------------------------|------------------|
|                   | <u>2016</u>              | <u>2015</u>      |
| Debt securities   | 913,077                  | 808,451          |
| Equity securities | 4,464,910                | 4,195,480        |
| Total             | <u>5,377,987</u>         | <u>5,003,931</u> |

**(b) Analysed by market:**

*Non-current*

|                         | <u>As at 31 December</u> |                  |
|-------------------------|--------------------------|------------------|
|                         | <u>2016</u>              | <u>2015</u>      |
| Shenzhen Stock Exchange | 3,673,459                | 1,322,712        |
| Shanghai Stock Exchange | 535,009                  | 21,978           |
| Total                   | <u>4,208,468</u>         | <u>1,344,690</u> |

*Current*

|                         | <u>As at 31 December</u> |                  |
|-------------------------|--------------------------|------------------|
|                         | <u>2016</u>              | <u>2015</u>      |
| Inter-bank market       | 675,277                  | 759,451          |
| Shenzhen Stock Exchange | 3,145,943                | 1,133,796        |
| Shanghai Stock Exchange | 1,556,767                | 3,110,684        |
| Total                   | <u>5,377,987</u>         | <u>5,003,931</u> |

**26 Refundable deposits**

|  | <i>As at 31 December</i> |                  |
|--|--------------------------|------------------|
|  | <u>2016</u>              | <u>2015</u>      |
| Deposits with stock exchanges and clearing house               |                          |                  |
| – China Securities Depository and Clearing Corporation Limited | 294,669                  | 450,284          |
| – The Stock Exchange of Hong Kong Limited                      | 14,426                   | 6,414            |
| – Hong Kong Securities Clearing Company Limited                | 5,844                    | 8,057            |
|  | 314,939                  | 464,755          |
| Deposits with futures and commodity exchanges                  |                          |                  |
| – China Financial Futures Exchange                             | 1,652,605                | 1,526,630        |
| – Shanghai Futures Exchange                                    | 997,651                  | 435,265          |
| – Dalian Commodity Exchange                                    | 683,730                  | 448,600          |
| – Zhengzhou Commodity Exchange                                 | 459,693                  | 484,034          |
| – Hong Kong Futures Exchange                                   | 8,889                    | 8,131            |
|  | 3,802,568                | 2,902,660        |
| Deposits with other institutions                               |                          |                  |
| – China Securities Finance Corporation Limited                 | 1,599,575                | 74,401           |
| – Shanghai Clearing House                                      | 57,851                   | 40,943           |
| – Securities & Futures Commission of Hong Kong                 | 1,789                    | 4,585            |
| – Other institutions   | 7,465                    | 507,674          |
|  | 1,666,680                | 627,603          |
| <b>Total</b>   | <b>5,784,187</b>         | <b>3,995,018</b> |

**27 Income tax**

**(a) Current taxation**

|   | <i>As at 31 December</i> |             |
|---|--------------------------|-------------|
|   | <i>2016</i>              | <i>2015</i> |
| Current tax liabilities                 | 603,214                  | 1,627,768   |
|   |                          |             |
|   | <i>As at 31 December</i> |             |
|   | <i>2016</i>              | <i>2015</i> |
| At the beginning of the year            | 1,627,768                | 489,112     |
| Provision for the year                  | 1,309,034                | 2,129,799   |
| Additions through business combinations | -                        | 37,468      |
| Tax paid                                | (2,333,588)              | (1,028,611) |
| At the end of the year                  | 603,214                  | 1,627,768   |

**27 Income tax (continued)**

**(b) Deferred tax assets/(liabilities) recognised**

The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the reporting period are as follows:

|  | Provision for impairment losses | Employee benefits payable | Changes in fair value of financial instruments at fair value through profit or loss | Changes in fair value of derivative financial instruments | Changes in fair value of available-for-sale financial assets | Intangible assets recognised in the acquisition | Others   | Total     |
|--|---------------------------------|---------------------------|---|---|--|---|----------|-----------|
| As at 1 January 2015                   | 55,393                          | 100,417                   | (135,769)   | 44,433  | (166,351)  | -   | 26,360   | (75,517)  |
| Additions through business combination | 1,250                           | 160                       | -   | -   | -  | (116,404)                                       | 577      | (114,417) |
| Recognised in profit or loss           | (9,156)                         | 83,706                    | (196,859)   | 163,147   | -  | 6,905   | (17,378) | 30,365    |
| Recognised in reserves                 | -                               | -                         | -   | -   | (311,646)  | -   | -        | (311,646) |
| As at 31 December 2015                 | 47,487                          | 184,283                   | (332,628)   | 207,580   | (477,997)  | (109,499)                                       | 9,559    | (471,215) |
| As at 1 January 2016                   | 47,487                          | 184,283                   | (332,628)   | 207,580   | (477,997)  | (109,499)                                       | 9,559    | (471,215) |
| Recognised in profit or loss           | 83,551                          | 146,567                   | 308,235   | (194,051)   | -  | 18,245  | 31,719   | 394,266   |
| Recognised in reserves                 | -                               | -                         | -   | -   | 315,993  | -   | -        | 315,993   |
| As at 31 December 2016                 | 131,038                         | 330,850                   | (24,393)  | 13,529  | (162,004)  | (91,254)  | 41,278   | 239,044   |



**27 Income tax (continued)**

**(c) Reconciliation to the statements of financial position**

|   | <i>As at 31 December</i> |             |
|---|--------------------------|-------------|
|   | <u>2016</u>              | <u>2015</u> |
| Net deferred tax assets recognised in the consolidated statement of financial position      | 509,005                  | 79,969      |
| Net deferred tax liabilities recognised in the consolidated statement of financial position | (269,961)                | (551,184)   |
| Total   | 239,044                  | (471,215)   |

**(d) Recognised in other comprehensive income**

|   | <i>Year ended 31 December 2016</i> |                    |                   |
|---|------------------------------------|--------------------|-------------------|
|   | <i>Before tax</i>                  | <i>Tax benefit</i> | <i>Net of tax</i> |
| Available-for-sale financial assets   |                                    |                    |                   |
| – Net changes in fair value   | (1,106,626)                        | 276,491            | (830,135)         |
| – Reclassified to profit or loss  | (157,346)                          | 39,502             | (117,844)         |
| Share of other comprehensive income of associates                                 | (6,630)                            | -                  | (6,630)           |
| Exchange differences on translation of financial statements in foreign currencies | (12,008)                           | -                  | (12,008)          |
| Total   | (1,282,610)                        | 315,993            | (966,617)         |

**27 Income tax (continued)**

**(d) Recognised in other comprehensive income (continued)**

|   | Year ended 31 December 2015 |                           |            |
|---|-----------------------------|---------------------------|------------|
|   | Before tax                  | Tax (expense)/<br>benefit | Net of tax |
| Available-for-sale financial assets   |                             |                           |            |
| – Net changes in fair value   | 2,292,229                   | (572,569)                 | 1,719,660  |
| – Reclassified to profit or loss  | (1,044,186)                 | 260,923                   | (783,263)  |
| Share of other comprehensive income of associates                                 | (2,176)                     | -                         | (2,176)    |
| Exchange differences on translation of financial statements in foreign currencies | 27,627                      | -                         | 27,627     |
|   | 1,273,494                   | (311,646)                 | 961,848    |
| Total   | 1,273,494                   | (311,646)                 | 961,848    |

**(e) Deferred tax assets not recognised**

As at 31 December 2016 and 2015, in accordance with the accounting policy set out in Note 2(17)(ii), the Group has not recognised deferred tax assets in respect of cumulative tax losses, provision for bad debts, impairment losses against margin accounts and impairment losses against goodwill with timing difference amounting to RMB 495,115 thousand and 399,319 thousand respectively, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

**28 Finance lease receivables**

**(a) Analysed by nature:**

|                                       | As at 31 December |           |
|---------------------------------------|-------------------|-----------|
|                                       | 2016              | 2015      |
| Minimum lease payments to be received | 4,566,017         | 4,325,092 |
| Less: unrealised finance income       | (437,023)         | (391,491) |
|                                       | 4,128,994         | 3,933,601 |
| Balance of finance lease receivables  | 4,128,994         | 3,933,601 |
| Allowance for impairment              | (70,000)          | (31,759)  |
|                                       | 4,058,994         | 3,901,842 |
| Finance lease receivables, net        | 4,058,994         | 3,901,842 |
| Analysis for presentation purpose:    |                   |           |
| Current assets                        | 1,318,855         | 1,450,942 |
| Non-current assets                    | 2,740,139         | 2,450,900 |
|                                       | 4,058,994         | 3,901,842 |
|                                       | 4,058,994         | 3,901,842 |

## 28 Finance lease receivables (continued)

### (a) Analysed by nature (continued):

Minimum lease payments to be received and the corresponding present value are as follows:

|                                      | <u>As at 31 December 2016</u> |                      | <u>As at 31 December 2015</u> |                      |
|--------------------------------------|-------------------------------|----------------------|-------------------------------|----------------------|
|                                      | <i>Minimum leases</i>         | <i>Present value</i> | <i>Minimum leases</i>         | <i>Present value</i> |
| Within 1 year                        | 1,552,113                     | 1,341,473            | 1,671,344                     | 1,462,752            |
| 1–2 years                            | 1,453,968                     | 1,326,691            | 1,007,998                     | 896,601              |
| 2–3 years                            | 817,630                       | 754,442              | 984,729                       | 920,604              |
| Over 3 years                         | 742,306                       | 706,388              | 661,021                       | 653,644              |
| Total                                | <u>4,566,017</u>              | <u>4,128,994</u>     | <u>4,325,092</u>              | <u>3,933,601</u>     |
| Unrealised finance income            | <u>(437,023)</u>              | <u>-</u>             | <u>(391,491)</u>              | <u>-</u>             |
| Balance of finance lease receivables | 4,128,994                     | 4,128,994            | 3,933,601                     | 3,933,601            |
| Allowance for impairment             | <u>(70,000)</u>               | <u>(70,000)</u>      | <u>(31,759)</u>               | <u>(31,759)</u>      |
| Finance lease receivables, net       | <u>4,058,994</u>              | <u>4,058,994</u>     | <u>3,901,842</u>              | <u>3,901,842</u>     |

### (b) Analysis of the movement of provision for impairment losses:

|  | <u>As at 31 December</u> |               |
|--|--------------------------|---------------|
|  | <u>2016</u>              | <u>2015</u>   |
| At the beginning of the year           | 31,759                   | -             |
| Charge for the year                    | 44,786                   | 26,759        |
| Reversal of impairment                 | (6,545)                  | -             |
| Additions through business combination | -                        | 5,000         |
| At the end of the year                 | <u>70,000</u>            | <u>31,759</u> |

**29 Other non-current assets**

**(a) Analysed by nature**

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <i>2016</i>              | <i>2015</i> |
| Long-term deferred expenses <sup>(1)</sup> | 100,689                  | 75,207      |
| Investments classified as receivables      | 789,632                  | 185,000     |
| Deposits                                   | 189,307                  | 9,111       |
| Other receivables                          | 5,676                    | -           |
|  | 1,085,304                | 269,318     |

(1) The movements of long-term deferred expenses are as below:

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <i>2016</i>              | <i>2015</i> |
| Balance at beginning of the year                     | 75,207                   | 99,927      |
| Additions  | 65,866                   | 19,254      |
| Transfer in from property and equipment<br>(Note 18) | 1,609                    | 2,925       |
| Amortisation   | (41,993)                 | (46,899)    |
|  | 100,689                  | 75,207      |

### 30 Accounts receivables

**(a) Analysed by nature:**

|                                       | <i>As at 31 December</i> |             |
|---------------------------------------|--------------------------|-------------|
|                                       | <i>2016</i>              | <i>2015</i> |
| Accounts receivable of                |                          |             |
| – Brokers and dealers                 | 1,643,073                | 1,354,407   |
| – Settlement                          | 592,481                  | 491,555     |
| – Fee and commission                  | 236,417                  | 227,015     |
| – Investees                           | 4,915                    | 19,400      |
| – Others                              | 18,583                   | 3,443       |
| Less: Provision for impairment losses | (10,989)                 | (26,522)    |
| Total                                 | 2,484,480                | 2,069,298   |

**(b) Analysed by aging:**

As at the end of the reporting period, the aging analysis of accounts receivable, based on the trade date, is as follows:

|               | <i>As at 31 December</i> |             |
|---------------|--------------------------|-------------|
|               | <i>2016</i>              | <i>2015</i> |
| Within 1 year | 2,477,444                | 2,069,298   |
| 1 to 2 years  | 7,036                    | -           |
| Total         | 2,484,480                | 2,069,298   |

**(c) Analysis for the movement of provision for impairment losses:**

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <i>2016</i>              | <i>2015</i> |
| At the beginning of the year           | 26,522                   | 75,756      |
| Additions through business combination | -                        | 2,768       |
| Reversal of impairment                 | (15,994)                 | (52,407)    |
| Others                                 | 461                      | 405         |
| At the end of the year                 | 10,989                   | 26,522      |

**(d) Accounts receivable that is not impaired**

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

### 31 Other receivables and prepayments

(a) *Analysed by nature:*

|                                       | <i>As at 31 December</i> |             |
|---------------------------------------|--------------------------|-------------|
|                                       | <i>2016</i>              | <i>2015</i> |
| Interest receivable                   | 1,295,388                | 1,551,169   |
| Other receivables <sup>(1)</sup>      | 617,558                  | 525,421     |
| Prepayment for investment             | 124,165                  | 257,690     |
| Investments classified as receivables | 81,513                   | 1,213,987   |
| Dividend receivables                  | 56,774                   | 3,238       |
| Prepayments <sup>(1)</sup>            | 46,422                   | 85,054      |
| Others                                | 30,054                   | 66,078      |
| Less: Provision for impairment losses | (55,250)                 | (9,664)     |
| Total                                 | 2,196,624                | 3,692,973   |

(1) The balance of other receivables and prepayments mainly represents receivables from securities investor protection fund, rental deposits and sundry receivables and prepayments arising from normal course of business.

(b) **Analysis of the movement of provision for impairment losses:**

|                              | <i>As at 31 December</i> |             |
|------------------------------|--------------------------|-------------|
|                              | <i>2016</i>              | <i>2015</i> |
| At the beginning of the year | 9,664                    | 15,729      |
| Charge for the year          | 45,751                   | 917         |
| Reversal of impairment       | (41)                     | (6,543)     |
| Others                       | (124)                    | (439)       |
| At the end of the year       | 55,250                   | 9,664       |

## 32 Margin accounts receivable

### (a) Analysed by nature:

|                                       | <u>As at 31 December</u> |                   |
|---------------------------------------|--------------------------|-------------------|
|                                       | <u>2016</u>              | <u>2015</u>       |
| Individuals                           | 33,293,813               | 39,886,081        |
| Institutions                          | 4,271,579                | 3,658,349         |
| Less: Provision for impairment losses | (137,648)                | (139,963)         |
| Total                                 | <u>37,427,744</u>        | <u>43,404,467</u> |

### (b) Analysis of the movement of provision for impairment losses:

|  | <u>As at 31 December</u> |                |
|--|--------------------------|----------------|
|  | <u>2016</u>              | <u>2015</u>    |
| At the beginning of the year           | 139,963                  | 40,991         |
| Charge for the year                    | -                        | 20,837         |
| Additions through business combination | -                        | 74,754         |
| Reversal of impairment                 | (8,795)                  | -              |
| Others                                 | 6,480                    | 3,381          |
| At the end of the year                 | <u>137,648</u>           | <u>139,963</u> |

### (c) The fair value of collaterals for margin financing and securities lending business is analysed as follows:

|                            | <u>As at 31 December</u> |                    |
|----------------------------|--------------------------|--------------------|
|                            | <u>2016</u>              | <u>2015</u>        |
| Fair value of collaterals: |                          |                    |
| - Equity securities        | 117,845,208              | 135,708,305        |
| - Cash                     | 4,825,981                | 7,764,149          |
| - Funds                    | 985,614                  | 351,379            |
| - Debt securities          | 2,367,297                | 478,091            |
| Total                      | <u>126,024,100</u>       | <u>144,301,924</u> |

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

(a) **Analysed by type:**

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <i>2016</i>              | <i>2015</i> |
| Held for trading:                                |                          |             |
| – Debt securities                                | 9,500,594                | 11,382,057  |
| – Equity securities                              | 1,940,619                | 4,313,565   |
| – Funds  | 6,754,388                | 7,611,305   |
| – Wealth management products                     | 4,268,601                | 1,642,098   |
| – Others   | 22,046                   | 9,633       |
| Designated at fair value through profit or loss: |                          |             |
| – Wealth management products                     | 2,163,865                | 581,239     |
| Total  | 24,650,113               | 25,539,897  |

(b) **Analysed as:**

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <i>2016</i>              | <i>2015</i> |
| Held for trading                                 |                          |             |
| – Listed outside Hong Kong                       | 5,073,070                | 10,233,180  |
| – Listed inside Hong Kong                        | 662,293                  | 204,010     |
| – Unlisted                                       | 16,750,885               | 14,521,468  |
| Designated at fair value through profit or loss: |                          |             |
| – Unlisted                                       | 2,163,865                | 581,239     |
| Total  | 24,650,113               | 25,539,897  |

As at 31 December 2016 and 2015, the Group has entered into securities lending arrangement with clients that resulted in the transfer of financial assets at fair value through profit or loss with total fair value of RMB 589,219 thousand and RMB 267 thousand to external clients, respectively. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy detailed in Note 2(9). The fair value of collaterals for the securities lending business is analysed in Note 32(c) together with the fair value of collaterals of margin financing business.



### 34 Derivative financial instruments

|  | <i>As at 31 December 2016</i> |                   |                    |
|--|-------------------------------|-------------------|--------------------|
|  | <i>Notional<br/>amount</i>    | <i>Fair Value</i> |                    |
|  |                               | <i>Assets</i>     | <i>Liabilities</i> |
| <b>Interest rate derivatives</b>         |                               |                   |                    |
| – Interest rate swaps                    | 31,981,000                    | 15,741            | (98,981)           |
| – Treasury bond futures                  | 1,098,331                     | 145               | (5,881)            |
| <b>Equity derivatives</b>                |                               |                   |                    |
| – Stock index futures                    | 78,240                        | 416               | (475)              |
| – Commodity futures                      | 8,157                         | -                 | (27)               |
| – Equity return swaps                    | 1,000,000                     | 29,077            | (33,009)           |
| – Stock option                           | 1,107,200                     | 11,595            | (11,700)           |
| – OTC stock index options                | 463,987                       | 450               | (1,748)            |
| <b>Others</b>                            |                               |                   |                    |
| – Embedded option instruments            | 1,050,533                     | 739               | (2,487)            |
| – Precious metal derivatives             | 831                           | -                 | (38)               |
| – Currency forward contracts             | 633,001                       | 39,715            | -                  |
| <b>Total</b>                             | <b>37,421,280</b>             | <b>97,878</b>     | <b>(154,346)</b>   |
| Less: Cash (received)/paid as settlement |                               | (561)             | 72,723             |
| <b>Net position</b>                      |                               | <b>97,317</b>     | <b>(81,623)</b>    |

**34 Derivative financial instruments (continued)**

|  | <i>As at 31 December 2015</i> |                   |                    |
|--|-------------------------------|-------------------|--------------------|
|  | <i>Notional<br/>amount</i>    | <i>Fair Value</i> |                    |
|  |                               | <i>Assets</i>     | <i>Liabilities</i> |
| <b>Interest rate derivatives</b>         |                               |                   |                    |
| – Interest rate swaps                    | 26,582,000                    | 127,563           | (164,385)          |
| – Treasury bond futures                  | 402,220                       | 2,733             | (720)              |
| Equity derivatives                       |                               |                   |                    |
| – Stock index futures                    | 192,019                       | 275               | (214)              |
| – Equity return swaps                    | 2,435,556                     | 14,824            | (857,719)          |
| – Stock option                           | 56,726                        | 44                | (468)              |
| – OTC stock index options                | 801,000                       | 13,657            | -                  |
| Others                                   |                               |                   |                    |
| – Currency forward contracts             | 782,803                       | 33,746            | -                  |
| <b>Total</b>                             | <b>31,252,324</b>             | <b>192,842</b>    | <b>(1,023,506)</b> |
| Less: Cash (received)/paid as settlement |                               | (24,323)          | 934                |
| <b>Net position</b>                      |                               | <b>168,519</b>    | <b>(1,022,572)</b> |

Under the daily mark-to-market and settlement arrangement, any gains or losses of the Group's position in interest rate swap contracts settled in Shanghai Clearing House, stock index futures, treasury bond futures and commodity futures were settled daily and the corresponding receipts and payments were included in "clearing settlement funds".

### 35 Clearing settlement funds

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <u>2016</u>              | <u>2015</u> |
| Deposits with  |                          |             |
| – China Securities Depository and Clearing Corporation Limited | 132,123                  | 348,099     |
| – Others   | 18,310                   | 11,935      |
|  | 150,433                  | 360,034     |
| Total  |                          |             |

### 36 Cash held on behalf of brokerage clients

The Group maintains segregated deposit accounts with banks and authorised institutions to hold clients' monies arising from its normal course of brokerage business. The Group has classified its brokerage clients' monies as cash held on behalf of brokerage clients under the current assets section of the consolidated statements of financial position, and recognised the corresponding accounts payable to the respective brokerage clients on the grounds that it is liable for any loss or misappropriation of its brokerage clients' monies. In the PRC, cash held on behalf of brokerage clients for their transaction and settlement funds is restricted and governed by relevant third-party deposit regulations issued by the CSRC. In Hong Kong, cash held on behalf of brokerage clients is restricted and governed by the Securities and Futures (Client Money) Rules under the Securities and Futures Ordinance.

### 37 Cash and bank balances

|               | <i>As at 31 December</i> |             |
|---------------|--------------------------|-------------|
|               | <u>2016</u>              | <u>2015</u> |
| Cash on hand  | 262                      | 567         |
| Bank balances | 15,312,653               | 15,091,125  |
|               | 15,312,915               | 15,091,692  |
| Total         |                          |             |

Bank balances comprise time and demand deposits which bear interest at the prevailing market rates.

### 38 Cash and cash equivalents

|  | <i>As at 31 December</i> |                   |
|--|--------------------------|-------------------|
|  | <u>2016</u>              | <u>2015</u>       |
| Cash on hand                                       | 262                      | 567               |
| Bank balances                                      | 15,312,653               | 15,091,125        |
| Clearing settlement funds                          | 150,433                  | 360,034           |
| Bond investment with original maturity in 3 months | -                        | 79,541            |
| Less: restricted bank deposits                     | (6,525,956)              | (2,534,498)       |
| <b>Total</b>                                       | <b>8,937,392</b>         | <b>12,996,769</b> |

The restricted bank deposits include bank deposits with original maturity of more than three months held by the Group and risk reserve deposits.

### 39 Loans and borrowings

#### **Current**

As at 31 December 2016

|                      | <u>Currency</u> | <u>Nominal Interest Rate</u> | <u>Year of Maturity</u> | <u>Carrying Amount</u> |
|----------------------|-----------------|------------------------------|-------------------------|------------------------|
| Unsecured Bank Loans | HKD             | 1.78%-3.18%                  | 2017                    | 3,689,528              |
| Secured Bank Loans   | HKD             | 1.26%-2.36%                  | 2017                    | 2,225,002              |
| Secured Bank Loans   | RMB             | 1.25%-4.35%                  | 2017                    | 903,474                |
| Unsecured Bank Loans | USD             | 2.37%-2.60%                  | 2017                    | 287,534                |
| Secured Bank Loans   | USD             | 1.15%                        | 2017                    | 195,623                |
| Unsecured Bank Loans | RMB             | 4.275%                       | 2017                    | 44,000                 |
| <b>Total</b>         |                 |                              |                         | <b>7,345,161</b>       |

As at 31 December 2015

|                      | <u>Currency</u> | <u>Nominal Interest Rate</u> | <u>Year of Maturity</u> | <u>Carrying Amount</u> |
|----------------------|-----------------|------------------------------|-------------------------|------------------------|
| Unsecured Bank Loans | HKD             | 2.12%-2.79%                  | 2016                    | 1,449,436              |
| Secured Bank Loans   | HKD             | 0.86%-2.25%                  | 2016                    | 858,725                |
| Secured Bank Loans   | RMB             | 1.25%-4.35%                  | 2016                    | 186,000                |
| Unsecured Bank Loans | RMB             | 4.09%-5.6%                   | 2016                    | 520,000                |
| <b>Total</b>         |                 |                              |                         | <b>3,014,161</b>       |

### 39 Loans and borrowings (continued)

#### Non-current

As at 31 December 2016

|                      | <u>Currency</u> | <u>Nominal Interest Rate</u> | <u>Year of Maturity</u> | <u>Carrying Amount</u> |
|----------------------|-----------------|------------------------------|-------------------------|------------------------|
| Unsecured Bank Loans | HKD             | Hibor+1.5%-2.85%             | 2018                    | 1,155,841              |
| Secured Bank Loans   | RMB             | 3.87%-5.5%                   | 2020                    | 897,237                |
| Secured Bank Loans   | USD             | 1.15%                        | 2018                    | 437,378                |
| Unsecured Bank Loans | RMB             | 4.275%                       | 2018                    | 156,000                |
| Total                |                 |                              |                         | <u>2,646,456</u>       |

As at 31 December 2015

|                      | <u>Currency</u> | <u>Nominal Interest Rate</u> | <u>Year of Maturity</u> | <u>Carrying Amount</u> |
|----------------------|-----------------|------------------------------|-------------------------|------------------------|
| Unsecured Bank Loans | HKD             | Hibor+2.85%                  | 2018                    | 912,419                |
| Secured Bank Loans   | RMB             | 4.275%-5.5%                  | 2020                    | 567,119                |
| Secured Bank Loans   | USD             | 1.15%                        | 2018                    | 782,803                |
| Total                |                 |                              |                         | <u>2,262,341</u>       |

#### 40 Short-term debt instruments issued

|                  | <i>Nominal Interest rate</i> | <i>Book value as at 1 January 2016</i> | <i>Issuance</i> | <i>Redemption</i> | <i>Book value as at 31 December 2016</i> |
|------------------|------------------------------|--|-----------------|-------------------|--|
| Structured notes | 0.00%-5.00%                  | 2,100,000                              | 8,378,205       | (4,548,503)       | 5,929,702                                |

|                  | <i>Nominal Interest rate</i> | <i>Book value as at 1 January 2015</i> | <i>Issuance</i> | <i>Redemption</i> | <i>Book value as at 31 December 2015</i> |
|------------------|------------------------------|--|-----------------|-------------------|--|
| Structured notes | 5.50%-5.80%                  | -                                      | 5,301,000       | (3,201,000)       | 2,100,000                                |

In 2016, the Group has issued 156 tranches of structured note, and repaid 93 tranches of structured note during the year. The rest bears fixed interest rate ranging from 0.00% to 5.00% per annum plus floating rate, repayable within 1 year.

In 2015, the Group has issued 7 tranches of structured note, and repaid 4 tranches of structured note during the year. The rest bears interest rate ranging from 5.50%-5.80% per annum, repayable within 1 year.

#### 41 Placement from other financial institutions

|  | <i>Note</i> | <i>As at 31 December</i> |             |
|--|-------------|--------------------------|-------------|
|  |             | <u>2016</u>              | <u>2015</u> |
| Placements from China Securities Finance Corporation Limited | (1)         | 7,500,000                | -           |
| Interbank lending  | (2)         | 1,607,560                | 500,000     |
| Total  |             | 9,107,560                | 500,000     |

- (1) As at 31 December 2016, the placements from China Securities Finance Corporation Limited bears interest rate ranging from 3.00%–3.20% per annum, with original maturities within 91 and 182 days.
- (2) As at 31 December 2016, the interbank lending is unsecured and bears interest rate ranging from 1.50%–3.85% per annum, with maturity ranging from 5 days to 38 days. As at 31 December 2015, the interbank lending is unsecured and bears interest rate at 2.74% per annum, with maturity within 5 days.

#### 42 Financial liabilities at fair value through profit or loss

|   | <i>As at 31 December</i> |             |
|---|--------------------------|-------------|
|   | <u>2016</u>              | <u>2015</u> |
| Held for trading                                |                          |             |
| – Debt securities                               | 394,866                  | -           |
| Designated at fair value through profit or loss |                          |             |
| – Structured entities                           | 202,034                  | -           |
| Total   | 596,900                  | -           |

The financial liabilities designated at fair value through profit or loss are resulted from consolidation of structured entities, as the Group has the obligation to pay other investors upon maturity or redemption dates of the structured entities based on net book value and related terms of those consolidated structured entities.

#### 43 Accounts payable to brokerage clients

|   | <i>As at 31 December</i> |             |
|---|--------------------------|-------------|
|   | <u>2016</u>              | <u>2015</u> |
| Clients' deposits for margin financing and securities lending | 9,948,989                | 10,500,595  |
| Clients' deposits for other brokerage business                | 45,394,338               | 60,601,449  |
| Total   | 55,343,327               | 71,102,044  |

Accounts payable to brokerage clients represent the monies received from and repayable to brokerage clients, which are mainly held at banks and at clearing houses by the Group. Accounts payable to securities brokerage clients are interest bearing at the prevailing interest rate.

The majority of the accounts payable balances are repayable on demand except where certain accounts payable to brokerage clients represent monies received from clients for their margin financing activities under normal course of business, such as margin financing and securities lending. Only the excess amounts over the required margin deposits and cash collateral stipulated are repayable on demand.

No aging analysis is disclosed as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of these businesses.

#### 44 Employee benefits payable

##### *Current*

|                                 | <i>For the year ended 31 December 2016</i> |                             |                      |                          |
|---------------------------------|--|-----------------------------|----------------------|--------------------------|
|                                 | <i>As at 1 January</i>                     | <i>Accrued for the year</i> | <i>Payments made</i> | <i>As at 31 December</i> |
| Salaries, bonuses and allowance | 2,595,130                                  | 2,644,299                   | (3,027,250)          | 2,212,179                |
| Contribution to pension schemes | 132  | 160,914                     | (155,541)            | 5,505                    |
| Other social welfare            | 47,499                                     | 232,689                     | (228,991)            | 51,197                   |
| Total                           | 2,642,761                                  | 3,037,902                   | (3,411,782)          | 2,268,881                |



#### 44 Employee benefits payable (continued)

|                                 | <i>For the year ended 31 December 2015</i> |  |                                 |                          |                              |
|---------------------------------|--|--|---------------------------------|--------------------------|------------------------------|
|                                 | <i>As at 1<br/>January</i>                 | <i>Additions<br/>through<br/>business<br/>combinations</i> | <i>Accrued<br/>for the year</i> | <i>Payments<br/>made</i> | <i>As at 31<br/>December</i> |
| Salaries, bonuses and allowance | 860,061                                    | 28,561   | 3,757,769                       | (2,051,261)              | 2,595,130                    |
| Contribution to pension schemes | (591)                                      | 72   | 123,014                         | (122,363)                | 132                          |
| Other social welfare            | 37,559                                     | 70   | 228,917                         | (219,047)                | 47,499                       |
| <b>Total</b>                    | <b>897,029</b>                             | <b>28,703</b>  | <b>4,109,700</b>                | <b>(2,392,671)</b>       | <b>2,642,761</b>             |

#### 45 Other payables and accruals

|  | <i>As at 31 December</i> |                  |
|--|--------------------------|------------------|
|  | <u>2016</u>              | <u>2015</u>      |
| Payables to interest holders of consolidated structured entities | 2,633,685                | 5,037,671        |
| Interest payable   | 856,893                  | 1,520,308        |
| Settlement payables  | 600,156                  | 586,202          |
| Other tax payable  | 474,771                  | 432,787          |
| Distribution expenses payable                                    | 204,714                  | 133,018          |
| H share IPO expenses payable                                     | 141,619                  | -                |
| Payable for derivative business                                  | 78,307                   | 992,278          |
| Risk reserve for futures brokerage business                      | 75,006                   | 64,079           |
| Accrued expenses   | 65,717                   | 54,235           |
| Payable on behalf of staff                                       | 52,768                   | 41,267           |
| Deferred revenue   | 50,577                   | 81,211           |
| Payable to underwriters for International Offering commission    | 42,092                   | -                |
| Commission payables  | 40,614                   | 42,059           |
| Payable to the securities and futures investor protection fund   | 32,810                   | 61,096           |
| Payable to custodian   | 29,635                   | 62,622           |
| Temporary receipts   | 25,288                   | 20,608           |
| Account executive commission payable                             | 12,719                   | 25,103           |
| Finance lease deposit  | -                        | 27,500           |
| Others <sup>(1)</sup>  | 65,065                   | 165,376          |
| <b>Total</b>   | <b>5,482,436</b>         | <b>9,347,420</b> |

(1) The balance of others mainly represents sundry payables arising from normal course of business.

**46 Financial assets sold under repurchase agreements**

**(a) Analysed by collateral type:**

*Current*

|  | <i>As at 31 December</i> |                   |
|--|--------------------------|-------------------|
|  | <i>2016</i>              | <i>2015</i>       |
| Debt securities                                      | 6,156,951                | 4,717,063         |
| Margin loans receivable backed repurchase agreements | 2,350,728                | 15,789,439        |
| Securities-backed lending repurchase agreements      | -                        | 40,000            |
| Others   | 9,222                    | 8,939             |
| <b>Total</b>   | <b>8,516,901</b>         | <b>20,555,441</b> |

*Non-current*

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <i>2016</i>              | <i>2015</i> |
| Margin loans receivable backed repurchase agreements | -                        | 230,000     |

**(b) Analysed by market :**

*Current*

|                   | <i>As at 31 December</i> |                   |
|-------------------|--------------------------|-------------------|
|                   | <i>2016</i>              | <i>2015</i>       |
| Inter-bank market | 5,693,486                | 3,266,064         |
| Stock exchanges   | 463,465                  | 1,450,999         |
| OTC market        | 2,359,950                | 15,838,378        |
| <b>Total</b>      | <b>8,516,901</b>         | <b>20,555,441</b> |

*Non-current*

|            | <i>As at 31 December</i> |             |
|------------|--------------------------|-------------|
|            | <i>2016</i>              | <i>2015</i> |
| OTC market | -                        | 230,000     |

## 47 Long-term bonds

As at 31 December 2016

| <u>Name</u>                                     | <u>Par value</u><br>Original<br>currency | <u>Issuance</u> | <u>Due date</u><br><u>amount</u> | <u>Issue</u><br>Original<br>currency | <u>Nominal</u><br><u>interest rate</u> |
|---|--|-----------------|----------------------------------|--------------------------------------|--|
| 15 EVERBRIGHT 01 <sup>(2)</sup>                 | 4,000,000                                | 29/01/2015      | 29/01/2018                       | 3,976,000                            | 5.85%                                  |
| 15 EVERBRIGHT 04 <sup>(5)</sup>                 | 6,000,000                                | 27/04/2015      | 27/04/2020                       | 5,982,000                            | 5.70%                                  |
| 15 EVERBRIGHT 06 <sup>(7)</sup>                 | 6,000,000                                | 26/05/2015      | 26/05/2018                       | 5,978,000                            | 5.30%                                  |
| EVBSF Corp <sup>(8)</sup>                       | USD450,000                               | 27/08/2015      | 27/08/2018                       | USD 446,191                          | 2.88%                                  |
| 16 EVERBRIGHT 02 <sup>(10)</sup>                | 2,500,000                                | 27/04/2016      | 27/10/2018                       | 2,496,875                            | 3.66%                                  |
| 16 EVERBRIGHT 04 <sup>(12)</sup>                | 3,000,000                                | 26/05/2016      | 26/11/2018                       | 2,997,500                            | 3.59%                                  |
| 16 EVERBRIGHT 05 <sup>(13)</sup>                | 1,000,000                                | 24/10/2016      | 24/10/2018                       | 998,750                              | 3.13%                                  |
| 16 EVERBRIGHT 06 <sup>(14)</sup>                | 3,000,000                                | 24/10/2016      | 24/10/2019                       | 2,996,250                            | 3.20%                                  |
| Dingfu No.9 Structured<br>Notes <sup>(15)</sup> | 50,000                                   | 09/09/2016      | 09/09/2018                       | 50,000                               | 3.70%                                  |

| <u>Name</u>                                     | <u>Book value</u><br><u>as at 1</u><br><u>January</u><br><u>2016</u> | <u>Increase</u>   | <u>Amount of</u><br><u>amortisation</u> | <u>Decrease</u>     | <u>Foreign</u><br><u>exchange</u><br><u>impact</u> | <u>Book value</u><br><u>as at 31</u><br><u>December</u><br><u>2016</u> |
|---|--|-------------------|---|---------------------|--|--|
| 14 EVERBRIGHT 01 <sup>(1)</sup>                 | 6,993,510  | -                 | 6,490                                   | (7,000,000)         | -  | -  |
| 15 EVERBRIGHT 01 <sup>(2)</sup>                 | 3,982,968  | -                 | 7,956                                   | -                   | -  | 3,990,924  |
| 15 EVERBRIGHT 03 <sup>(4)</sup>                 | 5,997,067  | -                 | 2,933                                   | (6,000,000)         | -  | -  |
| 15 EVERBRIGHT 04 <sup>(5)</sup>                 | 5,985,839  | -                 | 5,888                                   | -                   | -  | 5,991,727  |
| 15 EVERBRIGHT 05 <sup>(6)</sup>                 | 5,995,600  | -                 | 4,400                                   | (6,000,000)         | -  | -  |
| 15 EVERBRIGHT 06 <sup>(7)</sup>                 | 5,984,424  | -                 | 11,059                                  | -                   | -  | 5,995,483  |
| EVBSF Corp <sup>(8)</sup>                       | 2,900,124  | -                 | 9,475                                   | -                   | 196,868  | 3,106,467  |
| 16 EVERBRIGHT 01 <sup>(9)</sup>                 | -  | 1,498,125         | 1,875                                   | (1,500,000)         | -  | -  |
| 16 EVERBRIGHT 02 <sup>(10)</sup>                | -  | 2,496,875         | 1,399                                   | -                   | -  | 2,498,274  |
| 16 EVERBRIGHT 03 <sup>(11)</sup>                | -  | 2,997,500         | 2,500                                   | (3,000,000)         | -  | -  |
| 16 EVERBRIGHT 04 <sup>(12)</sup>                | -  | 2,997,500         | 987                                     | -                   | -  | 2,998,487  |
| 16 EVERBRIGHT 05 <sup>(13)</sup>                | -  | 998,750           | 118                                     | -                   | -  | 998,868  |
| 16 EVERBRIGHT 06 <sup>(14)</sup>                | -  | 2,996,250         | 250                                     | -                   | -  | 2,996,500  |
| Dingfu No.9 Structured<br>Notes <sup>(15)</sup> | -  | 50,000            | -                                       | -                   | -  | 50,000   |
| <b>Total</b>                                    | <b>37,839,532</b>  | <b>14,035,000</b> | <b>55,330</b>                           | <b>(23,500,000)</b> | <b>196,868</b>                                     | <b>28,626,730</b>  |

## 47 Long-term bonds (continued)

As at 31 December 2015

| <u>Name</u>                     | <u>Par value</u>  | <u>Issuance</u> | <u>Due date</u><br><u>amount</u> | <u>Issue</u><br>Original<br>currency | <u>Nominal</u><br><u>interest rate</u> |
|---------------------------------|-------------------|-----------------|----------------------------------|--------------------------------------|--|
|                                 | Original currency |                 |                                  |                                      |  |
| 14 EVERBRIGHT 01 <sup>(1)</sup> | 7,000,000         | 11/06/2014      | 11/06/2016                       | 6,972,000                            | 5.99%                                  |
| 15 EVERBRIGHT 01 <sup>(2)</sup> | 4,000,000         | 29/01/2015      | 29/01/2018                       | 3,976,000                            | 5.85%                                  |
| 15 EVERBRIGHT 02 <sup>(3)</sup> | 2,000,000         | 29/01/2015      | 29/07/2017                       | 1,995,000                            | 5.30%                                  |
| 15 EVERBRIGHT 03 <sup>(4)</sup> | 6,000,000         | 30/03/2015      | 30/03/2017                       | 5,988,000                            | 5.40%                                  |
| 15 EVERBRIGHT 04 <sup>(5)</sup> | 6,000,000         | 27/04/2015      | 27/04/2020                       | 5,982,000                            | 5.70%                                  |
| 15 EVERBRIGHT 05 <sup>(6)</sup> | 6,000,000         | 26/05/2015      | 26/05/2017                       | 5,989,000                            | 4.80%                                  |
| 15 EVERBRIGHT 06 <sup>(7)</sup> | 6,000,000         | 26/05/2015      | 26/05/2018                       | 5,978,800                            | 5.30%                                  |
| EVBSF Corp <sup>(8)</sup>       | USD450,000        | 27/08/2015      | 27/08/2018                       | USD446,191                           | 2.875%                                 |

| <u>Name</u>                     | <u>Book value</u><br><u>as at 1</u><br><u>January</u><br><u>2015</u> | <u>Increase</u>   | <u>Amount of</u><br><u>amortisation</u> | <u>Decrease</u>    | <u>Foreign</u><br><u>exchange</u><br><u>impact</u> | <u>Book value</u><br><u>as at 31</u><br><u>December</u><br><u>2015</u> |
|---------------------------------|--|-------------------|---|--------------------|--|--|
| 14 EVERBRIGHT 01 <sup>(1)</sup> | 6,979,468  | -                 | 14,042                                  | -                  | -  | 6,993,510  |
| 15 EVERBRIGHT 01 <sup>(2)</sup> | -  | 3,976,000         | 6,968                                   | -                  | -  | 3,982,968  |
| 15 EVERBRIGHT 02 <sup>(3)</sup> | -  | 1,995,000         | 1,391                                   | (1,996,391)        | -  | -  |
| 15 EVERBRIGHT 03 <sup>(4)</sup> | -  | 5,988,000         | 9,067                                   | -                  | -  | 5,997,067  |
| 15 EVERBRIGHT 04 <sup>(5)</sup> | -  | 5,982,000         | 3,839                                   | -                  | -  | 5,985,839  |
| 15 EVERBRIGHT 05 <sup>(6)</sup> | -  | 5,989,000         | 6,600                                   | -                  | -  | 5,995,600  |
| 15 EVERBRIGHT 06 <sup>(7)</sup> | -  | 5,978,000         | 6,424                                   | -                  | -  | 5,984,424  |
| EVBSF Corp <sup>(8)</sup>       | -  | 2,859,412         | 3,036                                   | -                  | 37,676   | 2,900,124  |
| Total                           | <u>6,979,468</u>   | <u>32,767,412</u> | <u>51,367</u>                           | <u>(1,996,391)</u> | <u>37,676</u>                                      | <u>37,839,532</u>  |

|                                     | <u>Book value as at 31 December</u> |                   |
|-------------------------------------|-------------------------------------|-------------------|
|                                     | <u>2016</u>                         | <u>2015</u>       |
| Long-term bonds due within one year | 11,492,244                          | 18,986,177        |
| Long-term bonds due after one year  | 17,134,486                          | 18,853,355        |
| Total                               | <u>28,626,730</u>                   | <u>37,839,532</u> |

As approved by the Board and related regulatory authorities, the Group has issued the following subordinated bonds:

- (1) 2-year subordinated bond amounting to RMB7 billion on 11 June 2014. 14 EVERBRIGHT 01 was repaid on 11 June 2016.
- (2) 3-year subordinated bond amounting to RMB4 billion on 29 January 2015.
- (3) 30-month subordinated bond amounting to RMB2 billion on 29 January 2015 with early redemption right on 29 July 2015. 15 EVERBRIGHT 02 was early redeemed on 29 July 2015.

## **47 Long-term bonds (continued)**

- (4) 2-year subordinated bond amounting to RMB6 billion on 30 March 2015 with early redemption right on 30 March 2016. 15 EVERBRIGHT 03 was early redeemed on 30 March 2016.
- (5) 5-year subordinated bond amounting to RMB6 billion on 27 April 2015 with early redemption right on 27 April 2018. If the Group doesn't execute the redemption right, the coupon rate will increase by 300 basis points.
- (6) 2-year subordinated bond amounting to RMB6 billion on 26 May 2015 with early redemption right on 26 May 2016. 15 EVERBRIGHT 05 was early redeemed on 26 May 2016.
- (7) 3-year subordinated bond amounting to RMB6 billion on 26 May 2015 with early redemption right on 26 May 2017. The Company will redeem the bond on 26 May 2017. If the Group doesn't execute the redemption right, the coupon rate will increase by 300 basis points.
- (8) Double Charm Limited, the Company's indirectly-owned subsidiary registered in British Virgin Islands, has issued a 3-year redeemable bond with a par value of USD0.45 billion in August 2015.
- (9) 18-month corporate bond amounting to RMB1.5 billion on 27 April 2016 with early redemption right on 27 October 2016. 16 EVERBRIGHT 01 was early redeemed on 27 October 2016.
- (10) 30-month corporate bond amounting to RMB2.5 billion on 27 April 2016 with early redemption right on 27 October 2017. The Company will redeem the bond on 27 October 2017. If the Group doesn't execute the redemption right, the coupon rate will increase by 300 basis points.
- (11) 18-month corporate bond amounting to RMB3 billion on 26 May 2016 with early redemption right on 26 November 2016. 16 EVERBRIGHT 03 was early redeemed on 26 November 2016.
- (12) 30-month corporate bond amounting to RMB3 billion on 26 May 2016 with early redemption right on 26 November 2017. The Company will redeem the bond on 26 November 2017. If the Group doesn't execute the redemption right, the coupon rate will increase by 300 basis points.
- (13) 2-year corporate bond amounting to RMB1 billion on 24 October 2016.
- (14) 3-year corporate bond amounting to RMB3 billion on 24 October 2016.
- (15) 2-year structured note amounting to RMB50 million on 9 September 2016.

**48 Other non-current liabilities**

|  | <i>As at 31 December</i> |                  |
|--|--------------------------|------------------|
|  | <i>2016</i>              | <i>2015</i>      |
| Deposits for finance lease                                 | 216,131                  | 184,030          |
| Club membership and trading payable                        | 16,827                   | 15,759           |
| Put right liabilities arising from business combination(1) | 1,886,522                | 1,644,562        |
| Deferred revenue   | 46,851                   | -                |
| Others   | 15,412                   | 9,630            |
| <b>Total</b>   | <b>2,181,743</b>         | <b>1,853,981</b> |

(1) It is related to the acquisition of Sun Hung Kai Financial Group Limited in June 2015.

**49 Share capital**

All shares issued by the Company are fully paid ordinary shares. The par value per share is RMB1. The Company's number of shares issued and their nominal value are as follows:

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <i>2016</i>              | <i>2015</i> |
| Number of shares registered, issued and fully paid (at RMB1 per share) | 4,610,788                | 3,906,699   |

On 18 August 2016, the Company completed its initial public offering of 680,000,000 H shares on the Main Board of the Hong Kong Stock Exchange. On 19 September 2016, the Company exercised the over-allotment option and issued 24,088,800 H shares.

## **50 Reserves and retained profits**

### **(a) Capital reserve**

Capital reserve mainly includes share premium arising from the issuance of new shares at prices in excess of face value and the difference between the considerations of acquisition of equity interests from non-controlling shareholders and the carrying amount of the proportionate net assets.

### **(b) Surplus reserve**

Pursuant to the Company Law of the PRC, the Company is required to appropriate 10% of its net profit to the statutory surplus reserve.

Subject to the approval of the shareholders, the statutory reserve may be used to offset accumulated losses, or converted into capital of the company provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital immediately before the capitalisation.

### **(c) General reserve**

General reserve includes general risk reserve and transaction risk reserve.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007, the Company appropriates 10% of its annual net profit to the general risk reserve. Several subsidiaries of the Company are also subject to relevant general risk reserve requirement according to CSRC regulations.

In accordance with the requirements of the CSRC Circular regarding the Annual Reporting of Securities Companies in 2007 (Zhengjian Jigou Zi [2007] No. 320) issued on 18 December 2007 and in compliance with the Securities Law, for the purpose of covering securities trading losses, the Company appropriates 10% from its annual net profit to the transaction risk reserve.

### **(d) Fair value reserve**

The fair value reserve comprises the cumulative net changes in fair values of available-for-sale financial assets until the assets are derecognised or impaired.

### **(e) Translation reserve**

The translation reserve mainly comprises foreign currency differences arising from the translation of the financial statements of foreign currencies.

### **(f) Retained profits**

As at 31 December 2016 and 2015, the consolidated retained profits attributable to the Company included an appropriation of RMB329 million and RMB257 million to surplus reserve made by the subsidiaries respectively.

## 50 Reserves and retained profits (continued)

### (g) Other comprehensive income accumulated in reserves, net of tax

|   | <i>As at 31 December 2016</i> |                                |                    |               |                  |
|---|-------------------------------|--------------------------------|--------------------|---------------|------------------|
|   | <i>Fair value<br/>reserve</i> | <i>Translation<br/>reserve</i> | <i>Sub-total</i>   | <i>NCI</i>    | <i>Total</i>     |
| Available-for-sale financial assets   |                               |                                |                    |               |                  |
| – Net changes in fair value   | (827,586)                     | -                              | (827,586)          | (2,549)       | (830,135)        |
| – Reclassified to profit or loss  | (118,711)                     | -                              | (118,711)          | 867           | (117,844)        |
| Share of other comprehensive income of associates                                 | (7,262)                       | 632                            | (6,630)            | -             | (6,630)          |
| Exchange differences on translation of financial statements in foreign currencies | -                             | (88,461)                       | (88,461)           | 76,453        | (12,008)         |
| <b>Total</b>  | <b>(953,559)</b>              | <b>(87,829)</b>                | <b>(1,041,388)</b> | <b>74,771</b> | <b>(966,617)</b> |

|   | <i>As at 31 December 2015</i> |                                |                  |               |                |
|---|-------------------------------|--------------------------------|------------------|---------------|----------------|
|   | <i>Fair value<br/>reserve</i> | <i>Translation<br/>reserve</i> | <i>Sub-total</i> | <i>NCI</i>    | <i>Total</i>   |
| Available-for-sale financial assets   |                               |                                |                  |               |                |
| – Net changes in fair value   | 1,716,435                     | -                              | 1,716,435        | 3,225         | 1,719,660      |
| – Reclassified to profit or loss  | (779,619)                     | -                              | (779,619)        | (3,644)       | (783,263)      |
| Share of other comprehensive income of associates                                 | (3,399)                       | 1,223                          | (2,176)          | -             | (2,176)        |
| Exchange differences on translation of financial statements in foreign currencies | -                             | (62,846)                       | (62,846)         | 90,473        | 27,627         |
| <b>Total</b>  | <b>933,417</b>                | <b>(61,623)</b>                | <b>871,794</b>   | <b>90,054</b> | <b>961,848</b> |



## 51 Transferred financial assets

In the normal course of business, the Group enters into certain transactions in which it transfers recognised financial assets to third parties or customers. If these transfers qualify for derecognition, the Group derecognises all or part of the financial assets where appropriate. If the Group has retained substantially all the risks and rewards on these assets, the Group continues to recognise these assets.

### (a) Repurchase agreements

Transferred financial assets that do not qualify for derecognition include debt securities held by counterparties as collateral under repurchase agreements. The Group transfers the contractual rights to receive the cash flows of these securities, but has an obligation to repurchase them at the agreed date and price. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. In addition, it is recognised as financial assets sold under repurchase agreements.

Transferred financial assets that do not qualify for derecognition also include margin accounts receivable and securities-backed lending under repurchase agreements. The Group retains the contractual rights to receive the cash flows of these financial assets, but assumes a contractual obligation to pay the cash flows to one or more recipients according to relevant agreements. The Group has determined that it retains substantially all the risks and rewards of these financial assets and therefore has not derecognised them. In addition, it is recognised as financial assets sold under repurchase agreements.

### (b) Securities lending

Transferred financial assets that do not qualify for derecognition include securities lent to customers for securities lending business, for which the customers provide the Group with collaterals that could fully cover the credit risk exposure of the securities lent. The customers have an obligation to return the securities according to the contracts. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised.

|                       | <i>As at 31 December</i>                     |   |  |   |
|-----------------------|--|---|--|---|
|                       | <i>2016</i>                                  |   | <i>2015</i>                                  |   |
|                       | <i>Carrying amount of transferred assets</i> | <i>Carrying amount of related liabilities</i> | <i>Carrying amount of transferred assets</i> | <i>Carrying amount of related liabilities</i> |
| Repurchase agreements | 4,018,587                                    | (3,676,870)                                   | 19,222,101                                   | (16,589,485)                                  |
| Securities lending    | 589,219                                      | -   | 474  | -   |

## 52 Commitments

### (a) Capital commitments

|                                 | <i>As at 31 December</i> |             |
|---------------------------------|--------------------------|-------------|
|                                 | <i>2016</i>              | <i>2015</i> |
| Contracted but not provided for | 437,855                  | 63,975      |
|                                 | 437,855                  | 63,975      |

The Group's capital commitments were mainly for the proposed investments of unlisted equity.

### (b) Operating lease commitments

As at 31 December 2015 and 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

|                           | <i>As at 31 December</i> |             |
|---------------------------|--------------------------|-------------|
|                           | <i>2016</i>              | <i>2015</i> |
| Within 1 year (inclusive) | 143,770                  | 118,743     |
| 1-2 years (inclusive)     | 90,644                   | 86,488      |
| 2-3 years (inclusive)     | 57,433                   | 60,117      |
| After 3 years             | 53,586                   | 63,875      |
|                           | 345,433                  | 329,223     |

## 53 Interests in structured entities

### (a) Interests in structured entities consolidated by the Group

The Group had consolidated certain structured entities, mainly wealth management products. For those structured entities where the Group is involved as manager or as investor, the Group assesses the controlling power according to accounting policies stated in note 2(5)(i).

As at 31 December 2015 and 2016 the net assets of the consolidated asset management products are RMB10,333,489 thousand and RMB 7,880,337 thousand respectively, and the carrying amount of interests held by the Group in the consolidated structured entities are RMB5,295,818 thousand and RMB 5,044,618 thousand respectively.

Interests held by other investors in these consolidated structured entities were classified as fair value changes, net investment gains, interest income, or interest expenses of the consolidated income statements, financial liabilities at fair value through profit or loss, and other payables and accruals of the consolidated statements of financial position.

At the end of the reporting period, the Group reassessed the control of structured entities and decided whether the Group is still a principal.

## 53 Interests in structured entities (continued)

### (b) Structured entities sponsored by third party institutions which the Group does not consolidate but holds an interest in

The types of structured entities that the Group does not consolidate but in which it holds an interest include funds and wealth management products issued by banks or other financial institutions. The nature and purpose of these structured entities are to generate fees from managing assets on behalf of investors. These vehicles are financed through the issued units to investors.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by third party institutions as at the end of the reporting period, which are listed as below:

|                                       | <i>As at 31 December 2016</i>              |  |              |
|---------------------------------------|--|--|--------------|
|                                       | <i>Available-for-sale financial assets</i> | <i>Financial assets at fair value through profit or loss</i> | <i>Total</i> |
| Funds                                 | 4,422                                      | 5,454,388  | 5,458,810    |
| Wealth management products and others | 5,530,255                                  | 4,730,139  | 10,260,394   |
| Total                                 | 5,534,677                                  | 10,184,527   | 15,719,204   |

|                                       | <i>As at 31 December 2015</i>              |  |              |
|---------------------------------------|--|--|--------------|
|                                       | <i>Available-for-sale financial assets</i> | <i>Financial assets at fair value through profit or loss</i> | <i>Total</i> |
| Funds                                 | 652,176                                    | 5,261,305  | 5,913,481    |
| Wealth management products and others | 6,398,486                                  | 1,097,128  | 7,495,614    |
| Total                                 | 7,050,662                                  | 6,358,433  | 13,409,095   |

## 53 Interests in structured entities (continued)

### (c) Structured entities sponsored by the Group which the Group does not consolidate

The types of structured entities sponsored by the Group which the Group does not consolidate but in which it holds an interest include funds and asset management products.

The carrying amount of the related accounts in the consolidated statements of financial position is equal to the maximum exposure to loss of interests held by the Group in the unconsolidated structured entities sponsored by the Group as at the end of the reporting period, which are listed as below:

|                                       | <u>As at 31 December 2016</u>              |  |                  |
|---------------------------------------|--|--|------------------|
|                                       | <i>Available-for-sale financial assets</i> | <i>Financial assets at fair value through profit or loss</i> | <i>Total</i>     |
| Funds                                 | 229,581                                    | 1,300,000  | 1,529,581        |
| Wealth management products and others | 1,034,264                                  | 1,702,327  | 2,736,591        |
| <b>Total</b>                          | <u>1,263,845</u>                           | <u>3,002,327</u>   | <u>4,266,172</u> |
|                                       | <u>As at 31 December 2015</u>              |  |                  |
|                                       | <i>Available-for-sale financial assets</i> | <i>Financial assets at fair value through profit or loss</i> | <i>Total</i>     |
| Funds                                 | 121,838                                    | 2,350,000  | 2,471,838        |
| Wealth management products and others | 1,127,749                                  | 1,126,209  | 2,253,958        |
| <b>Total</b>                          | <u>1,249,587</u>                           | <u>3,476,209</u>   | <u>4,725,796</u> |

As at 31 December 2015 and 2016, the net assets of these unconsolidated structured entities in which the Group acted as asset manager but did not have any interests amounted to RMB 247,643,584 thousand and RMB 360,262,904 thousand respectively.

During the years ended 31 December 2015 and 2016, the Group recognised the income from asset management business of RMB 1,393,135 thousand and RMB 1,435,490 thousand respectively. As at 31 December 2015 and 2016, the corresponding remuneration receivables totalled RMB 117,593 thousand and RMB 131,531 thousand respectively.

## 54 Contingencies

The Company was sued as a result of the “8•16 Event” with a total number of 502 lawsuits and total claimed amount of RMB 68,729 thousand. As at 31 December 2016, 475 lawsuits were closed with total compensation amounting to RMB 40,400 thousand. Remaining 27 lawsuits with total claimed amount of RMB 5,515 thousand were pending for court judgment, among which 25 cases with total claimed amount of RMB 5,251 thousand had been first sentenced and appealed by the plaintiffs to a higher court and remaining 2 cases with total claimed amount of 264 thousand were pending for first court trial. As at the reporting date, 14 cases of the aforementioned 27 lawsuits were closed with total compensation payable of RMB 115 thousand. The final outcomes of the remaining 13 cases are uncertain and total claimed amount is RMB 2,614 thousand.

On 7 June 2016, the Second Intermediate People’s Court of Shanghai issued a notice of appearance to EBSAM, a wholly owned subsidiary of the Company, pursuant to which Xiamen International Bank Co., Ltd. Shanghai Branch (“Xiamen International Bank Shanghai”) filed a claim against EBSAM in respect of a contractual dispute on asset management services. In November 2012, the plaintiff entrusted RMB150 million to a 3-year Targeted Asset Management (“TAM”) scheme established and managed by EBSAM. As approved by the plaintiff, the TAM scheme invested the entrusted assets in a trust plan managed by a Trust Company, which had a duration of 365 days and an expected annual return of 6.2%. The plaintiff appealed EBSAM to return the entrusted assets and pay expected returns and appealed the third party bank, which issued a guarantee letter to the plaintiff, to undertake the joint responsibility. The plaintiff alleged that EBSAM breached its fiduciary duty of care in managing the entrusted assets under the TAM scheme, which caused loss of the entrusted assets and expected returns. On 8 July 2016, EBSAM appointed a lawyer to file a counterclaim. EBSAM requested Xiamen International Bank Shanghai to receive the entrusted assets and compensate for any loss due to Xiamen International Bank Shanghai not receiving the entrusted assets in time. The counterclaim has already been accepted by an intermediate court in Shanghai and the first court trial was held on 23 February 2017. As at the reporting date, the final outcome of the lawsuit is uncertain. The Company cannot reasonably estimate any provision for the lawsuit.

As at 31 December 2016, the Company was being sued as a result of a margin trading dispute with a total claimed amount of RMB39,390 thousand. As at the reporting date, the Company won the first-sentence court judgment, and is pending for the final court judgment.

Except for the aforementioned case, as at 31 December 2016, the Group was not involved in any material legal, arbitration or administrative proceedings that if adversely determined, the Group expect would materially adversely affect their financial position or results of operations.

## 55 Related party relationships and transactions

### (a) Relationship of related parties

#### (i) Major shareholders

Major shareholders include shareholders of the Company with 5% or above ownership. Share percentage in the Company:

|                                | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------|-------------|
| China Everbright Group Company | 25.15%      | 29.68%      |
| China Everbright Limited       | 24.71%      | 29.16%      |

#### (ii) Associates and joint ventures of the Company

The detailed information of the Company's associates and joint ventures is set out in Note 22.

#### (iii) Other related parties

Other related parties include subsidiaries of major shareholders, minority shareholders of major subsidiaries of the Company and individuals which include members of the Board of Directors, the Board of Supervisors and senior management, and close family members of such individuals.

### (b) Related parties transactions and balances

#### (i) Transactions between the Group and major shareholders:

|   | <u>As at 31 December</u>      |       |
|---|-------------------------------|-------|
|   | 2016                          | 2015  |
| Balances at the end of the year:                        |                               |       |
| Accounts receivable                                     | 447                           | 10    |
| Other payables and accruals                             | 44                            | 498   |
|   | <u>Year ended 31 December</u> |       |
|   | 2016                          | 2015  |
| Transactions during the year:                           |                               |       |
| Purchase of a subsidiary from non-controlling interests | 794,843                       | -     |
| Fee and commission income                               | 62,557                        | 500   |
| Other income and gains                                  | 2,739                         | 1,768 |
| Fee and commission expense                              | 260                           | 247   |

**55 Related party relationships and transactions (continued)**

**(b) Related parties transactions and balances (continued)**

**(ii) Transactions between the Group with associates, joint ventures and other related parties:**

|   | <i>As at 31 December</i> |             |
|---|--------------------------|-------------|
|   | <i>2016</i>              | <i>2015</i> |
| Balances at the end of the year:                  |                          |             |
| Cash and bank balances                            | 7,055,502                | 9,068,051   |
| Other non-current liabilities                     | 1,886,522                | 1,644,562   |
| Loans and borrowings                              | 915,669                  | -           |
| Other payables and accruals                       | 148,499                  | 174,825     |
| Other receivables and prepayments                 | 65,969                   | 7,441       |
| Financial assets sold under repurchase agreements | 9,221                    | 8,939       |
| Accounts receivable                               | 4,666                    | 7,679       |
| Refundable deposits                               | -                        | 496,000     |
| Derivative financial assets                       | -                        | 13,657      |

|   | <i>Year ended 31 December</i> |             |
|---|-------------------------------|-------------|
|   | <i>2016</i>                   | <i>2015</i> |
| Transactions during the year:   |                               |             |
| Transaction amount for financial assets sold under repurchase agreement | 22,179,130                    | 48,411,839  |
| Loans borrowed  | 915,669                       | 1,266,363   |
| Interest income   | 214,943                       | 329,412     |
| Fee and commission income   | 118,524                       | 222,296     |
| Other operating expenses  | 74,136                        | 107,811     |
| Fee and commission expenses   | 62,149                        | 17,082      |
| Net investment gains  | 26,089                        | 17,537      |
| Disposal of financial assets at fair value through profit or loss       | 17,919                        | 143,915     |
| Interest expenses   | 9,841                         | 14,483      |
| Other income and gains  | 9,521                         | 3,049       |
| Inter-bank funds borrowed   | -                             | 5,800,000   |
| Investment in financial assets at fair value through profit or loss     | -                             | 147,999     |

**55 Related party relationships and transactions (continued)**

**(c) Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and supervisors as disclosed in Note 15, is as follows:

|  | <i>Year ended 31 December</i> |             |
|--|-------------------------------|-------------|
|  | <i>2016</i>                   | <i>2015</i> |
| Short-term employee benefits             |                               |             |
| – Fees, salaries, allowances and bonuses | 35,599                        | 38,265      |
| Post-employment benefits                 |                               |             |
| – Contributions to pension scheme        | 604                           | 565         |
| Total                                    | 36,203                        | 38,830      |

Total remuneration is included in “staff costs” (see Note 10).

**(d) Applicability of the Listing Rules relating to connected transactions**

The related party transactions set out in Note 55(b) which constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules are exempt from the disclosure requirements in Chapter 14A of the Listing Rules as they are below the de minimis threshold under Rule 14A.76(1).



## 56 Segment reporting

The Management commenced to allocate resources and assess the segment performance based on the grouping of operating segments. Accordingly, the reporting period' segment reporting presentation has been presented in accordance with the approach adopted by the Management in the financial statements.

- Brokerage and wealth management segment earn fees and commissions from providing brokerage and investment advisory services to retail clients, interest income from holding cash on behalf of clients, and fees from selling financial products developed by the Group and other financial institutions;
- Credit business segment earn interest income from margin financing and securities lending, reverse repurchase transactions and other credit granting business, as well as income from the financial lease business;
- Institutional securities services segment earn fees and commissions from underwriting and financial advisory services, investment gains and interest income from market-making and proprietary activities, as well as fees and commission from providing investment research and prime brokerage services to institutional clients;
- Investment management segment earn management and advisory fees from providing asset management, fund management and private equity investment management services to clients, as well as investment gains from the Group's private equity and alternative investments;
- Overseas business segment earn fees and commission, advisory fees, interest income and investment gains from overseas businesses; and
- Other segments include other operations of head office, including interest income and interest expense incurred for general working capital purpose.

## 56 Segment reporting (continued)

### (a) Business segments

#### For the year ended 31 December 2016

|  | <i>Brokerage<br/>and wealth<br/>management</i> | <i>Credit<br/>business</i> | <i>Institutional<br/>client<br/>services</i> | <i>Investment<br/>management</i> | <i>Overseas<br/>business</i> | <i>Others</i> | <i>Segment<br/>total</i> |
|--|--|----------------------------|--|----------------------------------|------------------------------|---------------|--------------------------|
| Fee and commission income                        |  |                            |  |                                  |                              |               |                          |
| — External                                       | 3,204,457                                      | 80,791                     | 1,893,889                                    | 1,432,737                        | 739,678                      | 6,918         | 7,358,470                |
| — Inter-segment                                  | 1,698  | -                          | 13,158                                       | -                                | 57,404                       | -             | 72,260                   |
| Interest income                                  |  |                            |  |                                  |                              |               |                          |
| — External                                       | 974,807  | 2,913,003                  | 22,520                                       | 278,607                          | 337,630                      | 340,820       | 4,867,387                |
| — Inter-segment                                  | (71,051)                                       | -                          | -  | 12,460                           | -                            | 331,586       | 272,995                  |
| Net investment gains/(losses)                    |  |                            |  |                                  |                              |               |                          |
| — External                                       | 1,829  | 9,637                      | 219,915                                      | 754,378                          | 3,882                        | (17,380)      | 972,261                  |
| — Inter-segment                                  | -  | -                          | -  | (688)                            | -                            | -             | (688)                    |
| Total Revenue                                    |  |                            |  |                                  |                              |               |                          |
| — External                                       | 4,181,093                                      | 3,003,431                  | 2,136,324                                    | 2,465,722                        | 1,081,190                    | 330,358       | 13,198,118               |
| — Inter-segment                                  | (69,353)                                       | -                          | 13,158                                       | 11,772                           | 57,404                       | 331,586       | 344,567                  |
| Other income and gains                           |  |                            |  |                                  |                              |               |                          |
| — External                                       | 18,143   | (17,620)                   | 280  | 34,747                           | 83,876                       | 550,985       | 670,411                  |
| — Inter-segment                                  | -  | -                          | -  | -                                | 1,346                        | 883           | 2,229                    |
| Segment revenue and other income                 |  |                            |  |                                  |                              |               |                          |
| — External                                       | 4,199,236                                      | 2,985,811                  | 2,136,604                                    | 2,500,469                        | 1,165,066                    | 881,343       | 13,868,529               |
| — Inter-segment                                  | (69,353)                                       | -                          | 13,158                                       | 11,772                           | 58,750                       | 332,469       | 346,796                  |
| Segment expenses                                 |  |                            |  |                                  |                              |               |                          |
| — External                                       | (2,485,818)                                    | (1,583,038)                | (1,432,612)                                  | (1,284,469)                      | (1,269,368)                  | (1,881,165)   | (9,936,470)              |
| — Inter-segment                                  | (63)   | (19,060)                   | -  | (241,675)                        | (14,852)                     | (13,742)      | (289,392)                |
| Segment operating profit/(loss)                  |  |                            |  |                                  |                              |               |                          |
| — External                                       | 1,713,418                                      | 1,402,773                  | 703,992                                      | 1,216,000                        | (104,302)                    | (999,822)     | 3,932,059                |
| — Inter-segment                                  | (69,416)                                       | (19,060)                   | 13,158                                       | (229,903)                        | 43,898                       | 318,727       | 57,404                   |
| Share of profit of associates and joint ventures |  |                            |  |                                  |                              |               |                          |
| — External                                       | -  | -                          | -  | 55,667                           | 3,732                        | -             | 59,399                   |
| — Inter-segment                                  | -  | -                          | -  | -                                | -                            | -             | -                        |
| Profit/(loss) before income tax                  |  |                            |  |                                  |                              |               |                          |
| — External                                       | 1,713,418                                      | 1,402,773                  | 703,992                                      | 1,271,667                        | (100,570)                    | (999,822)     | 3,991,458                |
| — Inter-segment                                  | (69,416)                                       | (19,060)                   | 13,158                                       | (229,903)                        | 43,898                       | 318,727       | 57,404                   |
| Interest income                                  | 974,807  | 2,913,003                  | 22,520                                       | 278,607                          | 337,630                      | 340,820       | 4,867,387                |
| Interest expenses                                | (159,744)                                      | (1,414,623)                | (182,407)                                    | (439,399)                        | (211,061)                    | (864,431)     | (3,271,665)              |
| Reversal of/(provision for) impairment losses    | 41   | (29,830)                   | (272,964)                                    | 11,369                           | 1,137                        | (44,995)      | (335,242)                |

## 56 Segment reporting (continued)

### (a) Business segments (continued)

#### For the year ended 31 December 2015

|  | <i>Brokerage<br/>and wealth<br/>management</i> | <i>Credit<br/>business</i> | <i>Institutional<br/>client<br/>services</i> | <i>Investment<br/>management</i> | <i>Overseas<br/>business</i> | <i>Others</i> | <i>Segment<br/>total</i> |
|--|--|----------------------------|--|----------------------------------|------------------------------|---------------|--------------------------|
| Fee and commission income                        |  |                            |  |                                  |                              |               |                          |
| — External                                       | 8,387,245                                      | 103,040                    | 1,825,505                                    | 1,381,933                        | 590,493                      | 45,956        | 12,334,172               |
| — Inter-segment                                  | 2,556  | -                          | 20,680                                       | -                                | -                            | -             | 23,236                   |
| Interest income                                  |  |                            |  |                                  |                              |               |                          |
| — External                                       | 1,247,860                                      | 4,547,761                  | 2,739  | 56,847                           | 235,850                      | 748,266       | 6,839,323                |
| — Inter-segment                                  | (34,307)                                       | -                          | 34,307                                       | 33,560                           | -                            | 7,983         | 41,543                   |
| Net investment (losses)/gains                    |  |                            |  |                                  |                              |               |                          |
| — External                                       | (2,159)  | 34,047                     | 2,637,594                                    | 885,545                          | (537)                        | 416,287       | 3,970,777                |
| — Inter-segment                                  | (14,727)                                       | -                          | (192)  | (988)                            | -                            | 14,189        | (1,718)                  |
| Total Revenue                                    |  |                            |  |                                  |                              |               |                          |
| — External                                       | 9,632,946                                      | 4,684,848                  | 4,465,838                                    | 2,324,325                        | 825,806                      | 1,210,509     | 23,144,272               |
| — Inter-segment                                  | (46,478)                                       | -                          | 54,795                                       | 32,572                           | -                            | 22,172        | 63,061                   |
| Other income and gains                           |  |                            |  |                                  |                              |               |                          |
| — External                                       | 20,783   | (26,762)                   | 12   | 33,818                           | 46,205                       | 74,401        | 148,457                  |
| — Inter-segment                                  | -  | -                          | -  | -                                | -                            | 869           | 869                      |
| Segment revenue and other income                 |  |                            |  |                                  |                              |               |                          |
| — External                                       | 9,653,729                                      | 4,658,086                  | 4,465,850                                    | 2,358,143                        | 872,011                      | 1,284,910     | 23,292,729               |
| — Inter-segment                                  | (46,478)                                       | -                          | 54,795                                       | 32,572                           | -                            | 23,041        | 63,930                   |
| Segment expenses                                 |  |                            |  |                                  |                              |               |                          |
| — External                                       | (4,525,957)                                    | (3,233,591)                | (1,128,962)                                  | (969,732)                        | (889,307)                    | (2,772,461)   | (13,520,010)             |
| — Inter-segment                                  | (7,435)  | (5,373)                    | -  | (358)                            | (24,639)                     | (26,125)      | (63,930)                 |
| Segment operating profit/(loss)                  |  |                            |  |                                  |                              |               |                          |
| — External                                       | 5,127,772                                      | 1,424,495                  | 3,336,888                                    | 1,388,411                        | (17,296)                     | (1,487,551)   | 9,772,719                |
| — Inter-segment                                  | (53,913)                                       | (5,373)                    | 54,795                                       | 32,214                           | (24,639)                     | (3,084)       | -                        |
| Share of profit of associates and joint ventures |  |                            |  |                                  |                              |               |                          |
| — External                                       | -  | 2,925                      | -  | 69,926                           | 3,532                        | (2,813)       | 73,570                   |
| — Inter-segment                                  | -  | -                          | -  | -                                | -                            | -             | -                        |
| Profit/(loss) before income tax                  |  |                            |  |                                  |                              |               |                          |
| — External                                       | 5,127,772                                      | 1,427,420                  | 3,336,888                                    | 1,458,337                        | (13,764)                     | (1,490,364)   | 9,846,289                |
| — Inter-segment                                  | (53,913)                                       | (5,373)                    | 54,795                                       | 32,214                           | (24,639)                     | (3,084)       | -                        |
| Interest income                                  | 1,247,860                                      | 4,547,761                  | 2,739  | 56,847                           | 235,850                      | 748,266       | 6,839,323                |
| Interest expenses                                | (196,770)                                      | (2,898,124)                | (133,262)                                    | (180,558)                        | (140,054)                    | (1,070,737)   | (4,619,505)              |
| Reversal of/(provision for) impairment losses    | 100  | (28,994)                   | -  | 49,658                           | (19,292)                     | 8,965         | 10,437                   |

## 56 Segment reporting (continued)

### (b) Geographical segments

The following table sets out (i) information about the geographical location of the Group's revenue from external customers and (ii) the Group's property and equipment, goodwill, other intangible assets, interest in associates and joint ventures, refundable deposits and other non-current assets ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property and equipment and other non-current assets, the location of the operation to which they are allocated, in the case of goodwill and other intangible assets, and the location of operations, in the case of interest in associates.

|                                 | Year ended 31 December 2016 |                              |                   | Year ended 31 December 2015 |                              |                   |
|---------------------------------|-----------------------------|------------------------------|-------------------|-----------------------------|------------------------------|-------------------|
|                                 | Mainland<br>China           | Outside<br>Mainland<br>China | Total             | Mainland<br>China           | Outside<br>Mainland<br>China | Total             |
| Segment Revenue                 |                             |                              |                   |                             |                              |                   |
| Revenue from external customers | 12,116,928                  | 1,081,190                    | 13,198,118        | 2,2318,466                  | 825,806                      | 23,144,272        |
| Other income and gains          | 586,535                     | 83,876                       | 670,411           | 102,252                     | 46,205                       | 148,457           |
| Total                           | <u>12,703,463</u>           | <u>1,165,066</u>             | <u>13,868,529</u> | <u>22,420,718</u>           | <u>872,011</u>               | <u>23,292,729</u> |

|   | As at 31 December 2016 |                              |           | As at 31 December 2015 |                              |           |
|---|------------------------|------------------------------|-----------|------------------------|------------------------------|-----------|
|   | Mainland<br>China      | Outside<br>Mainland<br>China | Total     | Mainland<br>China      | Outside<br>Mainland<br>China | Total     |
| Specified non-current assets              |                        |                              |           |                        |                              |           |
| Property and equipment                    | 827,859                | 32,368                       | 860,227   | 851,798                | 27,574                       | 879,372   |
| Goodwill                                  | 9,380                  | 1,497,366                    | 1,506,746 | 9,380                  | 1,402,403                    | 1,411,783 |
| Other intangible assets                   | 72,745                 | 689,115                      | 761,860   | 63,709                 | 822,108                      | 885,817   |
| Interest in associates and joint ventures | 1,699,259              | 38,145                       | 1,737,404 | 834,649                | 40,114                       | 874,763   |
| Refundable deposits                       | 5,749,849              | 34,338                       | 5,784,187 | 3,964,708              | 30,310                       | 3,995,018 |

## 57 Financial instruments and risk management

The Group monitors and controls key exposures to the credit risk, market risk and liquidity risk from its use of financial instruments.

### (a) Credit risk

Credit risk represents the potential loss that may arise from the failure of a debtor or counterparty to meet its obligation or commitment to the Group.

During the reporting period, the Group was exposed to four types of credit risk: (i) default risk of the issuer or counterparty in debt securities trading; (ii) risk of losses arising from default of customers in credit business such as margin financing and securities lending, securities-backed lending and stock repurchases; (iii) risk of losses to the funds of the Company or customers arising from default of the financing party in innovative credit business; and (iv) default risk of other fixed income financial assets except for debt securities and derivative financial assets, which refers to risk of assets losses caused by counterparty defaults.

The Group uses its risk management systems to monitor its credit risk closely, keep track of the credit risk of the Group's business products and its transaction counterparties, provide analysis and pre-warning reports, and adjust its credit limits in a timely manner. The Group will also measure the credit risks of its major operations through stress test and sensitivity analysis.

For credit risk in debt securities trading, the Group monitors the issuer and bonds during the reporting period. The Group established the credit rating framework and conducted research on the debt securities held by the Group. The Group also assessed the creditability of counterparties to mitigate related default risk. In respect of margin financing and securities lending, securities-backed lending and stock repurchases business, the Group evaluate the customers, aiming to have a thorough picture of the customers' credit level and risk tolerance and determine the customers' credit rating. Penalties for defaults were specified in contracts and risk disclosure statements. The Group monitors the collateral of the margin financing and securities lending, securities-backed lending and stock repurchases business and promptly communicated with customers on any abnormalities identified to avoid defaults. In respect of other credit business, preliminary due diligence was performed and a due diligence report submitted for approval by the Group before a project can be launched.

**57 Financial instruments and risk management (continued)**

**(a) Credit risk (continued)**

**(i) Maximum exposure to credit risk**

Maximum exposure to credit risk of the Group without taking account of any collateral and other credit enhancements:

|   | <i>As at 31 December</i> |             |
|---|--------------------------|-------------|
|   | <i>2016</i>              | <i>2015</i> |
| Held-to-maturity investments                          | 159,340                  | 129,531     |
| Refundable deposits                                   | 5,784,187                | 3,995,018   |
| Accounts receivable                                   | 2,484,480                | 2,069,298   |
| Other receivables and prepayments                     | 2,019,856                | 3,323,086   |
| Finance lease receivables                             | 4,058,994                | 3,901,842   |
| Other non-current assets                              | 978,939                  | 185,000     |
| Margin accounts receivable                            | 37,427,744               | 43,404,467  |
| Available-for-sale financial assets                   | 3,231,878                | 1,955,310   |
| Financial assets held under resale agreements         | 9,586,455                | 6,348,621   |
| Financial assets at fair value through profit or loss | 16,073,171               | 17,440,359  |
| Derivative financial assets                           | 97,317                   | 168,519     |
| Clearing settlement funds                             | 150,433                  | 360,034     |
| Cash held on behalf of brokerage clients              | 51,573,237               | 70,327,108  |
| Bank balances   | 15,312,653               | 15,091,125  |
|   | 148,938,684              | 168,699,318 |
| Total maximum credit risk exposure                    |                          |             |

## 57 Financial instruments and risk management (continued)

### (a) Credit risk (continued)

#### (ii) Risk concentrations

The Group's maximum credit risk exposure without taking account of any collateral and other credit enhancements, as categorised by geographical area:

|  | <i>By geographical area</i> |                                       |                    |
|--|-----------------------------|---------------------------------------|--------------------|
|  | <i>Mainland<br/>China</i>   | <i>Outside<br/>Mainland<br/>China</i> | <i>Total</i>       |
| 31 December 2016   |                             |                                       |                    |
| Held-to-maturity investments                             | -                           | 159,340                               | 159,340            |
| Refundable deposits                                      | 5,749,849                   | 34,338                                | 5,784,187          |
| Accounts receivable                                      | 196,262                     | 2,288,218                             | 2,484,480          |
| Other receivables and<br>prepayments                     | 1,868,549                   | 151,307                               | 2,019,856          |
| Finance lease receivables                                | 4,058,994                   | -                                     | 4,058,994          |
| Other non-current assets                                 | 978,939                     | -                                     | 978,939            |
| Margin accounts receivable                               | 29,604,272                  | 7,823,472                             | 37,427,744         |
| Available-for-sale financial<br>assets                   | 2,961,086                   | 270,792                               | 3,231,878          |
| Financial assets held under<br>resale agreements         | 9,586,455                   | -                                     | 9,586,455          |
| Financial assets at fair value<br>through profit or loss | 15,751,372                  | 321,799                               | 16,073,171         |
| Derivative financial assets                              | 97,317                      | -                                     | 97,317             |
| Clearing settlement funds                                | 150,433                     | -                                     | 150,433            |
| Cash held on behalf of<br>brokerage clients              | 51,573,237                  | -                                     | 51,573,237         |
| Bank balances  | 15,312,653                  | -                                     | 15,312,653         |
| Total maximum credit risk<br>exposure                    | <u>137,889,418</u>          | <u>11,049,266</u>                     | <u>148,938,684</u> |

**57 Financial instruments and risk management (continued)**

**(a) Credit risk (continued)**

**(ii) Risk concentrations (continued)**

|  | <i>By geographical area</i> |                                       | <i>Total</i>       |
|--|-----------------------------|---------------------------------------|--------------------|
|  | <i>Mainland<br/>China</i>   | <i>Outside<br/>Mainland<br/>China</i> |                    |
| 31 December 2015   |                             |                                       |                    |
| Held-to-maturity investments                             | -                           | 129,531                               | 129,531            |
| Refundable deposits                                      | 3,964,708                   | 30,310                                | 3,995,018          |
| Accounts receivable                                      | 228,647                     | 1,840,651                             | 2,069,298          |
| Other receivables and<br>prepayments                     | 3,247,922                   | 75,164                                | 3,323,086          |
| Finance lease receivables                                | 3,901,842                   | -                                     | 3,901,842          |
| Other non-current assets                                 | 185,000                     | -                                     | 185,000            |
| Margin accounts receivable                               | 38,761,836                  | 4,642,631                             | 43,404,467         |
| Available-for-sale financial<br>assets                   | 1,951,367                   | 3,943                                 | 1,955,310          |
| Financial assets held under<br>resale agreements         | 6,348,621                   | -                                     | 6,348,621          |
| Financial assets at fair value<br>through profit or loss | 17,392,858                  | 47,501                                | 17,440,359         |
| Derivative financial assets                              | 168,519                     | -                                     | 168,519            |
| Clearing settlement funds                                | 360,034                     | -                                     | 360,034            |
| Cash held on behalf of<br>brokerage clients              | 62,497,417                  | 7,829,691                             | 70,327,108         |
| Bank balances  | 13,685,979                  | 1,405,146                             | 15,091,125         |
| Total maximum credit risk<br>exposure                    | <u>152,694,750</u>          | <u>16,004,568</u>                     | <u>168,699,318</u> |



## 57 Financial instruments and risk management (continued)

### (a) Credit risk (continued)

#### (iii) Credit rating analysis of financial assets

The Group adopts credit rating method to monitor the credit risk of the debt securities portfolio. Rating of debt securities is referred from major rating institutions in which debt issuers located. The carrying amounts of debt securities at the end of the reporting period are categorised by rating distribution as follows:

| Rating                     | <u>As at 31 December</u> |                          |
|----------------------------|--------------------------|--------------------------|
|                            | <u>2016</u>              | <u>2015</u>              |
| Long-term bonds            |                          |                          |
| – AAA                      | 2,285,787                | 1,913,155                |
| – From A to AA+            | 4,746,316                | 6,880,214                |
| – From B- to BBB+          | 826,301                  | -                        |
| – CCC+                     | 7,084                    | -                        |
| – Non-rated <sup>(1)</sup> | 1,354,411                | 3,981,213                |
|                            | <u>9,219,899</u>         | <u>12,774,582</u>        |
| Sub-total                  | -----                    | -----                    |
| Short-term bonds           |                          |                          |
| – A-1                      | 1,064,561                | 110,103                  |
| – AAA                      | 150,000                  | -                        |
| – Non-rated <sup>(1)</sup> | 2,237,826                | 364,043                  |
|                            | <u>3,452,387</u>         | <u>474,146</u>           |
| Sub-total                  | -----                    | -----                    |
| Total                      | <u><u>12,672,286</u></u> | <u><u>13,248,728</u></u> |

(1) Non-rated financial assets mainly represent debts instruments issued by the MOF, the PBOC, policy banks, private placed bonds, and super & short-term commercial papers.

### (b) Liquidity risk

Liquidity risk arises in the investment activities, financing activities and capital management of the Group. Liquidity risk includes: (1) market liquidity risk of being unable to make a large size transaction at a reasonable price while trading volume in market is comparatively small; (2) funding liquidity of being unable to meet financial obligations when they come due.

The following tables show the details of the remaining contractual maturities at the end of the reporting period of the Group's non-derivative financial liabilities and derivative financial liabilities. Analysis of non-derivative financial liabilities 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:

## 57 Financial instruments and risk management (continued)

### (b) Liquidity risk (continued)

| Financial liabilities                                      | As at 31 December 2016 |                     |                   |  |  |  | Total              |
|--|------------------------|---------------------|-------------------|--|--|--|--------------------|
|  | Carrying amount        | Repayable on demand | Less than 1 month | More than 1 month but less than 3 months | More than 3 month but less than 1 year | More than 1 year but less than 5 years |                    |
| Loans and borrowings                                       | 9,991,617              | -                   | 6,110,359         | 426,173                                  | 883,137                                | 2,821,249                              | 10,240,918         |
| Short-term debt instruments issued                         | 5,929,702              | -                   | 471,354           | 2,887,432                                | 2,664,270                              | -                                      | 6,023,056          |
| Placements from other financial institutions               | 9,107,560              | -                   | 3,038,291         | 6,173,738                                | -                                      | -                                      | 9,212,029          |
| Accounts payable to brokerage clients                      | 55,343,327             | 55,343,327          | -                 | -  | -                                      | -                                      | 55,343,327         |
| Other payables and accruals                                | 4,150,722              | 1,067,294           | 184,819           | 298,951                                  | 2,549,705                              | -                                      | 4,100,769          |
| Financial liabilities at fair value through profit or loss | 596,900                | 202,034             | -                 | 400,414                                  | -                                      | -                                      | 602,448            |
| Financial assets sold under repurchase agreements          | 8,516,901              | -                   | 6,241,226         | 316,099                                  | 2,069,843                              | -                                      | 8,627,168          |
| Derivative financial liabilities                           | 81,623                 | -                   | 11,586            | 37,332                                   | 32,705                                 | -                                      | 81,623             |
| Long-term bonds  | 28,626,730             | -                   | 234,000           | 44,874                                   | 12,531,374                             | 18,095,379                             | 30,905,627         |
| Other non-current liabilities                              | 2,181,744              | -                   | -                 | -  | -                                      | 2,134,892                              | 2,134,892          |
| <b>Total</b>   | <b>124,526,876</b>     | <b>56,612,655</b>   | <b>16,291,635</b> | <b>10,585,013</b>                        | <b>20,731,034</b>                      | <b>23,051,520</b>                      | <b>127,271,857</b> |

| Financial liabilities                             | As at 31 December 2015 |                     |                   |  |  |  | Total              |
|---|------------------------|---------------------|-------------------|--|--|--|--------------------|
|   | Carrying amount        | Repayable on demand | Less than 1 month | More than 1 month but less than 3 months | More than 3 month but less than 1 year | More than 1 year but less than 5 years |                    |
| Loans and borrowings                              | 5,276,502              | -                   | 2,332,375         | 6,383                                    | 761,872                                | 2,407,118                              | 5,507,748          |
| Short-term debt instruments issued                | 2,100,000              | -                   | 723,100           | 830,067                                  | 629,000                                | -                                      | 2,182,167          |
| Placements from other financial institutions      | 500,000                | -                   | 500,266           | -  | -                                      | -                                      | 500,266            |
| Accounts payable to brokerage clients             | 71,102,044             | 71,102,044          | -                 | -  | -                                      | -                                      | 71,102,044         |
| Other payables and accruals                       | 7,310,684              | 1,204,179           | 21,431            | 3,005,979                                | 3,079,095                              | -                                      | 7,310,684          |
| Financial assets sold under repurchase agreements | 20,785,441             | -                   | 6,762,671         | 3,408,137                                | 10,890,287                             | 233,910                                | 21,295,005         |
| Derivative financial liabilities                  | 1,022,572              | 2,114               | 6                 | 276,838                                  | 743,614                                | -                                      | 1,022,572          |
| Long-term bonds                                   | 37,839,532             | -                   | 234,000           | 6,366,006                                | 14,409,305                             | 20,589,546                             | 41,598,857         |
| Other non-current liabilities                     | 1,853,981              | -                   | -                 | -  | -                                      | 1,853,981                              | 1,853,981          |
| <b>Total</b>                                      | <b>147,790,756</b>     | <b>72,308,337</b>   | <b>10,573,849</b> | <b>13,893,410</b>                        | <b>30,513,173</b>                      | <b>25,084,555</b>                      | <b>152,373,324</b> |

## **57 Financial instruments and risk management (continued)**

### **(c) Market risk**

#### **(i) Interest rate risk**

Market risk is the risk of loss, in respect of the Group's income and value of financial instruments held, arising from the adverse market movements such as changes in interest rates, stock prices, foreign exchange rates and so on. The objective of market risk management is to monitor and control the market risk within the acceptable range and to maximise the risk adjusted return.

Interest rate risk refers to the likelihood of loss that may arise from adverse movements in the market interest rate. The Group's interest rate risk mainly arises from interest rate policy changes and the mismatch of interest-sensitive assets and liabilities.

The Group mainly manages interest rate risk through structuring and adjusting its asset portfolio. The Group's asset portfolio management aims at mitigating risks and improving profitability by diversification of assets.

## 57 Financial instruments and risk management (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

The following tables indicate the assets and liabilities as at the end of the reporting period by the expected next repricing dates or by maturity dates, depending on which is earlier:

|  | As at 31 December 2016 |   |  |   |                      |                         | Total                |
|--|------------------------|---|--|---|----------------------|-------------------------|----------------------|
|  | Less than<br>1 month   | More than<br>1 month but<br>less than<br>3 months | More than<br>3 months but<br>less than<br>1 year | More than<br>1 year but<br>less than<br>5 years | More than<br>5 years | No interest-<br>bearing |                      |
| <b>Financial assets</b>                                    |                        |   |  |   |                      |                         |                      |
| Held-to-maturity investments                               | -                      | -   | -  | 159,340   | -                    | -                       | 159,340              |
| Available-for-sale financial assets                        | 235,493                | 21,487  | 767,138  | 1,789,143                                       | 305,208              | 14,576,405              | 17,694,874           |
| Financial assets held under resale agreements              | 1,003,648              | 167,424   | 4,206,915  | 4,208,468                                       | -                    | -                       | 9,586,455            |
| Refundable deposits  | 2,198,876              | -   | -  | -   | -                    | 3,585,311               | 5,784,187            |
| Accounts receivable  | -                      | -   | -  | -   | -                    | 2,484,480               | 2,484,480            |
| Finance lease receivables                                  | 88,253                 | 175,307   | 1,054,776  | 2,731,252                                       | 9,406                | -                       | 4,058,994            |
| Other receivables and prepayments                          | -                      | 46,508  | 288,747  | -   | -                    | 389,212                 | 724,467              |
| Margin accounts receivable                                 | 10,845,658             | 3,631,684   | 22,950,402                                       | -   | -                    | -                       | 37,427,744           |
| Financial assets at fair value through profit or loss      | 6,311,799              | 866,182   | 3,219,489  | 4,758,250                                       | 100,133              | 9,394,260               | 24,650,113           |
| Derivative financial assets                                | 10,290                 | 4,606   | 845  | -   | -                    | 81,576                  | 97,317               |
| Clearing settlement funds                                  | 132,909                | -   | -  | -   | -                    | 17,524                  | 150,433              |
| Cash held on behalf of brokerage clients                   | 47,313,237             | 1,050,000   | 1,770,000  | 1,440,000                                       | -                    | -                       | 51,573,237           |
| Cash and bank balances                                     | 9,054,143              | 5,745,455   | 340,253  | 80,000  | -                    | 93,064                  | 15,312,915           |
| Other non-current assets                                   | -                      | -   | -  | 789,632   | -                    | 189,307                 | 978,939              |
| <b>Total</b>   | <u>77,194,306</u>      | <u>11,708,653</u>                                 | <u>34,598,565</u>                                | <u>15,956,085</u>                               | <u>414,747</u>       | <u>30,811,139</u>       | <u>170,683,495</u>   |
| <b>Financial liabilities</b>                               |                        |   |  |   |                      |                         |                      |
| Loans and borrowings                                       | (6,099,429)            | (419,463)   | (826,269)  | (2,646,456)                                     | -                    | -                       | (9,991,617)          |
| Short-term debt instruments issued                         | (468,960)              | (2,860,982)                                       | (2,599,760)                                      | -   | -                    | -                       | (5,929,702)          |
| Placements from other financial institutions               | (3,000,000)            | (6,107,560)                                       | -  | -   | -                    | -                       | (9,107,560)          |
| Accounts payable to brokerage clients                      | (46,831,242)           | -   | -  | -   | -                    | (8,512,085)             | (55,343,327)         |
| Other payables and accruals                                | -                      | -   | -  | -   | -                    | (4,100,769)             | (4,100,769)          |
| Financial liabilities at fair value through profit or loss | -                      | (394,866)   | -  | -   | -                    | (202,034)               | (596,900)            |
| Financial assets sold under repurchase agreements          | (6,220,865)            | (286,036)   | (2,010,000)                                      | -   | -                    | -                       | (8,516,901)          |
| Derivative financial liabilities                           | (18,147)               | (12,374)  | (2,159)  | -   | -                    | (48,943)                | (81,623)             |
| Long-term bonds  | -                      | -   | (11,492,244)                                     | (17,134,486)                                    | -                    | -                       | (28,626,730)         |
| Other non-current liabilities                              | -                      | -   | -  | -   | -                    | (2,134,892)             | (2,134,892)          |
| <b>Total</b>   | <u>(62,638,643)</u>    | <u>(10,081,281)</u>                               | <u>(16,930,432)</u>                              | <u>(19,780,942)</u>                             | <u>-</u>             | <u>(14,998,723)</u>     | <u>(124,430,021)</u> |
| <b>Net interest rate risk exposure</b>                     | <u>14,555,663</u>      | <u>1,627,372</u>                                  | <u>17,668,133</u>                                | <u>(3,824,857)</u>                              | <u>414,747</u>       | <u>15,812,416</u>       | <u>46,253,474</u>    |

## 57 Financial instruments and risk management (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

|   | As at 31 December 2015 |   |   |   |                      |                         | Total                |
|---|------------------------|---|---|---|----------------------|-------------------------|----------------------|
|   | Less than<br>1 month   | More than<br>1 month but<br>less than<br>3 months | More than<br>3 month but<br>less than<br>1 year | More than<br>1 year but<br>less than<br>5 years | More than<br>5 years | No interest-<br>bearing |                      |
| <b>Financial assets</b>                               |                        |   |   |   |                      |                         |                      |
| Held-to-maturity investments                          | -                      | -   | -   | 129,531   | -                    | -                       | 129,531              |
| Available-for-sale financial assets                   | 121,821                | -   | 230,782   | 1,252,160                                       | 316,396              | 15,721,640              | 17,642,799           |
| Financial assets held under resale agreements         | 948,982                | 632,917   | 3,422,032                                       | 1,344,690                                       | -                    | -                       | 6,348,621            |
| Refundable deposits                                   | 1,239,533              | -   | -   | -   | 25,680               | 2,729,805               | 3,995,018            |
| Accounts receivable                                   | -                      | -   | -   | -   | -                    | 2,069,298               | 2,069,298            |
| Finance lease receivables                             | 195,525                | 186,848   | 1,068,569                                       | 2,450,900                                       | -                    | -                       | 3,901,842            |
| Other receivables and prepayments                     | 25,000                 | 57,690  | 1,360,987                                       | -   | -                    | 325,001                 | 1,768,678            |
| Margin accounts receivable                            | 11,006,431             | 3,577,248   | 28,820,788                                      | -   | -                    | -                       | 43,404,467           |
| Financial assets at fair value through profit or loss | 6,129,206              | 272,158   | 637,793   | 9,495,862                                       | 905,073              | 8,099,805               | 25,539,897           |
| Derivative financial assets                           | 77,423                 | 26,720  | 2,105   | -   | -                    | 62,271                  | 168,519              |
| Clearing settlement funds                             | 360,034                | -   | -   | -   | -                    | -                       | 360,034              |
| Cash held on behalf of brokerage clients              | 64,473,028             | 1,734,542   | 4,020,163                                       | 99,375  | -                    | -                       | 70,327,108           |
| Cash and bank balances                                | 13,508,975             | 718,877   | 569,837   | 210,625   | -                    | 83,378                  | 15,091,692           |
| Other non-current assets                              | -                      | -   | -   | 185,000   | -                    | -                       | 185,000              |
| <b>Total</b>  | <u>98,085,958</u>      | <u>7,207,000</u>                                  | <u>40,133,056</u>                               | <u>15,168,143</u>                               | <u>1,247,149</u>     | <u>29,091,198</u>       | <u>190,932,504</u>   |
| <b>Financial liabilities</b>                          |                        |   |   |   |                      |                         |                      |
| Loans and borrowings                                  | (2,328,161)            | -   | (686,000)                                       | (2,262,341)                                     | -                    | -                       | (5,276,502)          |
| Short-term debt instruments issued                    | (700,000)              | (800,000)   | (600,000)                                       | -   | -                    | -                       | (2,100,000)          |
| Placements from other financial institutions          | (500,000)              | -   | -   | -   | -                    | -                       | (500,000)            |
| Accounts payable to brokerage clients                 | (55,347,741)           | -   | -   | -   | -                    | (15,754,303)            | (71,102,044)         |
| Other payables and accruals                           | -                      | -   | -   | -   | -                    | (7,310,684)             | (7,310,684)          |
| Financial assets sold under repurchase agreements     | (6,725,963)            | (3,274,161)                                       | (10,555,317)                                    | (230,000)                                       | -                    | -                       | (20,785,441)         |
| Derivative financial liabilities                      | (104,612)              | (54,687)  | (5,086)   | -   | -                    | (858,187)               | (1,022,572)          |
| Long-term bonds                                       | -                      | (5,997,067)                                       | (12,989,110)                                    | (18,853,355)                                    | -                    | -                       | (37,839,532)         |
| Other non-current liabilities                         | -                      | -   | -   | -   | -                    | (1,853,981)             | (1,853,981)          |
| <b>Total</b>  | <u>(65,706,477)</u>    | <u>(10,125,915)</u>                               | <u>(24,835,513)</u>                             | <u>(21,345,696)</u>                             | <u>-</u>             | <u>(25,777,155)</u>     | <u>(147,790,756)</u> |
| <b>Net interest rate risk exposure</b>                | <u>32,379,481</u>      | <u>(2,918,915)</u>                                | <u>15,297,543</u>                               | <u>(6,177,553)</u>                              | <u>1,247,149</u>     | <u>3,314,043</u>        | <u>43,141,748</u>    |

**57 Financial instruments and risk management (continued)**

**(c) Market risk (continued)**

**(i) Interest rate risk (continued)**

*Sensitivity analysis*

For those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period, the Group adopts sensitivity analysis to measure the potential effect of changes in interest rates on the Group's profit after tax and equity. Assuming all other variables remain constant, interest rate sensitivity analysis is as follows:

|                        | <i>Sensitivity of profit after tax</i> |             |
|------------------------|--|-------------|
|                        | <u>2016</u>                            | <u>2015</u> |
| Move in yield curve    |  |             |
| - Up 25 basis points   | (13,875)                               | 23,481      |
| - Down 25 basis points | 13,476                                 | 12,492      |
|                        |  |             |
|                        | <i>Sensitivity of equity</i>           |             |
|                        | <u>2016</u>                            | <u>2015</u> |
| Move in yield curve    |  |             |
| - Up 25 basis points   | (26,999)                               | 15,697      |
| - Down 25 basis points | 28,084                                 | 21,003      |

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's profit after tax and equity is estimated as an annualised impact on interest expense or income of such a change in interest rates.

**57 Financial instruments and risk management (continued)**

**(c) Market risk (continued)**

**(ii) Currency risk**

| Currency | <i>Sensitivity of equity</i>           |           |
|----------|--|-----------|
|          | 2016                                   | 2015      |
| USD      | 59,390                                 | 139,928   |
| HKD      | (374,811)                              | (110,742) |
| EUR      | (7,685)                                | (796)     |
|          | <i>Sensitivity of profit after tax</i> |           |
|          | 2016                                   | 2015      |
| USD      | 59,390                                 | 139,928   |
| HKD      | (352,169)                              | (109,638) |
| EUR      | (7,685)                                | (796)     |

A 10% weakening of the RMB against the USD, HKD and EUR at the end of the reporting period would have had the equal but opposite effect on them to the amounts shown above, on the basis that all other variables remained constant.

Due to the above assumptions, the result of sensitivity analysis on foreign exchange rate changes may be different, compared with the actual changes in the Group's profit after tax and equity of may arise with this.

**(iii) Price risk**

The Group is exposed to equity price changes arising from equity investments included in financial assets at fair value through profit or loss and available-for-sale financial instruments. Price risk the Group facing is mainly the proportionate fluctuation in the Group's profit after tax and equity due to the price fluctuation of the financial assets/liabilities at fair value through profit or loss and available-for-sale financial assets.

*Sensitivity analysis*

The analysis below is performed to show the impact on Group's profit after tax and equity due to change in the prices of equity securities by 10% with all other variables held constant.

**57 Financial instruments and risk management (continued)**

**(c) Market risk (continued)**

**(iii) Price risk (continued)**

|                 | <i>Sensitivity of profit after tax</i> |             |
|-----------------|--|-------------|
|                 | <i>2016</i>                            | <i>2015</i> |
| Increase by 10% | 425,357                                | 470,636     |
| Decrease by 10% | (425,357)                              | (470,636)   |
|                 | <i>Sensitivity of equity</i>           |             |
|                 | <i>2016</i>                            | <i>2015</i> |
| Increase by 10% | 1,510,084                              | 1,594,918   |
| Decrease by 10% | (1,510,084)                            | (1,594,918) |

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax and equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2016 and 2015.

**(d) Capital management**

The Group's objectives of capital management are:

- (i) To safeguard the Group's ability to continue as a going concern so that they can continue to provide returns for shareholders and benefits for other stakeholders;
- (ii) To support the Group's stability and growth;
- (iii) To maintain a strong capital base to support the development of their business; and
- (iv) To comply with the capital requirements under the PRC and Hong Kong regulations.



## 57 Financial instruments and risk management (continued)

### (d) Capital management (continued)

In accordance with Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2008) (the “Administrative Measures”) issued by the CSRC, the Company is required to meet the following standards for risk control indicators on a continual basis:

- (i) The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- (ii) The ratio of net capital divided by net assets shall be no less than 40%;
- (iii) The ratio of net capital divided by liabilities shall be no less than 8%;
- (iv) The ratio of net assets divided by liabilities shall be no less than 20%;
- (v) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100%; and
- (vi) The ratio of the value of fixed income securities held divided by net capital shall not exceed 500%.

Net capital refers to net assets minus risk adjustments on certain types of assets as defined in the Administrative Measures.

As at 16 June 2016, Administrative Measures for Risk Control Indicators of Securities Companies (Revision 2016) (the “Revised Administrative Measures”) and Calculation Standard for Risk Control Indicators of Securities Companies were issued by the CSRC. The Company is required to meet the following standards for risk control indicators on a continual basis from 1 October 2016:

- (i) The ratio of net capital divided by the sum of its various risk capital provisions shall be no less than 100%;
- (ii) The ratio of core net capital divided by on balance sheet and off balance sheet assets shall be no less than 8%;
- (iii) The ratio of high quality liquidity assets divided by net cash outflows for the next 30 days shall be no less than 100%;
- (iv) The ratio of available stable funds divided by required stable funds shall be no less than 100%; and
- (v) The ratio of net capital divided by net assets shall be no less than 20%;
- (vi) The ratio of net capital divided by liabilities shall be no less than 8%;
- (vii) The ratio of net assets divided by liabilities shall be no less than 10%;
- (viii) The ratio of the value of equity securities and derivatives held divided by net capital shall not exceed 100%;

## 57 Financial instruments and risk management (continued)

### (d) Capital management (continued)

- (ix) The ratio of the value of non-equity securities and derivatives held divided by net capital shall not exceed 500%; and
- (x) The ratio of margin financing (including securities lending) divided by net capital shall not exceed 400%.

During the reporting period, the Company monitored the above ratios closely to maintain these ratios in compliance with the relevant capital requirements.

Similar to the Company, certain subsidiaries of the Group are also subject to capital requirements under PRC and Hong Kong regulatory requirements, imposed by the CSRC and the Hong Kong Securities and Futures Commission, respectively. These subsidiaries comply with the capital requirements during the reporting period.

## 58 Fair value information

### (a) Fair value of financial instruments

The Group adopts the following methods and assumptions when evaluating fair values:

- (i) Financial assets including cash and bank balances, cash held for brokerage clients, clearing settlement funds, financial assets held under resale agreements, and financial liabilities including placements from other financial institutions and financial assets sold under repurchase agreements are mainly short-term financing or floating interest rate instruments. Accordingly, the carrying amounts approximate the fair values.
- (ii) Financial assets and liabilities at fair value through profit or loss, derivatives and available-for-sale financial assets are stated at fair value unless the fair values cannot be reliably measured. For the financial instruments traded in active open markets, the Group uses market prices or markets rates as the best estimate for their fair values. For the financial instruments without any market price or market rate, the Group determines the fair values of these financial assets and financial liabilities by discounted cash flow or other valuation methods.
- (iii) The fair values of long-term bonds and other non-current liabilities — put right liabilities arising from business combination are determined with reference to the available market prices or quotes from brokers or agents. If there is no quoted market price in an active market, the Group estimated the fair values using pricing models including discounted cash flow and binomial pricing model.
- (iv) Account receivable, other receivables and prepayments, margin accounts receivable, and accounts payable to brokerage clients mainly are within one year. Accordingly, the carrying amounts approximate the fair values.

## 58 Fair value information (continued)

### (b) *Financial assets and liabilities not measured at fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortized cost are not materially different from their fair value as at 31 December 2015 and 2016.

### (c) *Fair value hierarchy*

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

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

If there is a reliable market quote for financial instruments, the fair value of financial instruments is based on quoted market prices. If a reliable quoted market price is not available, the fair value of the financial instruments is estimated using valuation techniques. Valuation techniques applied include reference to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. The inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and foreign exchange rates. Where discounted cash flow analysis is used, estimated cash flows are based on management's best estimates and the discount rate used is reference to another instrument that is substantially the same.

## 58 Fair value information (continued)

### (c) Fair value hierarchy (continued)

The table below analyses financial instruments, measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

|  | <i>As at 31 December 2016</i> |                   |                  | <i>Total</i>      |
|--|-------------------------------|-------------------|------------------|-------------------|
|  | <i>Level I</i>                | <i>Level II</i>   | <i>Level III</i> |                   |
| <b>Assets</b>  |                               |                   |                  |                   |
| Financial assets at fair value through profit or loss      |                               |                   |                  |                   |
| Held for trading   |                               |                   |                  |                   |
| – Debt securities  | 343,612                       | 9,156,982         | -                | 9,500,594         |
| – Equity securities  | 1,171,469                     | 769,149           | -                | 1,940,618         |
| – Funds  | 6,696,659                     | 57,730            | -                | 6,754,389         |
| – Wealth management products                               | -                             | 2,702,801         | 1,565,800        | 4,268,601         |
| – Others   | -                             | 22,046            | -                | 22,046            |
| Designated at fair value through profit or loss            |                               |                   |                  |                   |
| – Wealth management products                               | -                             | 478,769           | 1,685,096        | 2,163,865         |
| Available-for-sale financial assets                        |                               |                   |                  |                   |
| – Debt securities  | 61,461                        | 2,860,891         | 90,000           | 3,012,352         |
| – Equity securities  | 3,949,466                     | 682,423           | 3,252,111        | 7,884,000         |
| – Funds  | 234,003                       | -                 | -                | 234,003           |
| – Wealth management products and others                    | -                             | 6,539,519         | 25,000           | 6,564,519         |
| Derivative financial assets                                | 11,595                        | 85,722            | -                | 97,317            |
| <b>Total</b>   | <u>12,468,265</u>             | <u>23,356,032</u> | <u>6,618,007</u> | <u>42,442,304</u> |
| <b>Liabilities</b>   |                               |                   |                  |                   |
| Financial liabilities at fair value through profit or loss |                               |                   |                  |                   |
| Held for trading   |                               |                   |                  |                   |
| – Debt securities  | -                             | (394,866)         | -                | (394,866)         |
| Designated at fair value through profit or loss            |                               |                   |                  |                   |
| – Structured entities                                      | -                             | -                 | (202,034)        | (202,034)         |
| Derivative financial liabilities                           | (11,700)                      | (69,923)          | -                | (81,623)          |
| <b>Total</b>   | <u>(11,700)</u>               | <u>(464,789)</u>  | <u>(202,034)</u> | <u>(678,523)</u>  |

## 58 Fair value information (continued)

### (c) Fair value hierarchy (continued)

|   | <i>As at 31 December 2015</i> |                    |                  | <i>Total</i>       |
|---|-------------------------------|--------------------|------------------|--------------------|
|   | <i>Level I</i>                | <i>Level II</i>    | <i>Level III</i> |                    |
| <b>Assets</b>   |                               |                    |                  |                    |
| Financial assets at fair value through profit or loss |                               |                    |                  |                    |
| Held for trading                                      |                               |                    |                  |                    |
| – Debt securities                                     | 5,300,459                     | 6,081,598          | -                | 11,382,057         |
| – Equity securities                                   | 4,157,699                     | 155,866            | -                | 4,313,565          |
| – Funds   | 7,527,226                     | 84,079             | -                | 7,611,305          |
| – Wealth management products                          | -                             | 1,601,208          | 40,890           | 1,642,098          |
| – Others  | 5,098                         | 4,535              | -                | 9,633              |
| Designated at fair value through profit or loss       |                               |                    |                  |                    |
| – Wealth management products                          | -                             | 581,239            | -                | 581,239            |
| Available-for-sale financial assets                   |                               |                    |                  |                    |
| – Debt securities                                     | 793,061                       | 1,043,610          | 30,000           | 1,866,671          |
| – Equity securities                                   | 6,158,913                     | 137,459            | 1,179,507        | 7,475,879          |
| – Funds   | 765,077                       | 8,937              | -                | 774,014            |
| – Wealth management products and others               | -                             | 7,506,185          | 20,050           | 7,526,235          |
| Derivative financial assets                           | 44                            | 168,475            | -                | 168,519            |
| <b>Total</b>  | <u>24,707,577</u>             | <u>17,373,191</u>  | <u>1,270,447</u> | <u>43,351,215</u>  |
| <b>Liabilities</b>                                    |                               |                    |                  |                    |
| Derivative financial liabilities                      | (468)                         | (1,022,104)        | -                | (1,022,572)        |
| <b>Total</b>  | <u>(468)</u>                  | <u>(1,022,104)</u> | <u>-</u>         | <u>(1,022,572)</u> |

During the reporting period, there were no significant transfers between Level I and Level II.

There were transfers between Level I and Level III during the reporting period, as a result of the fact that several unlisted equity investments were listed in exchanges during the reporting period. Other than the above, there was no significant transfer into or out of Level III during the reporting period. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

## 58 Fair value information (continued)

### (c) Fair value hierarchy (continued)

#### (i) Financial instruments in Level I

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the closing price within bid-ask spread. These instruments are included in Level I. Instruments included in Level I comprise primarily securities traded on exchanges and fund investments traded through exchanges or fund management companies.

#### (ii) Financial instruments in Level II

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level II.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level III.

#### (iii) Valuation methods for specific investments

As at the end of the reporting period, the Group's valuation methods for specific investments are as follows:

- (1) For exchange-listed equity securities, fair value is determined based on the closing price of the equity securities as at the end of the reporting period within bid-ask spread. If there is no quoted market price as at the end of the reporting period, valuation techniques are used to determine the fair value.
- (2) For exchange-listed investment funds, fair value is determined based on the closing price within bid-ask spread as at the end of the reporting period or the most recent trading date. For unlisted open-end funds and wealth management products, fair value is determined by quoted price which is based on the net asset value as at the end of the reporting period.
- (3) For debt securities listed through exchanges, fair values are determined based on the closing price within bid-ask spread of the debt securities as at the end of the reporting period.
- (4) For debt securities traded through the inter-bank bond market and the OTC market, fair values are determined by valuation techniques.
- (5) For futures traded through exchanges, fair value is determined based on the closing price of the futures as at the end of the reporting period.

**58 Fair value information (continued)**

**(c) Fair value hierarchy (continued)**

**(iv) Financial instruments in Level III**

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurement in Level III of the fair value hierarchy:

|   | <i>Financial<br/>assets at fair<br/>value through<br/>profit or loss</i> | <i>Available-for-<br/>sale financial<br/>assets</i> | <i>Financial<br/>liabilities at fair<br/>value<br/>through profit<br/>or loss</i> | <i>Total</i>     |
|---|--|---|---|------------------|
| As at 1 January 2016  | 40,890   | 1,229,557   | -   | 1,270,447        |
| Transfer out  | 140,000  | (34,954)  | -   | 105,046          |
| Gains for the year  | -  | 14,291  | -   | 14,291           |
| Changes in fair value<br>recognised in other<br>comprehensive income  | -  | (111,411)   | -   | (111,411)        |
| Purchases   | 3,093,096  | 2,295,636   | (202,034)   | 5,186,698        |
| Sales and settlements   | (23,090)   | (26,007)  | -   | (49,097)         |
| As at 31 Dec 2016   | <u>3,250,896</u>   | <u>3,367,112</u>                                    | <u>(202,034)</u>  | <u>6,415,974</u> |
| Total gains for the year<br>reclassified from other<br>comprehensive income<br>on disposal                          | -  | 14,341  | -   | 14,341           |
| Total losses for the year<br>included in profit or loss<br>for assets held at the<br>end of the reporting<br>period | -  | (50)  | -   | (50)             |

**58 Fair value information (continued)**

**(c) Fair value hierarchy (continued)**

**(iv) Financial instruments in Level III (continued)**

|  | <i>Financial<br/>assets at fair<br/>value through<br/>profit or loss</i> | <i>Available-for-sale<br/>financial assets</i> | <i>Total</i>     |
|--|--|--|------------------|
| As at 1 January 2015   | 1,246,150  | 1,166,977                                      | 2,413,127        |
| Transfer out   | -  | (536,795)                                      | (536,795)        |
| Gains for the year   | 2,110  | 5,018  | 7,128            |
| Changes in fair value recognised<br>in other comprehensive income  | -  | 311,251  | 311,251          |
| Purchases  | 14,510   | 603,275  | 617,785          |
| Sales and settlements  | (1,221,880)  | (320,169)                                      | (1,542,049)      |
| As at 31 December 2015   | <u>40,890</u>  | <u>1,229,557</u>                               | <u>1,270,447</u> |
| Total gains for the year<br>reclassified from other<br>comprehensive income on<br>disposal                       | -  | 10,169   | 10,169           |
| Total losses for the year included<br>in profit or loss for assets held<br>at the end of the reporting<br>period | <u>-</u>   | <u>(5,151)</u>                                 | <u>(5,151)</u>   |



**58 Fair value information (continued)**

**(c) Fair value hierarchy (continued)**

**(iv) Financial instruments in Level III (continued)**

For financial instruments in Level III, prices are determined using valuation techniques such as discounted cash flow models and other similar techniques. Determinations to classify fair value measures within Level III of the valuation hierarchy are generally based on the significance of the unobservable inputs to the overall fair value measurement. The following table presents the related valuation techniques and inputs of the major financial instruments in Level III.

| <u>Financial assets / liabilities</u>                                    | <u>Fair value hierarchy</u> | <u>Valuation technique(s) and key input(s)</u> | <u>Significant unobservable input(s)</u> | <u>Relationship of unobservable input(s) to fair value</u>           |
|--|-----------------------------|--|--|--|
| Stock with disposal restriction within a specific period                 | Level III                   | Option pricing model                           | Volatility                               | The higher the volatility, the lower the fair value                  |
| Wealth management products, private placement bonds                      | Level III                   | Discounted cash flow model                     | Risk adjusted discount rate              | The higher the risk adjusted discount rate, the lower the fair value |
| Equity securities, Unlisted equity investment with limited marketability | Level III                   | Market Valuation approach                      | Discount for lack of marketability       | The higher the discount, the lower the fair value                    |
| Financial liabilities  | Level III                   | Market Valuation approach                      | Discount for lack of marketability       | The higher the discount, the lower the fair value                    |

## 59 Company level statement of financial position

|   | <i>As at 31 December</i> |             |
|---|--------------------------|-------------|
|   | <u>2016</u>              | <u>2015</u> |
| <b>Non-current assets</b>                             |                          |             |
| Property and equipment                                | 801,182                  | 824,132     |
| Other intangible assets                               | 61,267                   | 55,204      |
| Investments in subsidiaries                           | 6,676,933                | 5,876,933   |
| Interest in associates and joint ventures             | 620,525                  | 640,889     |
| Available-for-sale financial assets                   | 7,055,941                | 7,717,579   |
| Financial assets held under resale agreements         | 4,208,468                | 1,344,690   |
| Refundable deposits                                   | 2,548,954                | 1,607,966   |
| Deferred tax assets                                   | 425,239                  | -           |
| Other non-current assets                              | 83,145                   | 58,163      |
|   | 22,481,654               | 18,125,556  |
| <b>Total non-current assets</b>                       | 22,481,654               | 18,125,556  |
| <b>Current assets</b>                                 |                          |             |
| Accounts receivable                                   | 198,582                  | 105,095     |
| Other receivables and prepayments                     | 5,369,719                | 2,573,502   |
| Margin accounts receivable                            | 29,604,272               | 38,761,836  |
| Available-for-sale financial assets                   | 6,313,909                | 7,551,141   |
| Financial assets held under resale agreements         | 5,100,186                | 4,460,231   |
| Financial assets at fair value through profit or loss | 18,129,481               | 17,996,450  |
| Derivative financial assets                           | 106,914                  | 304,036     |
| Clearing settlement funds                             | 1,162,077                | 7,841,195   |
| Cash held on behalf of brokerage clients              | 36,946,647               | 56,557,339  |
| Cash and bank balances                                | 10,433,163               | 4,576,853   |
|   | 113,364,950              | 140,727,678 |
| <b>Total current assets</b>                           | 113,364,950              | 140,727,678 |
| <b>Total assets</b>                                   | 135,846,604              | 158,853,234 |

**59 Company level statement of financial position (continued)**

|  | <i>As at 31 December</i> |             |
|--|--------------------------|-------------|
|  | <u>2016</u>              | <u>2015</u> |
| <b>Current liabilities</b>                                 |                          |             |
| Short-term debt instruments issued                         | 5,929,702                | 2,100,000   |
| Placements from other financial institutions               | 9,107,560                | 500,000     |
| Financial liabilities at fair value through profit or loss | 394,866                  | -           |
| Accounts payable to brokerage clients                      | 35,654,778               | 53,671,724  |
| Employee benefits payable                                  | 1,751,226                | 2,155,716   |
| Other payables and accruals                                | 2,060,712                | 4,255,439   |
| Current tax liabilities                                    | 408,086                  | 1,337,531   |
| Financial assets sold under repurchase agreements          | 8,277,679                | 19,178,503  |
| Derivative financial liabilities                           | 81,548                   | 1,022,566   |
| Long-term bonds due within one year                        | 11,492,244               | 18,986,177  |
|  | 75,158,401               | 103,207,656 |
| <b>Total current liabilities</b>                           |                          |             |
| <b>Net current assets</b>                                  | 38,206,549               | 37,520,022  |
| <b>Total assets less current liabilities</b>               | 60,688,203               | 55,645,578  |
| <b>Non-current liabilities</b>                             |                          |             |
| Long-term bonds  | 14,028,019               | 15,953,231  |
| Deferred tax liabilities                                   | -                        | 134,459     |
| Financial assets sold under repurchase agreements          | -                        | 230,000     |
|  | 14,028,019               | 16,317,690  |
| <b>Total non-current liabilities</b>                       |                          |             |
| <b>Net assets</b>  | 46,660,184               | 39,327,888  |
|  |                          |             |
|  | <i>As at 31 December</i> |             |
|  | <u>2016</u>              | <u>2015</u> |
| <b>Equity</b>  |                          |             |
| Share capital  | 4,610,788                | 3,906,699   |
| Reserves   | 32,647,227               | 25,669,911  |
| Retained profits   | 9,402,169                | 9,751,278   |
|  | 46,660,184               | 39,327,888  |
| <b>Total equity</b>  |                          |             |

## 60 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016

Up to the date of issue of the financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2016 and which have not been adopted in the financial statements. These include the following which may be relevant to the Group.

|   | <i>Effective for<br/>accounting period<br/>beginning on or after</i> |
|---|--|
| IFRS 15, Revenue from contracts with customers  | 1 January 2018   |
| IFRS 9, Financial instruments   | 1 January 2018   |
| IFRS 16, Leases   | 1 January 2019   |
| Amendments to IAS 7, Statement of Cash Flow   | 1 January 2017   |
| Amendments to IAS 12, Recognition of Deferred Tax Assets for<br>Unrealised Losses   | 1 January 2017   |
| Amendments to IFRS 2, Share-based payment   | 1 January 2018   |
| Amendments to IFRS 10 and IAS 28, Sales or Contribution of<br>Assets between An Investor and Its Associate or Joint Venture | To be determined   |

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position, except for the following.

## 60 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

### IFRS 9, Financial instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the recognition in other comprehensive income of 'own credit risk' related gains and losses that are part of the fair value changes of financial liabilities designated as measured at fair value through profit or loss; this version of IFRS 9 also carried forward the derecognition requirements of IAS 39. In November 2013 the new requirements for general hedge accounting were added to IFRS 9. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. The implementation date of IFRS 9 is 1 January 2018.

Key requirements of IFRS 9 that are relevant to the Group are:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized. The measurement of the loss allowance generally depends on whether there has been a significant increase in credit risk since initial recognition of the instrument. IFRS 9 requires an entity to recognize lifetime expected credit losses for all financial instruments for which there have been significant increases in credit risk since initial recognition considering all reasonable and supportable information, including that which is forward-looking.

## 60 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2016 (continued)

### IFRS 9, Financial instruments (continued)

The directors of the Company anticipate that the adoption of IFRS 9 in the future may have an impact on the Group's results and financial position, including the classification categories and the measurement of financial assets, and disclosures. For instance, the Group will be required to replace the incurred loss impairment model in IAS 39 with an expected loss impairment model that will apply to various exposures to credit risk. IFRS 9 will also change the way the Group classifies and measures its financial assets, and will require the Group to consider the business model and contractual cash flow characteristics of financial assets to determine classification and subsequent measurement. It is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

### IFRS 15, Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts and IFRIC 13 Customer Loyalty Programmes. It also includes guidance on when to capitalise costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5 steps approach to revenue recognition:

- Step 1. Identify the contract(s) with the customer.
- Step 2. Identify the performance obligations in the contract.
- Step 3. Determine the transaction price.
- Step 4. Allocate the transaction price to the performance obligations in the contract.
- Step 5. Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group anticipate that the application of IFRS 15 in the future may have impact on the amounts reported and disclosures made in the Group's consolidated financial statements and it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

### IFRS 16, Leases

IFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. In particular, IFRS 16 introduces a single lessee accounting model, whereby assets and liabilities are recognised for all leases, subject to limited exceptions. It replaces IAS 17 Leases and the related interpretations including IFRIC 4 Determining whether an arrangement contains a lease.

When IFRS 16 is adopted in the future, it is expected that certain portion of lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities. Based on current leasing patterns, the directors of the Company do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in significant impact on the Group's financial results.

## **61 Non-adjusting events after the reporting period**

### **(a) Profit distribution plan after accounting period**

On 29 March 2017, based on the total ordinary shares of 4,610,787,639 of the Company, the Board proposed the cash dividends of RMB 2 (tax inclusive) per 10 ordinary shares distributed to all the shareholders, with total cash dividend amounting to RMB922,158 thousand (2015: RMB2,344,019 thousand).

The proposal is pending for the approval of the general meeting of the shareholders. The cash dividend are not recognized as a liability as at 31 December 2016.

### **(b) Issuance of corporate bonds after accounting period**

On 11 January 2017, the Company issued two tranches of corporate bonds with an aggregate principal amount of RMB4.0 billion through private placement. Tranche one with aggregate principal amount of RMB2.0 billion has a term of 18 months and bears an interest rate of 4.00%. The Company has an option to redeem the bonds on 11 July 2018. Tranche two with an aggregate principal amount of RMB2.0 billion has a term of 18 months and bears a coupon interest rate of 4.10%

On 14 February 2017, the Company issued two tranches of corporate bonds with an aggregate principal amount of RMB4.0 billion through private placement. Tranche one with aggregate principal amount of RMB2.0 billion has a term of 2 years and bears a coupon interest rate of 4.30%. Tranche two with an aggregate principal amount of RMB2.0 billion has a term of 3 years and bears a coupon interest rate of 4.45%.

### **(c) Capital injection to subsidiary**

On 13 January 2017, the Company injected RMB 5 billion to its wholly-owned subsidiary Everbright Futures Co., Ltd. ("EBF") pursuant to the Board of Director resolutions. After the capital injection, the registered and paid in capital of EBF will increase from RMB 1 billion to RMB 1.5 billion.