

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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, 2017

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, 2017. This announcement, containing the full text of the 2017 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, 2017 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) and the Company’s website (www.ebscn.com). The Company’s 2017 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

Shanghai, the PRC
March 26, 2018

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), Mr. Ju Hao (Non-executive Director), Mr. Yin Lianchen (Non-executive Director), Mr. Chan Ming Kin (Non-executive Director), Mr. Xue Keqing (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	4
SECTION II	COMPANY PROFILE AND KEY FINANCIAL INDICATORS	9
SECTION III	SUMMARY ON THE BUSINESS OF THE COMPANY	23
SECTION IV	REPORT OF THE BOARD	31
SECTION V	SIGNIFICANT EVENTS	81
SECTION VI	CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS	103
SECTION VII	PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE	114
SECTION VIII	CORPORATE GOVERNANCE	135
SECTION IX	RELEVANT INFORMATION ON CORPORATE BONDS	180
SECTION X	FINANCIAL REPORT	F1
APPENDIX		A1

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 assume legal responsibility as to the contents herein.
- II. This report was reviewed and passed at the 4th meeting of the fifth 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. Gao Yunlong authorized Mr. Ge Haijiao to exercise his voting right. 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 Ernst & Young, 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. Xue Feng, the chairman of the Company, Zhou Jiannan, 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:

The Company's profit distribution proposal for 2017 that was considered and approved at the 4th meeting of the fifth session of the Board of the Company is set forth 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, 2017, cash dividend of RMB2.00 per 10 shares (tax inclusive) 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 implementation.

- 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 investment risk.
- 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.

CHAIRMAN'S STATEMENT

Tribute to Reforms

The year of 2017 has come and gone, and the convening of the 19th Communist Party of China National Congress has made it essentially extraordinary.

Today, China is greeting a new era of development. The Chinese nation has never been closer to the realization of its great dream of rejuvenation. By inheriting the past and initiating an influential reform for the present and the future, we are writing a new chapter in our journey. It is crystal clear that the power of reforms is entailed in the transformation of China's economic development from high-speed growth to high-quality growth, as well as the efforts to overcome challenges arising from the change in development model, the optimization of economic structure and the transformation of growth momentum.

The year of 2018 signifies a beginning of a fresh series of reforms in China, the profound impact of which will be proved by the emergence of a great socialist powerhouse in 30 years' time. As one of the earliest participants in China's reform and opening-up policy, Everbright Group has also embarked on its own journey of reform and development. Everbright Group is determined to develop itself into a globally competitive, world-class financial holding group and open up new horizons with two of its valuable edges, namely innovative comprehensive financial services and the integration of industry and finance.

As a core investment banking sector under Everbright Group, Everbright Securities, while actively taking part in Everbright Group's strategic optimization, must cater to the trends of reforms, capture the essence of reforms and capitalize on the benefits of reforms to play its part as the most determined supporter, participant, promoter and advocator of reforms. A reform is meant to optimize the mechanism barriers and eliminate the development bottlenecks, and to make inevitable adjustments and amendments in the course of returning to its origin of investment banking. It is a must to preserve and advocate the precious legacies accumulated in management, culture, system and other aspects over the past two decades, and this is precisely what makes Everbright be Everbright. In the year ahead, we will continue to adhere to the fundamental principle of "pursuing progress amid stability" where "stability" is a precondition for "change" and "progress". A true reform requires righteousness, courage, vision and perseverance rather than partiality, fear, blindness and sloth. Taking on the new mission granted by the new era, we must commit ourselves to establishing a new development landscape with the determination to abolish what is old in favour of what is new, creating a new driving force for development with innovative strategies and opening up a new development realm with persistent resilience. The fire of faith will never be extinguished once it has been ignited; and reforms shall never come to rest if they keep track of the times.

Let's pay tribute to the great times and the great reforms!



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)

SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

Everbright Development	Everbright Development Investment Co., Ltd. (光大發展投資有限公司), a wholly-owned subsidiary of the Company
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 (新鴻基金集團有限公司), whose equity interest is held 70% and 30% by EBSHK and Sun Hung Kai & Co. Limited, respectively
Everbright SHK	Everbright Sun Hung Kai Company Limited (光大新鴻基有限公司), a wholly-owned subsidiary of SHKFGL
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 2017 (January 1, 2017 to December 31, 2017)
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

SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

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)
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

SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

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 SSE and traded in RMB
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

SECTION I DEFINITIONS AND WARNING OF MATERIAL RISKS

AUM	assets 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 People's Republic of China

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" of this report 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. Zhou Jiannan
Executive president of the Company	Mr. Zhou Jiannan
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

	As of December 31, 2017	As of December 31, 2016
Registered capital	4,610,787,639.00	4,610,787,639.00
Net capital	32,683,686,858.18	39,747,165,134.28

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

The Company is a member of the Securities Association of China, SSE, SZSE and Shanghai Gold Exchange, clearing participant of China Securities Registration and Settlement Co., Ltd. and member of Asset Management Association of China. For details about the qualifications of each of the businesses of the Company and its subsidiaries, please refer to the Appendix of this report.

II. Contact Person and Information

Secretary to the Board and Representative of Securities Affairs

Name	Zhu Qin
Contact address	No.1508 Xinzha Road, Jing'an District, Shanghai, China
Telephone	021-2216 9914
Facsimile	021-2216 9964
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	http://www.ebscn.com
E-mail address	ebs@ebscn.com
Principal place of business in Hong Kong of the Company	24 th Floor, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

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	http://www.sse.com.cn
Website designated by Hong Kong Stock Exchange for publication of the annual report	http://www.hkexnews.hk
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. Other Information of the Company

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

Incorporation in 1996

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.

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

Increase of registered capital in 1997

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.

Equity transfer in the period from 1999 to 2002

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.

Increase of registered capital in 2002

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

Restructuring into a joint stock company in 2005

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.

Increase of registered capital in 2007

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.

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

Initial public offering of A Shares and listing on the SSE in 2009

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.

Private placement of A Shares in 2015

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.

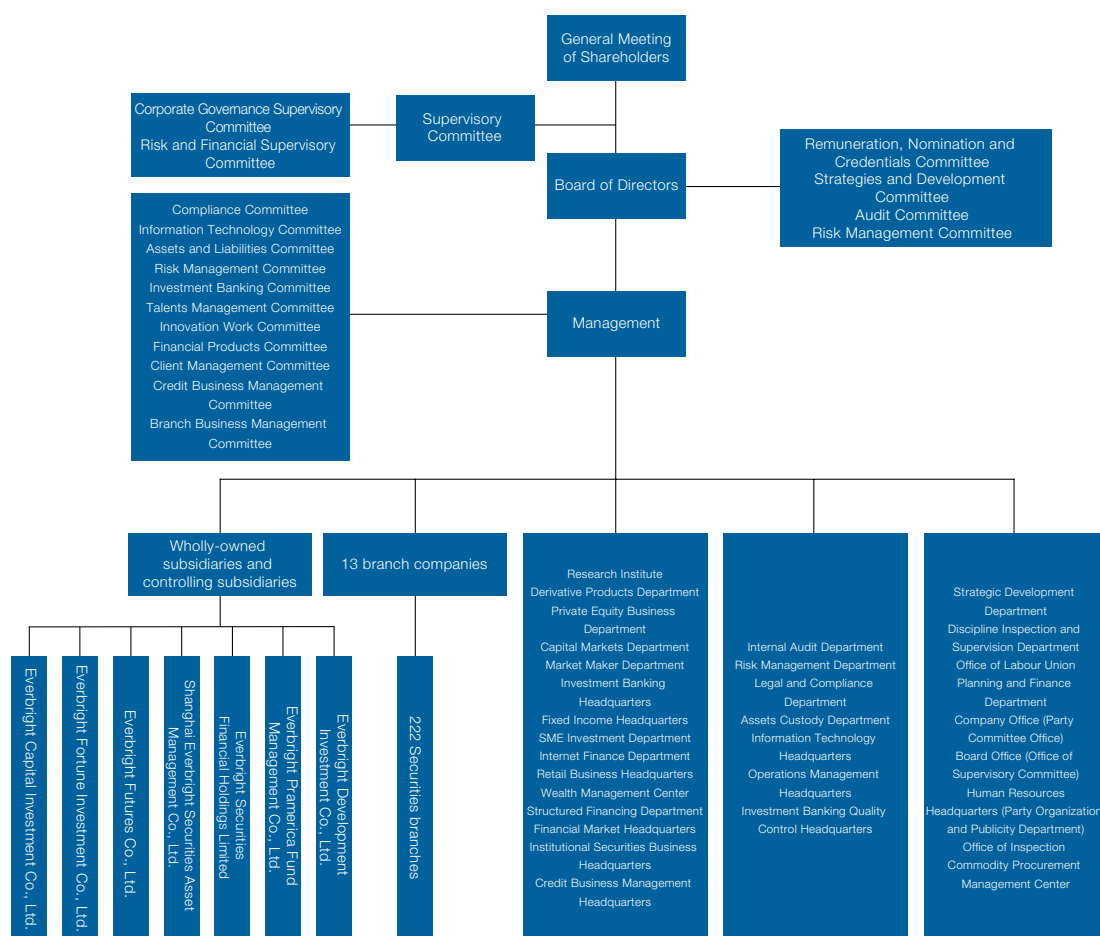
Public offering of H Shares and listing on the Hong Kong Stock Exchange in 2016

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

Name	Registered Capital	Shareholding Percentage held by the Company	Registered Address	Date of Establishment	Person in Charge and Contact Number
Everbright Capital	RMB4 billion	100%	8 th Floor, No. 1508 Xinzha Road, Jing'an District, Shanghai, China	November 7, 2008	Dai Weiguo (代衛國) 021-61061966
Everbright Futures	RMB1.5 billion	100%	6 th Floor, No. 729 Yanggao South Road, Free Trade Experimental Zone (Shanghai), China	April 8, 1993	Yu Dawei (俞大偉) 021-80212218
Everbright Asset Management	RMB200 million	100%	17 th Floor, No. 1508 Xinzha Road, Jing'an District, Shanghai, China	February 21, 2012	Xiong Guobing (熊國兵) 021-62155008
Everbright Fortune	RMB2 billion	100%	Room 801-803, No. 1508 Xinzha Road, Jing'an District, Shanghai, China	September 26, 2012	Wang Zhong (王忠) 021-62151318
EBSHK	HK\$2.765 billion	100%	24/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong	November 19, 2010	Xue Feng (薛峰) 852-21068101
Everbright Development	RMB500 million	100%	Room 209, Western District, Level 2, No. 707 Zhangyang Road, Free Trade Experimental Zone (Shanghai), China	June 12, 2017	Chen Hu (陳濤) 021-68786333
Everbright Pramerica	RMB160 million	55%	6-10 th Floor, Tower One, BFC, No. 558 Zhongshan East Second Road, Shanghai	April 22, 2004	Lin Chang (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 222 securities brokerage branches located nationwide in 115 cities (including county-level cities) of 30 provinces; autonomous regions and municipalities directly under the central government. The Company has been approved to establish one branch company and 21 securities brokerage branches. The establishment is in progress.

VII. Other Relevant Information

Accounting firm engaged by the Company (Domestic):	Name	Ernst & Young Hua Ming LLP (Special General Partnership)
	Business address	Level 16, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing, China
	Name of signatory accountants	Xu Yan (徐艷) Wang Ziqing (王自清)
Accounting firm engaged by the Company (International):	Name	Ernst & Young
	Business address	22/F, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong
	Name of signatory accountants	Wang Shu Hing (王樹興)
Domestic legal advisor:	King & Wood Mallesons	
International legal advisor:	Latham & Watkins	
Compliance advisor:	CMB International Capital Limited	
A Share Registrar:	China Securities Depository and Clearing Corporation Limited, Shanghai Branch	
H Share Registrar:	Computershare Hong Kong Investor Services Limited	

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

VIII. 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	2017 (RMB'000)	2016 (RMB'000)	Variance as compared to the last corresponding period	2015 (RMB'000)
Operating results				
Revenue and other income	14,761,235	13,868,529	6.44%	23,292,729
Profit before income tax	4,077,657	3,991,458	2.16%	9,846,289
Net profit attributable to shareholders of the Company	3,016,470	3,013,019	0.11%	7,646,516
Net cash used in operating activities	(30,608,967)	(891,693)	N/A	(32,124,448)
	(RMB/share)	(RMB/share)		(RMB/share)
Earnings per share				
Basic earnings per share	0.65	0.74	(12.16)%	2.14
Diluted earnings per share	0.65	0.74	(12.16)%	2.14
Index of profitability				
Weighted average returns on net assets	6.26%	7.29%	decreased by 1.03 percentage points	23.10%

Note: The share capital of the Company increased by 704,088,800 H Shares following the completion of H Shares offering and listing in 2016.

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

Item	As of December 31, 2017 (RMB'000)	As of December 31, 2016 (RMB'000)	Variance as compared to the last corresponding period	As of December 31, 2015 (RMB'000)
Scale indices				
Total assets	205,864,365	177,637,259	15.89%	197,072,821
Total liabilities	155,841,697	129,000,595	20.81%	154,649,205
Accounts payable to brokerage clients	41,060,343	55,343,327	(25.81)%	71,102,044
Equity attributable to shareholders of the Company	48,575,912	47,195,712	2.92%	40,482,599
Total equity of owners	50,022,668	48,636,664	2.85%	42,423,616
Total share capital ('000 shares)	4,610,788	4,610,788	–	3,906,699
Net assets per share attributable to shareholders of the Company (RMB/share)	10.54	10.24	2.92%	10.36
Gearing ratio ^{Note 1}	69.65%	60.23%	increased by 9.42 percentage points	66.32%

Note 1: Gearing ratio = (Total liabilities – Accounts payable to brokerage clients)/(Total assets – Accounts payable to brokerage clients)

Note 2: The net profit and the net assets attributable to shareholders of listed companies for the comparable periods as disclosed in the financial reports prepared in accordance with the IFRS are consistent with those prepared in accordance with the PRC GAAP.

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

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

Item	As of December 31, 2017 (RMB'000)	As of December 31, 2016 (RMB'000)
Core net capital	32,683,687	34,747,165
Supplementary net capital	—	5,000,000
Net capital	32,683,687	39,747,165
Net assets	48,422,140	46,660,184
Provisions for risk capital	12,200,415	11,271,019
On-balance sheet and off-balance sheet assets	140,291,182	107,216,497
Risk coverage (%)	267.89	352.65
Capital leverage ratio (%)	25.38	35.14
Liquidity coverage ratio (%)	233.05	235.85
Net stable funding ratio (%)	140.19	152.59
Net capital/Net assets (%)	67.50	85.18
Net capital/Liabilities (%)	37.47	74.25
Net assets/Liabilities (%)	55.52	87.16
Value of proprietary trading of equity securities and equity derivatives/Net capital (%)	28.90	28.36
Value of proprietary trading of fixed income securities/Net capital (%)	158.82	53.53

The above data were prepared in accordance with the Administrative Measures on the Risk Control Indicators of Securities Companies (《證券公司風險控制指標管理辦法》) issued by the CSRC and the PRC GAAP on a parent company basis.

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

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

1. Profitability information

RMB: million

	2017	2016	2015	2014	2013
Revenue and other income	14,761.2	13,868.5	23,292.7	8,561.6	5,179.4
Total expenses	10,766.9	9,936.5	13,520.0	5,773.1	4,751.3
Profit before income tax	4,077.7	3,991.5	9,846.3	2,849.4	486.4
Profit for the year	3,016.5	3,013.0	7,646.5	2,068.3	205.8
– attributable to shareholders of the Company					

2. Asset information

RMB: million

	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015	As of December 31, 2014	As of December 31, 2013
Total assets	205,864.4	177,637.3	197,072.8	114,944.8	53,852.2
Total liabilities	155,841.7	129,000.6	154,649.2	88,324.5	30,246.2
Accounts payable to brokerage clients	41,060.3	55,343.3	71,102.0	40,497.4	21,652.3
Equity attributable to shareholders of the Company	48,575.9	47,195.7	40,482.6	25,809.1	22,836.2
Share capital	4,610.8	4,610.8	3,906.7	3,418.0	3,418.0

SECTION II COMPANY PROFILE AND KEY FINANCIAL INDICATORS

3. Key financial indicators

	2017	2016	2015	2014	2013
Basic earnings per share (RMB)	0.65	0.74	2.14	0.61	0.06
Diluted earnings per share (RMB)	0.65	0.74	2.14	0.61	0.06
Weighted average returns on net assets	6.26%	7.29%	23.10%	8.57%	0.93%
Gearing ratio	69.65%	60.23%	66.32%	64.24%	26.69%
Net assets per share attributable to shareholders of the Company (RMB/share)	10.54	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)

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, 2017, the 131 securities firms in the entire industry were principally engaged in brokerage, margin financing and securities lending, investment banking, proprietary trading of securities, asset and fund management, private equity investment and management, and alternative investment. The industrial total assets and net assets were RMB6.14 trillion and RMB1.85 trillion respectively (all industrial information set out in this report was retrieved from the SSE and the SZSE, Wind Info, the respective membership systems of the Securities Association and the Funds Association, etc.).

(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 overseas business.

SECTION III

SUMMARY ON THE BUSINESS OF THE COMPANY

(II) Description of Industrial Situation during the Reporting Period

Global Economic Situation

The year 2017 saw the restorative growth of the world economy, as evidenced by the increasing global economic growth and growth forecast attributable to economic pickup of the developed economies and economic stabilization of the emerging markets and developing economies and by the brightening outlook of financial markets due to the recovery of global trade and investment. The risks and threats to the world economy were looming, as the structural adjustment of the world economy continued. The shift of focus in the monetary policies of developed economies towards tightening liquidity by scaling back their balance sheets and raising interest rates boosted the debt growth of the world's major economies.

China's Economic Situation

In 2017, China's economy continued to advance amid stability during the transition from the "new normal" to the "new era", with economic growth holding steady and picking up pace. Annual GDP increased by 6.9% to a record high of RMB80 trillion, representing an increase in GDP growth for the first time in seven years. Attributable to the significant progress achieved in the supply-side reform, the policy of "removing obsolete production capacity, inventory and leverage, reducing costs and bolstering deficiencies" yielded solid results, and the quality of supply continued to improve. The shift from the previous high speed to a medium-to-high speed growth has become the new normal. The shift of gear, upgrade of structure and change of development mode have laid a solid foundation for the smooth transformation from speedy growth to quality growth. A stable economic situation has been formed, due to steady employment, commodity price and balance of payment. The economic structure has been optimized to improve the quality and efficiency of development.

Development of the Financial Industry

The "new development direction" of the financial industry has been determined. The 19th CPC National Congress report called for deepening institutional reform in the financial sector to make it better serve the real economy, increasing the proportion of direct financing to promote the healthy development of a multi-level capital market, improving the framework of regulation underpinned by monetary policy and macro-prudential policy to carry out liberalization of interest rates and exchange rate, and enhancing the financial regulatory system to forestall systemic financial risks. The National Financial Work Conference, convened every five years, set the tone for future financial reforms and direction and highlighted the key task of the financial sector to be going back to the fundamental purpose to serve the real economy, aiming to optimize the interaction between the financial sector and the real economy by unlocking idle funds and curbing their self-circulation.

SECTION III

SUMMARY ON THE BUSINESS OF THE COMPANY

Industry Regulation

A range of new regulatory policies were promulgated in 2017 to strengthen the “new requirements” of industry regulation, leading to the tightening rein on compliance management, risk management, investor suitability management and the management of subsidiaries, the comprehensive rollout of new rules of refinancing, acquisition and restructuring, collateralized stock repurchase transactions, internal control of investment banking and stock-selling by shareholders, the introduction of new regulations on asset management to be issued by PBOC and the three Commissions, and the release of regulatory policy of securities firm rating. In view of the change in the regulatory environment towards more intense supervision, prevention and control of financial risks took up a more important position, and efforts were made to intensify promotion of lawful, stringent and comprehensive regulation. Under the clearer policy guidance focusing on principal businesses and based on risk control, promoting the financial sector to serve real economy is both the means and the end of the current regulatory tasks.

Overview of the Capital Market

The capital market presented a “new change”, that is, an obvious differentiation in the secondary market marked by stocks heating up and bonds cooling. During the Reporting Period, the SSE Composite Index and CSI 300 Index recorded an increase of 6.56% and 21.78%, respectively, while the ChinaBond Aggregate Full Price Index dropped by 4.26%. The secondary market was lukewarm on the whole and investors were relatively inactive. In 2017, the daily average trading volume of stocks and funds amounted to RMB498.6 billion, representing a year-on-year decrease of 11.67%, and the balance of margin financing and securities lending of the SSE and SZSE amounted to RMB1,026.3 billion, representing an increase of 9.26% as compared with the end of 2016. In 2017, the primary market witnessed a downturn in the volume of underwriting, recording a total of RMB1.72 trillion raised through equity financing according to the statistics from Wind Info, representing a year-on-year decrease of 18.50%. In particular, the proceeds raised from IPOs increased to RMB230.1 billion, representing a year-on-year increase of 53.81% attributable to the normalization of IPOs and the listing of 438 companies. The volume of refinancing amounted to RMB1.48 trillion, representing a year-on-year decrease of 23.68%, and the volume of bond underwriting by securities firms amounted to RMB4.56 trillion, representing a year-on-year decrease of 12.72%.

SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

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” of this report.

Overseas assets reached RMB27,539,160,419.93, representing 13.38% 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 investee companies” of Section IV “Report of the Board” in this report.

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

Everbright Group, the controlling shareholder of the Company, was established and funded by the State Council and is directly controlled by the Ministry of Finance and Huijin. It is a large-scale financial holding group covering industries such as banking, securities, insurance, funds, trusts, futures, leasing, investment and environmental protection, culture and tourism and pharmaceuticals, etc. across the financial and other industries at home and abroad. In 2017, Everbright Group made clear its overall industrial strategy of “Refining finance, optimizing industries and strengthening the group” and established the strategic goal of making Everbright a top-class financial holding group with global competitiveness in 10 years.

With the brand advantage of Everbright Group and the Company's position as the core platform of financial services for the Group, the Company and subsidiaries of Everbright Group have carried out broad-based cooperation and collaboration in customer development, channel development, industry and finance integration, as well as business models, and achieved significant synergy. Meanwhile, with the broad platform and rich resources of Everbright Group, the Company can further broaden its horizons, gain insight into the trends of industry change and deepen the understanding of customer needs. This “soft power” is an important guarantee for Everbright Securities to develop its business and establish a sustainable development strategy. In 2017, Everbright Group newly established a joint working group on Internet finance on top of the original five joint working groups on corporate business, personal business, asset management, investment banking business and government business. The relevant business lines of the Company actively participated in the joint work of the Group, established a working mechanism linking different departments and regions, optimized the corresponding organizational structure, system and business processes, providing double protection for the organization and system.

SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

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

Having been established for 22 years, the Company experienced and witnessed the formation of the Chinese capital market from scratch, its development, innovation, reform and opening up. The Company continued to grow and develop through the acquisition of Tianyi Securities and Kunlun Securities. After landing on the Main Board of the SSE in 2009, acquiring SHKFGL in 2015 and making its debut on the Main Board of the Hong Kong Stock Exchange in 2016, Everbright has become a large securities financial group with 13 branches, 7 first-tier subsidiaries, 222 offices and 9,089 employees under one single parent company. With investment banking as the main body, the Company has full licenses in the securities field and its subsidiaries' businesses include asset management, public offering funds, private equity funds, alternative investments, futures, financing leases etc., spanning across countries and regions including Mainland China, Hong Kong, the United Kingdom, Australia, etc. The Company has already established certain first-mover advantages in some business areas and the effectiveness of its integrated business operation has been shown, providing customers with whole-value-chain and full-life cycle comprehensive investment and financing services.

The Company's business lines featured balanced development, with most of the businesses enjoying the same industry status as the Company on the whole and bringing a balanced and stable source of income to the Company. During the Reporting Period, the business sectors of fixed income, asset management, futures and international business maintained their first-tier business advantages; businesses such as institutional brokerage and stock pledge made great strides and provided favorable conditions for building up advantages in the specific industries. The various business segments of the Company worked in synergy with each other, forming a relatively complete product chain, providing a series of financial products and services to domestic and foreign customers to meet their diversified needs.

SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

(III) Leading integrated onshore and offshore financial services platform

The Company attached great importance to the development of overseas business and always adhered to the overall strategic goal of “actively promoting internationalization and achieving integration at home and abroad” with Hong Kong as its start-point and multiple overseas deployment. With its strong domestic customer base and the solid foundation in the Hong Kong market, the Company was deeply rooted in Hong Kong, radiated its surroundings and explored the whole globe. It was committed to building itself into a world-class versatile investment bank by fully leveraging its advantages as a cross-border securities company. The Company acquired a 51% equity interest in ESIL in 2011 and acquired a 70% equity interest in SHKFGL in 2015. In 2016, the Company further acquired the remaining 49% equity interest in ESIL in addition to its existing holding of 51% equity interest, making ESIL a wholly-owned subsidiary of the Company in Hong Kong and integrating it with SHKFGL. The Company has become a full-value-chain domestic- and foreign-integrated financial services provider.

During the Reporting Period, the Company commenced using “Everbright Sun Hung Kai” as the Company’s brand for its operation in Hong Kong. Following the approval of the acquisition of the entire share capital of the British institutional brokerage and research firm North Square Blue Oak Ltd. (NSBO) by the Financial Conduct Authority (FCA), the international business segment of the Company kicked off officially in the European market, further enhancing the competitive edge of its overseas business development.

SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

(IV) Industry pioneer with strong innovation capabilities

As one of the first three innovative pilot securities companies in the country, the Company is one of the first batch of qualified securities companies in many new business areas, covering all aspects of brokerage, credit business, asset management and investment banking, which enables the Company to better grasp new market opportunities, establish first-mover advantages and maintain strong growth momentum. Meanwhile, the Company has been continuing to innovate its business model and is the first company in China to establish a financial leasing company and a joint venture with Internet companies to set up an Internet finance platform. The Company has various business platforms including “Fu Chun (富尊)”, an Internet comprehensive financial service platform, the “Golden Sunshine (金阳光)” securities trading platform and “Imlc.com (立馬理財)” by Everbright Yichuang to strive to provide the customers with more diversified financial services.

During the Reporting Period, the Company successfully released “Robo-Advisor Matrix (智投魔方)”, an Internet comprehensive financial service product based on AI technology and a big data platform, which “integrates four types of services in one”, namely, robo-advisor, financial community, intelligent information and big data precision marketing, forming organic and scenario-based services combining with transactions and wealth management. The Company has formed a PPP financial service model represented by the Kunming Shanty Town Renovation mode, the Central Enterprises Confederation mode and the Purchasing in Replacement of Construction mode and has closely cooperated with a number of large-scale central SOEs. The service areas cover a number of provinces including Yunnan, Zhejiang, Jiangsu, Shaanxi and Anhui, involving projects as such district development, transportation, water conservancy. In June 2017, the Company set up the first private equity subsidiary of a securities company in China that specializes in government and social capital cooperation related businesses – Everbright Development. The business of Everbright Development has been closely linked to macroeconomic policy themes such as “Belt and Road”, supply-side reform, financial services entities and the combination of industry and finance, and has initiated the investment and financing businesses of the PPP Industrial Fund, the SOE Transformation Fund, the Urban Development Fund and the Infrastructure Construction Fund, featuring two business sectors, i.e. government and enterprise cooperation fund and urban development fund with certain first mover advantages.

SECTION III SUMMARY ON THE BUSINESS OF THE COMPANY

(V) Prudent risk management and internal control

The Company has established a comprehensive risk management system. By incorporating risk planning into the Company's strategies, centralizing the risk data and optimizing the risk management policies, techniques and systems as well as the full coverage of its subsidiaries, the Company has set up a strong risk prevention system and is one of the first securities firms with a comprehensive risk management strategy. In 2017, the Company implemented the new requirements set out in the Provisions on the Comprehensive Risk Management of Securities Companies 《證券公司全面風險管理規範》 and amended the Articles of Association in line with the intensive promotion of lawful, stringent and comprehensive regulation. To facilitate the optimization of a comprehensive risk management system, the Company increased awareness of risk management by promoting the cultivation of a risk culture, conducted a full review of its risk management regulations, expanded its risk management team and established the risk implementation information system covering each business line. The risk control indicators of the Company continued to meet the requirements set by the regulatory authorities, maintaining healthy and sound business development. The prudent and effective risk management system has ensured the future enhancement of the Company's overall capabilities.

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

The Company's senior management team has an average of over 20 years of management experience in the securities and financial industry coupled with extensive work experience in regulatory authorities. Having a deep knowledge of the current national affairs and the financial industry, they are able to capitalize on the market trend. Meanwhile, the Company's workforce comprises high-quality staff, young and energetic talent, and efficient and competent colleagues. During the Reporting Period, the Company established a multi-level backup talent team covering primary departments, branches and secondary departments of the headquarters, making its talent team more rational.

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, 2017. 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 the face of complicated and changing external environment, the Company adhered to the fundamental principle of “pursuing progress while ensuring stability”. Sticking to “customer-oriented” service culture, integrated operation and steady development, against the drop of revenue and profit across the industry, the Company recorded a revenue and other income of RMB14.8 billion, representing a year-on-year increase of 6%, and an annual net profit of RMB3.1 billion, representing a year-on-year increase of 2%. Due to its prudent development and steady business performance, the Company has built up a good reputation in the market. It was recognized by Financial News and the Chinese Academy of Social Sciences as the “Securities Firm of the Year” for three consecutive years. The Company was awarded the “Top 500 Asia Brand” and the “Top 500 China Brand” for three years in a row. It was again listed by the renowned Hong Kong magazine Yazhou Zhoukan in its “Global Chinese Business 1000” with a record high ranking. It was named the “Most Trusted Listed Securities Firm for Investors”, representing the increasing brand awareness and market influence.

SECTION IV REPORT OF THE BOARD

II. Business Review

(I) Analysis of the principal businesses

1. Segment revenue and segment expenses

Table 1 Table of the principal businesses by segments

Unit: RMB'000

Item	2017				2016			
	Segment revenue		Segment expenses		Segment revenue		Segment expenses	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
Brokerage and wealth management business	3,378,711	23%	2,407,290	22%	4,129,883	30%	2,485,881	25%
Credit business	3,391,552	23%	1,730,016	16%	2,985,811	22%	1,602,098	16%
Institutional securities services	3,090,744	21%	1,719,649	16%	2,149,762	16%	1,432,612	14%
Investment management business	2,409,731	16%	1,420,918	13%	2,512,241	18%	1,526,144	15%
Overseas business	1,567,551	11%	1,833,312	17%	1,223,816	9%	1,284,220	13%

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

SECTION IV REPORT OF THE BOARD

1. *Brokerage and wealth management*

The brokerage and wealth management business segment comprises securities brokerage business, wealth management business and futures brokerage business. In 2017, this business segment realized revenue of RMB3.4 billion, accounting for 23% of the Group's total revenue.

(1) Securities and brokerage business

Market environment

In 2017, the competition in the brokerage market became more intense. The stock and fund trading volume declined as compared with 2016. Market activities were significantly reduced. The daily average trading volume of stock and fund amounted to RMB498.6 billion for the year, representing a decrease of 11.67% as compared to the previous year. The industry commission rate continuously decreased. In view of the intensified industry competition and the increased number of securities brokerage branches, exploring the approach of transformation to wealth management business has become an industry trend.

Operation initiatives and results

In 2017, facing the pressure from market competition, the Company focused on consolidating its primary businesses based on the offline and online platforms, and continued to deepen the reform on branches, strengthen the customer service system and roll out its retail network at full steam. Leveraging its advantages in offline linkage and taking branches as the service platform, the Company put an emphasis on the development of channels such as banks and other institutions and strived to attract new customers and introduce new assets. As at the end of 2017, the Company had 13 branch companies and 222 securities branches, 19 of which were newly established. In 2017, the market share of net income from the securities and futures trading on behalf of the clients reached 2.36%, representing an increase of 0.02 percentage point as compared to the previous year. In this regard, the Company was ranked No. 13 in the industry, climbing a place higher from the previous year. The sales of proxy sale of financial products increased by 52% as compared to the previous year. The number of the newly opened accounts increased by 168% as compared to the previous year. The market share of the aggregate stock and fund trading volume was 2.37%, ranking the Company No. 13 in the market. The market share of the stock trading was 2.45%, ranking the Company No. 11 in the market.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, the brokerage business of the Company will proceed with the transformation from traditional passageway business to wealth management, consolidate the major business indicators and enlarge the customer base by improving the standard of customer service in order to fully utilize Everbright Group's advantages of linkage and take brokerage business to a new level. Placing an emphasis on the establishment of flagship and new-type securities branches, the Company will make scientific planning on its network layout and implement classified management on securities branches. At the same time, the business operation will place a greater focus on compliance and suitability of customers by further enhancing the business system and process and urging the branches to meet the system requirements properly.

(2) Wealth management business

Market environment

In recent years, in light of the sustained rapid economic development in China, people in China have accumulated an immense amount of wealth, forming a large customer base with high net worth. Against the backdrop of the increasingly intense competition in the traditional business among securities companies, the Company introduced wealth management services to high-net-worth customers and kept on improving its service quality so as to actively respond to the major trend of developing wealth management business.

Operation initiatives and results

In 2017, centering on the two core objectives, namely "providing strong support for the business development of branches" and "striving to establish a customer-oriented product and service system", the wealth management business of the Company established a comprehensive product and service supporting system and spared no effort to form a wealth management model of "by means of quantitative and taking major categories of assets allocation as the core". In particular, the Company provided advices on investment portfolio for customers using quantitative, organized activities such as investment seminars and elite training camps for high-net-worth customers through Everbright Fortune Club (富尊會俱樂部). The Company also provided a comprehensive package of services for wealth management customers through the family office and continued to explore in the customization needs of ultra high-net-worth customers in respect of products.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, the Company will formulate work plans for the wealth management business with a focus on “taking the lead to establish an effective mechanism for the retail customer service system” in order to build a more complete retail service system, and facilitate the comprehensive transformation of wealth management business of branches to create value with services. The Company will also improve its wealth management services with a combination of classification and stratification among customers, offline and online service products, APP products, CRM products, establishment of service teams, optimization of service manuals, improvement in appraisal system, analysis for competitive products and others.

(3) Futures brokerage business

Market environment

In 2017, the price of commodity futures in China presented a trend of fluctuating at high levels with significantly greater volatility than 2016. As the exchanges imposed greater restrictions on trading, the activities in the futures market were reduced as a whole, but the trading volume slightly increased by the end of the year. As at the end of 2017, the trading volume in the whole market decreased by 25.66% as compared to the previous year with a decrease of 3.95% in trading volume. The reform and innovation in the futures market continued, and Dalian Commodity Exchange and Zhengzhou Commodity Exchange introduced soybean meal options and white sugar options one after another, opening the option era in China's commodity futures market.

Operation initiatives and results

In 2017, the futures business of the Company accelerated its transformation development on top of consolidating the traditional brokerage business and exerted efforts into the exploration of innovative business such as stock options, white sugar market making and crude oil futures, achieving steady business performance as a whole. In 2017, Everbright Futures recorded a daily average margin of RMB8.699 billion, with its trading volume representing a market share of 2.26%. As at the end of 2017, the trading volume of Everbright Futures represented 1.06%, 3.36%, 3.11% and 3.61% of the total trading volume of Shanghai Futures Exchange, Dalian Commodity Exchange, Zhengzhou Commodity Exchange and China Financial Futures Exchange, respectively. The accumulated trading volume of stock options for the year accounted for a market share of 6.30%, ranking No. 1 among futures companies and 3rd in the whole market. In 2017, Everbright Futures was awarded grade “AA”, the highest regulatory rating in the industry, for the fourth consecutive year, and was once again selected as “China Best Futures Company”.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, in active response to national policies and adapting to market changes, Everbright Futures will accelerate the pace of innovation and transformation by improving its capabilities of adaptation and integration of resources, and intensify its efforts in business coordination and linkage for the combination between industry and finance by leveraging the advantages in the integrated financial platform of Everbright Group and Everbright Securities. Taking futures brokerage as the core, the Company will accelerate the transformation to wealth management and risk management. The Company will also make use of futures, options as well as pit and over-the-counter tools to provide more diversified wealth management services and more refined risk management services for its corporate customers in order to enhance its capability to serve the real economy.

2. *Credit business*

The credit business segment comprises margin financing and securities lending, collateralized stock repurchase transactions and financial leasing. In 2017, this business segment realized revenue of RMB3.4 billion, accounting for 23% of the Group's total revenue.

(1) Margin financing and securities lending

Market environment

The size of the margin financing and securities lending business can reflect the changes in the market activities and risk tolerance preferences to a certain extent. The balance of margin financing and securities lending was increasing steadily along with market recovery from the second half of 2017. The overall size of the market returned to over RMB1 trillion. As at the end of 2017, the balance of margin financing and securities lending in the whole market was RMB1,026.264 billion, representing an increase of 9.26% as compared to the previous year, among which the balance of margin financing and securities lending was RMB1,021.758 billion and RMB4.506 billion respectively, representing an increase of 9.19% and 29.52% as compared to the previous year respectively.

SECTION IV REPORT OF THE BOARD

Operation initiatives and results

In 2017, the Company strived to maintain its market share of margin financing and securities lending business while ensuring business quality. By strengthening business coordination, supporting branches and focusing on high-net-worth customer, the Company further optimized the customer structure of margin financing and securities lending business. Its securities lending business maintained a leading position in the industry. As at the end of 2017, the balance of margin financing and securities lending of the Company was RMB30.082 billion, representing a decrease of 1.03% as compared to the previous year, accounting for a market share of 2.93% and ranking the Company No. 11 in the market. The balance of securities lending was RMB0.562 billion, representing a market share of 12.48% and ranking the Company No. 3 in the market.

(2) Collateralized stock repurchase transactions

Market environment

In 2017, the implementation of new rules on stock-selling boosted the demand of shareholders for the collateralized stock repurchase business. The collateralized stock repurchase business continued to grow but the market competition became fiercer. As at the end of 2017, the total size of the collateralized stock repurchase business in the whole market was RMB1,624.981 billion, representing an increase of 26.55% as compared to the previous year. In September 2017, the CSRC issued the “Exposure Draft Regarding Rules of Collateralized Stock Repurchase Transactions” (《股票質押回購業務規則相應徵求意見稿》) to impose systemic regulation on collateralized stock repurchase transactions by focusing on the positioning of serving the real economy, preventing business risks and regulating business operation of collateralized stock repurchase transactions.

Operation initiatives and results

In 2017, the Company put further efforts into developing the collateralized stock repurchase business by focusing on the substantial shareholders and controlling shareholders of premium listed companies, further optimizing the structure of the collateralized stock repurchase business and enlarging the percentage of linkage of self-owned funds, thereby achieving sustained growth in business size and market share and successive rises in market ranking. As at the end of 2017, the balance of collateralized stock repurchase transactions of the Company was RMB44.250 billion, representing an increase of 44.32% as compared to the previous year. In this regard, the market share was 2.72%, representing an increase of 13.81% as compared to the previous year and ranking the Company No. 13 in the industry, 2 places higher from last year, thus enabling the ranking to rise for the third consecutive year. The weighted average collateral ratio of the collateralized stock repurchase projects of the Company was 231.01%.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, the credit business of the Company will adhere to the approach centering on “transformation to capital intermediary business”. The margin financing and securities lending business will continue to focus on institutional customers and high-net-worth customers as well as promoting private placement products to participate in the margin financing and securities lending business, while putting great efforts into the development of the securities lending business to maintain its leading market position. The collateralized stock repurchase business will focus on strategic customers to utilize its advantages in the combination between industry and finance, support the development of serving the real economy, strengthen risk identification and enhance post-loan management.

(3) Financing leasing business

Market environment

In 2017, the financial leasing industry maintained rapid growth in general with increasingly fierce competition. Enterprises in the financial leasing industry increased their capital frequently, and homogenization competition deteriorated. The formation of differentiated business model and the development of professional operation capabilities will become the crucial factors in the competition within the financial leasing industry.

Operation initiatives and results

In 2017, Everbright Leasing responded positively and adapted to the challenges of market demand downturn and rising operating risks in a proactive manner. While maintaining the steady growth in the traditional financial leasing business, Everbright Leasing persisted in professional operation, and actively explored innovative businesses and practiced the integration of industry and finance. The financing channels diversified gradually. The layout of “One Body, Two Wings” of financial leasing, asset management and industrial investment consultancy services had been preliminarily shaped to obtain first-mover advantage in the field of navigation. In 2017, Everbright Leasing completed investment in a total of 24 new projects with annual investment amount of RMB3.7 billion. Everbright Leasing cumulatively completed investments with a total investment amount of RMB8.9 billion and cumulatively generated rent of RMB3.684 billion.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, Everbright Leasing will leverage the leasing business as its pivot point and make comprehensive use of diversified financial instruments to establish a full industrial chain development model with a focus on the navigation industry. It will also increase the proportion of financing and optimize market access to capital while improving capital efficiency.

3. *Institutional securities services*

The institutional securities business segment comprises investment banking, sales and trading, private placement business, investment research and proprietary trading businesses. In 2017, the institutional securities services segment realized revenue of RMB3.1 billion, accounting for 21% of the Group's total revenue.

(1) Investment banking

Market environment

The total amount of the proceeds raised from equity financing in 2017 was RMB1.72 trillion, which decreased by 18.50% as compared to the previous year. With accelerated issuance of new shares and the destocking process, the number of IPO and the proceeds raised increased by 92.95% and 53.81% respectively. Examination and approval procedures were tightened in parallel with the general growth in the number of IPO issuance, and the rejection rate continued to rise, undermining the financing scale of refinancing business. Market policies on mergers and acquisitions and reorganization continued to be tightened, leading to a fall in the number of mergers and acquisitions and reorganization transactions, especially for share issuance and asset acquisition transactions.

Affected by factors such as economic deleveraging, strengthened financial supervision and interest rates, the bond issuance scale and net financing volume dropped sharply in 2017. According to the statistics from Wind Info, bond underwriting scale by securities companies decreased by 12.72% to RMB4.56 trillion, as compared to the previous year. Corporate bond underwriting scale decreased by 60.25% as compared to the previous year. The positive development trend of asset-backed securitization market continued.

In 2017, NEEQ listing and market making business showed a downturn. Compared to the previous year, the expansion rate of NEEQ slowed down while the number of delisted companies increased with a total of 709 companies terminating for quotation throughout the year. In 2017, the movement of NEEQ component index and NEEQ market-making component index diverged as NEEQ component index showed mild upward trend with fluctuations throughout the year whereas NEEQ market-making component index dropped sharply throughout the year.

SECTION IV REPORT OF THE BOARD

Operation initiatives and results

In 2017, the Company took the initiative to adapt itself to changes in the investment banking business in light of market changes. It strategically adhered to the reform of “Investment Bank+” and strategically adjusted the business focus in a timely manner to promote steady development of the business. The Company was ranked eighth in the industry in terms of the size of the equity and bond underwritten as a lead underwriter, up by two places. The investment banking division of the Company achieved breakthroughs in strategic customers and key projects, with internal and external resources such as direct investment, funds and loans, the Company provided capital operation for the entire industrial chain and continued to deepen its cooperation with strategic customers.

In 2017, the Company completed securities underwriting for 18 companies with a market share of 1.56% and was ranked No. 18 in the market. The underwriting amount of equities amounted to RMB15.236 billion with a market share of 0.93%, ranking No. 25 in the market, among which the Company completed IPO underwriting for 6 companies, with a market share of 1.33%, ranking No. 19 in the market, up by 9 places over last year. The Company completed mergers and acquisitions and reorganization transactions for 4 companies, ranking No. 13 in the market. The Company increased its equity financing project pipelines. As at the end of 2017, the Company had 21 projects pending for approval, 13 of which were IPO projects. The Company ranked No. 11 in the industry in terms of the number of IPO pending for approval.

Faced with the drastic decline in the bond underwriting market, the Company proactively adjusted its business focus, the size and ranking of bond underwriting improved against the unfavorable trend. In 2017, the Company completed a total of 313 bond underwriting projects with an underwriting amount of RMB200.243 billion, representing year-on-year growth of 16.49% and a market share of 4.43%. The Company was ranked No. 7 and No. 8 respectively in the industry in terms of bond underwriting amount and the number of companies underwritten. In the meantime, the Company continued to increase its development efforts into innovative businesses and completed asset-backed securitization projects of RMB39.035 billion, with which the Company's ranking leaped by six places to the ninth in the industry. The Company completed the first asset-backed securitization project of new energy tariff surcharge subsidies in China, the issuance of first batch of medium-term notes in support of the “Belt and Road” Initiative, the primary listing of the Company's first green Panda Bonds in Singapore, the first issue of exchangeable bonds and other projects. Its innovative financing capability was well recognized by the market. The Company won two awards, namely “Outstanding Underwriter of Corporate Bonds” and “Excellent Trust Manager” given by the SSE for 2017, and was one of the three securities companies receiving both awards.

SECTION IV REPORT OF THE BOARD

Table 1: Scale, Market Share, Issuance Size and Ranking of Various Types of Bonds Underwritten by the Company

Project	Underwriting		Issuance Size	Market Ranking
	scale (RMB100 million)	Market Share (%)		
Corporate Bonds	332.70	3.02	54	8
Non-policy related financial bonds	926.04	9.11	51	3
Debt financing instruments of non-financial enterprises	270.34	9.60	61	5
Asset-backed securities	390.35	3.08	103	9
Others	83.00	0.97	44	/
Total	2,002.43		313	

Sources: Wind Info and internal statistics

In view of the complicated market circumstances, the Company focused on NEEQ-based business and full industrial chain development business and strengthened coordination among NEEQ businesses. At the same time, the Company attached great importance to risk control and compliance management of projects and adopted multi-pronged measures to improve NEEQ risk control system and process mechanism, while actively conforming to the stratification and transaction system reforms by implementing various preparatory works. As of the end of 2017, as a chief agency broker, the Company recommended 255 companies to be quoted on NEEQ, ranking the Company No. 14 in the industry in terms of the total number of recommendations. In 2017, 44 companies were newly recommended to be quoted on NEEQ by the Company, ranking the Company No. 15 in the industry in terms of companies newly quoted. In 2017, the financing amount for the issuance of shares on NEEQ reached RMB3.266 billion, ranking No. 12 in the industry in terms of financing amount raised. As of the end of 2017, the Company provided market-making quotation services for 139 listed companies, among which 83 companies were in the innovation level.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, the Company will strive to enhance the efficiency of resource allocation as well as the profitability of investment banks through analysis and predictions of policies and market, deployment and management of human resources and coordination of project resources. The Company will consolidate resources in significant regions and implement channel development and integration strategies in significant regions to strengthen construction on investment bank ecological cycle. The Company will emphasize on serving strategic customers to expand its market influence, and further improve the construction of investment banking support service platform to strengthen refined management.

The Company will continue to consolidate its competitive advantage in bond underwriting business to expand its business coverage, enrich its basic product portfolio from traditional bond products to various types of fixed income products. It also serves to improve its project risk management capabilities, and actively expand its innovative businesses by developing fixed income products with in-depth, multi-level structure through innovation to meet the investment and financing needs of customers with different market risk preferences.

The Company will further enhance its business synergies, give full play to the advantages of NEEQ premium project pipelines, and pay heed to back-end income while exploring and developing NEEQ transfer projects. The Company will also tap into back-end opportunities such as income from mergers and acquisitions and reorganization, financial advisory, financing underwriting and continuous supervision, to explore new revenue sources.

(2) Sales and trading

Market environment

In 2017, the trading volume of fund companies of the whole market dropped by 5% as compared to the previous year. The sales and trading businesses of various securities brokers gradually commenced diversified development. The core competitiveness increasingly relied on our capability of providing comprehensive financial services, which intensified market competition.

SECTION IV REPORT OF THE BOARD

Operation initiatives and results

In 2017, the Company leveraged serving three types of entities, namely mutual funds, financial industry clients and overseas clients, and proactively enhanced its ability to capture and serve our clients to expand its institutional client base. The market share of trading volume from mutual funds increased steadily. The Company fully integrated internal resources, and strengthened the synergies among various business lines to broaden the service coverage, deepen service offerings by adopting various services and sales techniques in a comprehensive manner while actively exploring innovative businesses. In 2017, the market share of net income from seat commission increased to 3.73% from 3.32% of the previous year. The market share of trading volume of institutional business increased to 3.18% from 3.05% of the previous year.

Outlook for 2018

In 2018, the Company will strengthen its coordination with the research department of the Company in its sales and trading business, place emphasis on investment and research services as well as sales services to create a market image with unique Everbright features. The Company will enhance its ability to integrate resources and make efforts to improve market share ranking by various indicators.

(3) Private placement business

Operation initiatives and results

In 2017, the Company completed organizational structure adjustment and resource integration in respect of private placement business lines, and established a one-stop service system for private placement, offering private equity managers services such as incubation of small and micro private placements, capital introduction, performance evaluation, investment research, trading system, fund raising and sales, credit transaction, product design and operation outsourcing. As of the end of 2017, the Company introduced a total of 1,424 PB products, representing an increase of 85.66% as compared to the previous year; the cumulative introduction of PB products filed for approval reached RMB203.663 billion, representing an increase of 82.70% as compared to the previous year. As at the end of 2017, there were 1,105 existing PB products, representing an increase of 66.67% as compared to the previous year, the size of existing PB products amounted to RMB152.433 billion, representing an increase of 68.10% as compared to the previous year.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, the Company will leverage the construction of private equity fund evaluation system as an opportunity to enhance the research and evaluation capabilities of private equity funds; select private equity investment advisors to deliver quality products. The Company will strengthen the planning and construction of PB system and develop industry-leading functions. The Company will carry out private FOF fund investment to cultivate management capabilities of private FOF assets. The Company will also exert more efforts into the incubation and development of small and medium-sized private equity fund to enhance customer loyalty and facilitate long-term cooperation from private equity fund clients.

(4) Investment research business

Operation initiatives and results

In 2017, the Company adhered to the principle of objectivity, independence and professionalism, and continuously expanded its research coverage by introducing a number of influential teams in the market and analysts with strong industrial background, to actively facilitate research for brand building, so as to provide customers both at home and abroad with prospective, systematic investment research services and ramp up research support to various business lines of the Company. In 2017, the Company obtained the first place of “Best Overseas Market Research Team” and the second place of “Best Textile & Clothing Research Team” as elected by New Fortune, as well as the award of “Industry Model on the 15th Anniversary of New Fortune”.

Outlook for 2018

In 2018, encircling on “promoting investment research strength and enhancing market influences”, the Company will focus on strengthening management, improving service quality, and facilitating compliance in the investment research business. Through the offering of quality research products, the Company will promote the research on the construction of quality brand to enhance market influence.

SECTION IV REPORT OF THE BOARD

(5) Securities proprietary trading business

Market environment

In 2017, the capital market experienced overall fluctuation and aggravated segmentation, with the SSE Composite Index rising by 6.56% and Growth Enterprise Index dropping by 10.67% for the year. The differentiation between each segment became particularly noticeable. In general, the bond market was in recession with a flattening yield curve and widening credit spread. As the regulatory authorities gradually relaxed their restrictions on the stock index futures business, some quantitative strategies began to be restored. The commodity futures market was characterized by the strong performance of industrial products but the weak performance of agricultural products, continuous surge of steel indices and increase of the international crude oil prices. During the interest rate hike cycle of the Federal Reserve Board, the price of gold, the primary safe-haven asset, rose in fluctuation.

Operation initiatives and results

In 2017, the Company made equity investments in adherence to the principle of “stock selection in a bottom-up approach”. The Company persisted in having major long positions in competitive market leaders selected from the industries which represented major trends and direction of future social development including healthcare, big consumption, artificial intelligence and insurance. For fixed-income investments, the Company optimized its portfolio of quality corporate bonds with mid-to-high ratings while keeping its credit risks in check. As a primary market maker of 50ETF options, the Company maintained satisfying market-making capacity and profitability with its daily volume approximating 10% of that of the whole market, and was rated Grade AA in the annual rating. 2017 was a milestone year for our OTC option business. Since it was officially launched in the second half of 2017, the OTC stock option business rapidly grew in scale and income, and led to the completion of entering into a number of SAC master agreements and supplementary agreements. For structured notes, the Company innovatively launched the issue of over RMB10 billion floating structured notes linked to futures contracts of agricultural products such as white sugar and soybean meal. For the precious metal market, the Company expanded the gold portfolio trading business and obtained certification for conducting interbank gold price inquiry business. For bulk commodities, the Company focused on the OTC option business involving, among others, precious metal, agricultural products, energy and chemical products.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, for equity investments, the Company will direct the bulk of its portfolio on enterprises and companies with high level of future certainty, and continue to explore industries and directions for such allocation. For fixed income investments, the Company will increase the efforts and depth of market research, strictly control credit risks, proactively grasp the market trends, scale up investments in rate securities and highly-rated corporate bonds when opportunities arise from market shifts, and introduce more neutral arbitrage strategies to markets without obvious tendencies. In 2018, the Company will accelerate the integration of overseas platforms, boost the capital intermediary business under the major client capital management segment, and strive to develop the bulk commodity OTC option business.

4. *Investment management business*

The investment management business includes the asset management business, fund management business, private equity investment business and alternative investment business. In 2017, the segment realized revenue of RMB2.4 billion, accounting for 16% of the Group's total revenue.

(1) Asset management business

Market environment

In 2017, in the context of market downturn, tightening regulation, “de-channelization” of business and capital shrinking of the banking institutions, the asset management business reverted to its origin of “managing others’ money as entrusted”. the AUM of various asset management products suffered from periodical shrinking to a certain extent, which represented a dire challenge as well as a major opportunity for the asset management business of the Company.

Operation initiatives and results

In 2017, Everbright Asset Management proactively reverted to the origin of asset management, continued to improve its investment research system, built a comprehensive and efficient investment and financing team and improved its proactive management capacity, with its proactive AUM ranked among the top of the industry. The Company adhered to the development strategy of “being client-oriented” and strove to diversify its offerings and investment strategies, aiming to provide customized integrated services to clients. As at the end of 2017, the AUM of Everbright Asset Management amounted to RMB274.4 billion, representing an increase of RMB4.8 billion, or 1.78%, as compared to the end of 2016, including AUM of collective wealth management, targeted asset management and specific asset management at RMB71.6 billion, RMB195.6 billion and RMB7.2 billion, respectively. As at the end of 2017, the AUM of active management accounted for 42%. In 2017, Everbright Asset Management completed 4 asset securitization projects as manager with an aggregate principal amount of RMB5.8 billion.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

Active management capacity represents the future core competitiveness for a security firm engaged in asset management, and the integration of industry and finance as well as supporting the development of real economy will be the main focus of the future asset management industry. In 2018, Everbright Asset Management will, in line with the new market environment, further recruit talents, improve its service to clients, enhance its comprehensive management capacity in investment research, forge its core competitiveness with improved performance and build on its product brand. Everbright Asset Management will strive to develop its active management business and build an integrated financial service platform.

(2) Funds management business

Market environment

In 2017, mutual fund management maintained its momentum in AUM, totaling at RMB11.6 trillion, representing a year-on-year increase of 26.64%, primarily attributable to the net increase in money market funds. The investment propensity of mutual funds has uniformly leaned towards value return. With the obtaining of approval for mutual FOF business and the promulgation of policies, including new regulations on the liquidity of open-end funds, measures on investor suitability and new regulations on structured funds and pension-targeting funds, the mutual fund business has been opened up to new development directions under strengthened industry normative management.

Operation initiatives and results

Everbright Pramerica continued to elevate its core competitiveness and explored a path of development in line with market tendencies and actual situation of the Company, while maintaining the investors' benefit as its top priority, and the preservation and increase of value of the clients' assets as the foundation for the company's development. In 2017, Everbright Pramerica increased its sales efforts, strengthened risk control and recorded simultaneous increases in the company's profit, scale and rank, through constant optimization of its investment research. As at the end of 2017, the AUM of Everbright Pramerica (mutual and designated both inclusive) amounted to RMB107.84 billion, representing an increase of 37.59% from the beginning of the year, of which the AUM of mutual funds was RMB74.742 billion, representing a year-on-year increase of 36.32% and accounting for 0.65% of the market share, ranking No. 30 without accounting for money market funds, an increase of 7 places as compared with the ranking as at the end of 2016.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, in the ever evolving and changing market environment, Everbright Pramerica will increase efforts in investment research system development and continue to drive its businesses with investment research. It will proactively respond to market changes, provide product solutions, actively promote its product marketing and explore new sales models. It will also accelerate the transformation of the subsidiary engaging in management of designated accounts and develop its featured businesses.

(3) Private equity investment business

Market environment

In 2017, the private equity investment subsidiary faced strict industry supervision, which required it to lean further towards compliance and orderly development, while on the other hand increasing its investment management capacity and marketization.

Operation initiatives and results

In 2017, Everbright Capital prudently conducted self-correction in compliance with the regulatory requirements, the plans of which were approved by regulatory authorities as at the end of 2017; on the other hand, it made proper arrangements for project exit, post-investment management and reserving of quality projects. It also actively positioned the industry M&A funds, and committed to extensive and multi-directional cooperation with government-led funds, large-scale listed companies and financial institutions. As at the end of 2017, Everbright Capital had 20 fund management subsidiaries and 41 fund products under management.

Outlook for 2018

In 2018, Everbright Capital, with active management as its core, will take the initiative to meet the new requirements arising from changes in supervision and new regulations on asset management, increase communication with the market, expand channels for external cooperation and improve its fundraising capacity through professional service and marketization policies. The new funds will closely follow the direction of national macro-development and regulatory requirements, concentrate its efforts on industries prioritized by the state, increase cooperation with leading enterprises, promote the integration of industry and finance and create a distinct identity for industry investment.

SECTION IV REPORT OF THE BOARD

5. Overseas business

In 2017, the segment realized revenue of RMB1.6 billion, accounting for 11% of the Group's total revenue.

Market environment

In 2017, the Hong Kong market recovered with the Hang Seng Index closing at 29,919.15, representing an annual increase of 35.99%. The average daily turnover was HK\$88.2 billion, representing a year-on-year increase of 32%. Over the year, 174 companies completed IPO and were listed on the Hong Kong Stock Exchange, representing a year-on-year increase of 38%.

Operation initiatives and results in 2017

In 2017, the Company leveraged the respective advantages in Mainland and Hong Kong markets, enhanced the synergy in resource integration, adhered to cross-border integrated development and comprehensively elevated its integrated financial services by focusing on its four primary businesses, namely brokerage and wealth management, investment banking, asset management, and investment management. For the traditional brokerage business, the Company consolidated its client base, increased market share and, on account of its high quality services, was awarded the Best Broker in Hong Kong in the highly competitive market. As at the end of 2017, total assets of clients amounted to HK\$134.3 billion, representing a year-on-year increase of 9%; average daily turnover was HK\$815 million; while the number of clients was 132,000, representing a year-on-year increase of 4%. The investment banking business progressed at a steady pace, with completed IPO financing of the year amounting to HK\$22.6 billion. The Company completed three compliance and investment advisory projects, twelve U.S.-dollar bonds issuance and underwriting projects, six placing projects and one convertible bond project. Focusing on institutional clients, the asset management business further optimized its client structure and steadily expanded the business scope, with the AUM of the 23 products under the segment amounting to HK\$3.38 billion. The investment management business responded to the national strategies by advancing cross-border collaboration and establishing the "One Belt One Road" Fund. It made successful investments in major overseas projects such as HyalRoute Communication (海容通信), continuing to enhance its overseas brand influence. During the Reporting Period, the Company commenced using "Everbright Sun Hung Kai" as the brand for its operation in Hong Kong. The Company completed the acquisition of North Square Blue Oak Limited (NSBO), a U.K.-based brokerage and research firm, marking the Group's debut at the European market and making an important step towards extending overseas layout, expanding international sales and trading networks and enlarging global client base.

SECTION IV REPORT OF THE BOARD

Outlook for 2018

In 2018, the Company will ride on the market trend to seize market opportunities and give full play to the integration synergies. The Company will promote close collaboration of the strategic layout of Hong Kong operations and enhance overseas investment banking capabilities to serve the cross-border financial needs of customers. Specific measures include speed up the integration of domestic and overseas markets, raise the leverage ratio to an appropriate level, and commence the procedures for spin-off of the Hong Kong operation. The Company will implement the concept of “major investment banking” consistently and lay out strategies for major clients to increase market awareness. The Company will actively develop investment management business to seek new profit growth point and to further enhance the active asset management capability of asset management business.

6. Other businesses

Other businesses mainly include internet finance business and PPP business.

(1) Internet finance business

Market environment

As mobile Internet, big data, artificial intelligence, and cloud computing continue to deepen and develop, the Internet has become the principal means of serving and reaching customers. The financial retail industry has entered the Internet era. Securities companies attached much more weight to the establishment of new customer service models by analyzing and understanding customers through financial technology to provide customers with various differentiated and personalized services in a timely and accurate manner and placed more efforts to achieve this goal.

Operation initiatives and results

In 2017, focusing on user experience and taking financial technology as a tool with intelligent and data-based operation support, the Company aimed to establish a platform-oriented, situation sensitive, socialized and ecological comprehensive Internet service platform to continuously promote polymerization benefits of “Fintech” to build a financial business services system for future. The Company’s robo-advisor management system “Robo-advisor Matrix (智投魔方)” was launched in early September. The product makes use of big data technology to provide personalized service to retail customers. The number of users of the product has risen rapidly. By the end of 2017, the number of users in the financial community has exceeded 400,000 persons. In 2017, “Lima Wealth Management (立馬理財)”, a platform developed by the Company’s subsidiary Everbright Eascreate recorded a transaction amount of RMB14.256 billion, representing an increase of 53% as compared to the previous year. The cumulative

SECTION IV REPORT OF THE BOARD

financial product transactions completed on the platform amounted to RMB24.335 billion. The total number of users on the platform reached 3.5227 million, representing an increase of 155% from the beginning of the year.

Outlook for 2018

In 2018, with a focus on big data and artificial intelligence, the Company will accelerate the construction of financial technology to develop financial technology products and platforms with rich data products and wide intelligent applications. The Company will continue to strengthen the promotion of Internet operations, and persist in optimizing the overall interactive experience on APP, PC and WEB. Meanwhile, the Company will actively explore new business forms and value-added models on the Internet to increase the penetration and activity of Internet channels.

(2) PPP business

Market environment

In 2017, the central government and various ministries and committees consecutively published a large number of policy guidance and industry regulatory documents with an objective to gradually normalized and rationalized the business cooperation between the government and social capital. According to the latest statistics released by the Ministry of Finance and the Public Private Partnerships Center, as of the end of 2017, there were 7,137 PPP comprehensive information platform management projects in China, with a total investment of RMB10.8 trillion, representing a year-on-year increase of 2,864 projects or RMB4.0 trillion as compared with the end of 2016.

Operation initiatives and results

On June 12, 2017, Everbright Development Investment Co., Ltd., the first professional company dedicating in government and social capital cooperation related field in the industry, was formally established. The Company aims to becoming a platform integrating social capital, operating with proprietary capital and richly cultivating regional economic development. In spite of the further tightening of policies and stringent market, Everbright Development persisted in having two strings to one's bow and took the public-private cooperation and urban renewal as a powerful tool to promote the development of businesses related to government and social capital cooperation.

SECTION IV REPORT OF THE BOARD

In 2017, the Company exerted its industry's first-mover advantage and deepened the development of government and social capital cooperation projects. Everbright Honghe Water Fund, Everbright Shantou BYD Cloud Investment Fund landed in Yunnan and Guangdong smoothly. Shaanxi Railway Construction Fund was advanced for smooth landing with the injection of the first installment. Meanwhile, a number of urban renewal projects were in reserve and were actively promoted for implementation.

Outlook for 2018

In 2018, Everbright Development will continue to develop the business related to government and social capital cooperation and enhance the linkage and cooperation with other subsidiaries of Everbright Group. Adhering to the concept of integration of industry and finance and financial service for real economy, the Company will capitalize on our business advantages and focus on the in-depth excavation of customer business resources, to achieve steady business development and facilitate project landing on the premise that businesses are carried out in compliance with laws and regulations and risks are well under control.

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

Table 2 Major revenue items

Unit: RMB'000

Item	2017		2016		Increase/decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Fee and commission income	6,714,916	45%	7,358,470	53%	(643,554)	(9)%
Interest income	5,128,883	35%	4,867,387	35%	261,496	5%
Net investment gains	2,494,639	17%	972,261	7%	1,522,378	157%
Other income and gains	422,797	3%	670,411	5%	(247,614)	(37)%
Total revenue and other income	14,761,235		13,868,529		892,706	6%

Total revenue and other income of the Company for 2017 amounted to RMB14.76 billion, representing a year-on-year increase of 6%. In particular, fee and commission income amounted to RMB6.71 billion, representing a year-on-year decrease of 9%, which was mainly due to the impact of a year-on-year decrease in stock and fund trading volume amid a relatively inactive market in 2017 and thus a corresponding decrease in commission fees. Interest income amounted to RMB5.13 billion, representing a year-on-year increase of 5%, which was mainly due to an increase in interest income from stock-pledged repurchase. Net investment gains amounted to RMB2.49 billion, representing a year-on-year increase of 157%, which was mainly due to an increase in gains from investment in financial assets. Income from other business amounted to RMB422.8 million, representing a year-on-year decrease of 37%, which was mainly due to the impact of exchange losses.

SECTION IV REPORT OF THE BOARD

Table 3 Major Expenditure Items

Unite: RMB'000

Item	2017	2016	Increase/decrease	
			Net amount	Percentage
Fee and commission expenses	1,091,297	1,265,215	(173,918)	(14)%
Interest expenses	3,883,383	3,271,665	611,718	19%
Staff costs	3,201,233	3,037,902	163,331	5%
Depreciation and amortization expenses	399,822	394,680	5,142	1%
Tax and surcharges	70,675	214,309	(143,634)	(67)%
Other operating expenses	1,669,174	1,417,457	251,717	18%
Provision for impairment losses	451,282	335,242	116,040	35%
Total	10,766,866	9,936,470	830,396	8%

Total expenses for 2017 amounted to RMB10.77 billion, representing a year-on-year increase of 8%. In particular, fee and commission expenses amounted to RMB1.09 billion, representing a year-on-year decrease of 14%, which was mainly due to a decrease in stock and fund trading volume of brokerage business, leading to a decrease in sync with the decrease in fee and commission income. Interest expenses amounted to RMB3.88 billion, representing a year-on-year increase of 19%, which was mainly due to an increase in financing scale. Staff costs amounted to RMB3.2 billion, representing a year-on-year increase of 5%, which was mainly due to an increase in the number of staff of the Company for the Reporting Period. Tax and surcharges amounted to RMB70.7 million, representing a year-on-year decrease of 67%, which was mainly because no business tax was payable for the Reporting Period. Expenses from other business amounted to RMB1.67 billion, representing a year-on-year increase of 18%, which was mainly due to an increase in costs incurred by the implementation of fund and asset management plans. Provision for impairment losses amounted to RMB450 million, representing a year-on-year increase of 35%, which was mainly due to the provisions for goodwill impairment for the Reporting Period.

SECTION IV REPORT OF THE BOARD

3. Cash flows

In 2017, the cash and cash equivalents of the Company recorded a net decrease of RMB2.7 billion, of which:

Net cash used in operating activities amounted to RMB30.6 billion, mainly due to the increase of RMB33.4 billion in financial assets at fair value through profit or loss and available-for-sale financial assets as well as the decrease of RMB11.5 billion in accounts payable to brokerage clients and the decrease of RMB6.1 billion in placements from other financial institutions, which were partly offset by the increase of RMB11.5 billion in financial assets sold under repurchase agreements.

Net cash generated from investing activities amounted to RMB2 billion, mainly due to the increase of RMB2.5 billion in investments classified as receivables and other investments, which was partly offset by the increase of RMB0.8 billion in equity investments.

Net cash generated from financing activities amounted to RMB26.0 billion, which was mainly due to the increase in the debt financing instruments issued for the Reporting Period.

SECTION IV REPORT OF THE BOARD

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

Unit: RMB'000

Item	December 31, 2017		December 31, 2016		Increase/decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Non-current assets	29,970,001		29,762,089		207,912	0.70%
Property and equipment	830,279	0.40%	860,227	0.48%	(29,948)	(3.48)%
Goodwill	1,199,675	0.58%	1,506,746	0.85%	(307,071)	(20.38)%
Other intangible assets	557,703	0.27%	761,860	0.43%	(204,157)	(26.80)%
Interest in associates and joint ventures	1,229,774	0.60%	1,737,404	0.98%	(507,630)	(29.22)%
Held-to-maturity investments	378,885	0.18%	159,340	0.09%	219,545	137.78%
Available-for-sale financial assets	10,435,863	5.07%	10,409,409	5.86%	26,454	0.25%
Financial assets held under resale agreements	5,530,800	2.69%	4,208,468	2.37%	1,322,332	31.42%
Refundable deposits	3,713,016	1.80%	5,784,187	3.26%	(2,071,171)	(35.81)%
Deferred income tax assets	503,160	0.24%	509,005	0.29%	(5,845)	(1.15)%
Finance lease receivables	5,092,231	2.47%	2,740,139	1.54%	2,352,092	85.84%
Other non-current assets	498,615	0.24%	1,085,304	0.61%	(586,689)	(54.06)%
Current assets	175,894,364		147,875,170		28,019,194	18.95%
Accounts receivable	3,113,373	1.51%	2,484,480	1.40%	628,893	25.31%
Finance lease receivables	577,613	0.28%	1,318,855	0.74%	(741,242)	(56.20)%
Other receivables and prepayments	4,177,813	2.03%	2,196,624	1.24%	1,981,189	90.19%
Margin accounts receivable	37,708,357	18.32%	37,427,744	21.07%	280,613	0.75%
Available-for-sale financial assets	27,520,440	13.37%	7,285,465	4.10%	20,234,975	277.74%
Financial assets held under resale agreements	14,550,244	7.07%	5,377,987	3.03%	9,172,257	170.55%
Financial assets at fair value through profit or loss	37,446,511	18.19%	24,650,113	13.88%	12,796,398	51.91%
Derivative financial assets	196,874	0.10%	97,317	0.05%	99,557	102.30%
Clearing settlement funds	738,426	0.36%	150,433	0.08%	587,993	390.87%
Cash held on behalf of brokerage clients	40,105,816	19.48%	51,573,237	29.03%	(11,467,421)	(22.24)%
Cash and bank balances	9,758,897	4.74%	15,312,915	8.62%	(5,554,018)	(36.27)%
Total assets	205,864,365		177,637,259		28,227,106	15.89%

SECTION IV REPORT OF THE BOARD

Item	December 31, 2017		December 31, 2016		Increase/decrease	
	Amount	Composition	Amount	Composition	Amount	Percentage
Current liabilities	121,921,439		106,767,949		15,153,490	14.19%
Loans and borrowings	7,137,860	4.58%	7,345,161	5.69%	(207,301)	(2.82)%
Short-term debt instruments issued	18,491,732	11.87%	5,929,702	4.60%	12,562,030	211.85%
Placements from other financial institutions	2,993,700	1.92%	9,107,560	7.06%	(6,113,860)	(67.13)%
Financial liabilities at fair value through profit or loss	456,941	0.29%	596,900	0.46%	(139,959)	(23.45)%
Accounts payable to brokerage clients	41,060,343	26.35%	55,343,327	42.90%	(14,282,984)	(25.81)%
Employee benefits payable	2,031,053	1.30%	2,268,881	1.76%	(237,828)	(10.48)%
Other payables and accruals	9,498,470	6.09%	5,482,436	4.25%	4,016,034	73.25%
Current tax liabilities	800,644	0.51%	603,214	0.47%	197,430	32.73%
Financial assets sold under repurchase agreements	23,315,495	14.96%	8,516,901	6.60%	14,798,594	173.76%
Derivative financial liabilities	156,280	0.10%	81,623	0.06%	74,657	91.47%
Long-term bonds due within one year	15,978,921	10.25%	11,492,244	8.91%	4,486,677	39.04%
Total assets less current liabilities	83,942,926		70,869,310		13,073,616	18.45%
Non-current liabilities	33,920,258		22,232,646		11,687,612	52.57%
Loans and borrowings	5,326,106	3.42%	2,646,456	2.05%	2,679,650	101.25%
Long-term bonds	24,938,709	16.00%	17,134,486	13.28%	7,804,223	45.55%
Deferred tax liabilities	47,938	0.03%	269,961	0.21%	(222,023)	(82.24)%
Employee benefits payable	2,051	0.00%	–	0.00%	2,051.00	
Other non-current liabilities	3,605,454	2.31%	2,181,743	1.69%	1,423,711	65.26%
Total liabilities	155,841,697		129,000,595		26,841,102	20.81%
Net assets	50,022,668		48,636,664		1,386,004	2.85%

Except for the liabilities disclosed in this report as of December 31, 2017, 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, 2017, the non-current assets of the Company amounted to RMB30.0 billion, which were in line with that of the beginning of the year. Such decrease was mainly due to the decrease in refundable deposits, part of which was offset by the increase in finance lease receivables.

Current assets

As of December 31, 2017, the current assets of the Company amounted to RMB175.9 billion, representing an increase of 19% as compared with that of the beginning of the year, which was mainly due to the increase in the scale of available-for-sale financial assets, financial assets held under resale agreements and financial assets at fair value through profit or loss.

Current liabilities

As of December 31, 2017, the current liabilities of the Company amounted to RMB121.9 billion, representing an increase of 14% as compared with that of the beginning of the year. Such increase was mainly due to the increase in the scale of financial assets sold under repurchase agreements and short-term debt instruments issued, part of which was offset by the decrease in accounts payable to brokerage clients and placements from other financial institutions.

Non-current liabilities

As of December 31, 2017, the non-current liabilities of the Company amounted to RMB33.9 billion, representing an increase of 53% as compared with that of the beginning of the year, which was mainly due to the increase in the scale of loans and borrowings and long-term bonds issued.

Borrowings and bond financing

Unit: RMB'000

Item	2017	2016
Loans and borrowings	12,463,966	9,991,617
Short-term debt instruments issued	18,491,732	5,929,702
Long-term bonds	40,917,630	28,626,730
Total	71,873,328	44,548,049

SECTION IV REPORT OF THE BOARD

For details of interest rate and maturity profiles of borrowings and bonds financing, please refer to Notes 41, 42 and 49 of the consolidated financial statements.

As of December 31, 2017, the Company's gearing ratio was 69.65%. The Company's borrowings, commercial papers payable and debts due within one year amounted to RMB41.6 billion, and the Company's current assets, net of the above liabilities, amounted to RMB134.3 billion. Therefore, the liquidity risk exposure of the Company was immaterial.

(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" of this report.

(III) Analysis on investments

1. Overall analysis on external equity investments

As of the end of the Reporting Period, long-term equity investment of the Company amounted to RMB1.230 billion, representing a decrease of RMB508 million or 29% from the beginning of the year, which was mainly due to a decrease in equity investment funds managed by its subsidiary 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.

SECTION IV REPORT OF THE BOARD

(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	37,488,648,792.87	37,446,511,379.39	900,942,573.73	(180,959,186.92)
Derivative financial instruments	39,217,705,426.69	40,593,833.52	(165,982,430.46)	17,228,218.22
Available-for-sale financial assets	38,365,559,797.50	37,956,303,030.42	1,916,598,217.33	(320,294,727.00)

(IV) Material disposal of assets and equity interests

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

(V) Analysis on principal subsidiaries and investee companies

1. Everbright Futures Co., Ltd., established on April 8, 1993 with a registered capital of RMB1.5 billion, is a wholly-owned subsidiary of the Company. It is principally engaged in commodity futures brokerage, financial futures brokerage, futures investment consultation, asset management and distribution of publicly offered securities investment funds.

As of December 31, 2017, Everbright Futures had total assets, net assets and net profit amounting to RMB9.752 billion, RMB2.015 billion and RMB179.11 million, respectively.

2. Shanghai Everbright Securities Asset Management Co., Ltd., established on February 21, 2012 with a registered capital of RMB200 million, is a wholly-owned subsidiary of the Company. It is principally engaged in securities asset management business.

As of December 31, 2017, Everbright Asset Management had total assets, net assets and net profit amounting to RMB1.948 billion, RMB1.362 billion and RMB526.08 million, respectively.

SECTION IV REPORT OF THE BOARD

3. Everbright Capital Investment Co., Ltd., established on November 7, 2008 with a registered capital of RMB4 billion, is a wholly-owned subsidiary of the Company. It is principally engaged in equity investment or debt investment in enterprises by using its own funds or setting up direct investment funds, investing in other investment funds related to equity investment and debt investment, providing customers with financial advisory services related to equity investment and debt investment, and other operations approved by the CSRC.

As of December 31, 2017, Everbright Capital had total assets, net assets and net profit amounting to RMB5.194 billion, RMB4.554 billion and RMB121.48 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.

As of December 31, 2017, Everbright Fortune had total assets, net assets and net profit amounting to RMB3.178 billion, RMB2.066 billion and RMB17.83 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 paid-in capital of HK\$2.765 billion, and a wholly-owned subsidiary of the Company. It is principally engaged in investment holding and financial services.

As of December 31, 2017, EBSHK had total assets, net assets and net loss (RMB equivalent) amounting to RMB27.539 billion, RMB614 million and negative RMB254.16 million, respectively.

6. Everbright Development Investment Co., Ltd., established on June 12, 2017 with a registered capital of RMB500 million, is a wholly-owned subsidiary of the Company. It is principally engaged in equity investment, equity investment management, investment management, asset management, project investment and investment consultation.

As of December 31, 2017, Everbright Development had total assets, net assets and net profit amounting to RMB1.039 billion, RMB504 million and RMB4.08 million, respectively.

7. Everbright Fortune International Leasing Co., Ltd., established on September 29, 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, 2017, Everbright Leasing had total assets, net assets and net profit amounting to RMB6.560 billion, RMB1.152 billion and RMB56.76 million, respectively.

SECTION IV REPORT OF THE BOARD

8. 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.

As of December 31, 2017, Everbright Pramerica had total assets, net assets and net profit amounting to RMB1.143 billion, RMB850 million and RMB157.18 million, respectively.

9. Everbright Yunfu Internet Co., Ltd., established on April 16, 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, 2017, Everbright Yunfu had total assets, net assets and net profit amounting to RMB2.851 billion, RMB216 million and RMB14.70 million, respectively.

10. Everbright Eascreate Network Technology Co., Ltd., established on September 6, 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, 2017, Everbright Eascreate had total assets, net assets and net profit amounting to RMB230 million, RMB113 million and RMB10.74 million, respectively.

11. 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 fund raising, fund sales and asset management.

As of December 31, 2017, Dacheng Fund had total assets, net assets and net profit amounting to RMB3.036 billion, RMB2.133 billion and RMB223.49 million, respectively.

(VI) Structured entities under the control of the Company

As of December 31, 2017, the Group consolidated 22 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, 2017, the net assets of the above structured entities within the scope of consolidation amounted to RMB10.4 billion.

SECTION IV REPORT OF THE BOARD

For changes in operating entities including new subsidiaries, liquidated subsidiaries, structured entities or entities the control of which were obtained through entrusted operation, please refer to Note 23 to the consolidated financial statements.

(VII) Use of proceeds

In August 2016, the Company issued a total of 704,088,800 overseas listed foreign shares (H Shares), and raised effective proceeds amounting to HK\$8,926,855,727.40 (equivalent to RMB7,631,224,758.25 calculated based on the central parity rate of the HKD to RMB exchange rate announced by the People's Bank of China on the actual settlement date). The net proceeds amounted to RMB7,380,333,967.67 after deducting the issuance expenses.

The Company undertook that all such proceeds be used in the ways as set out in the H Shares prospectus including developing capital intermediary business, funding operations of overseas business and inorganic expansion of onshore and offshore platforms, developing wealth management business and institutional securities services businesses, funding working capital and establishing back-office systems.

The Company had a relatively large number of onshore pipeline projects, therefore demanding greater amount of funds for those projects. In order to enhance the efficiency of the use of proceeds, the Company made great efforts to develop capital intermediary business and hence maximized the interests of investors. The Proposal on the Change in the Use of Proceeds from the Issuance of H Shares was reviewed and approved by the 30th meeting of the fourth session of the Board and the 3rd extraordinary general meeting in 2017. The approved change in the percentage of the use of proceeds from the issuance of H Shares is as follows:

Use of Proceeds	Before change	After change
Further developing capital intermediary business across all business lines of the Company to satisfy the investment and financing needs of the Company's clients	approximately 35%	approximately 59%
Funding existing operations of the Company's overseas business and the inorganic expansion of the Company's onshore and offshore platforms	approximately 35%	approximately 11%
Developing wealth management business and institutional securities services businesses of the Company	approximately 20%	approximately 20%
Funding working capital, establishing back-office systems and other general corporate purposes	approximately 10%	approximately 10%

As at December 31, 2017, the use of proceeds from the Company's issuance of H Shares is as follows: RMB4,527,329,526.16 was used to develop capital intermediary business, RMB868,130,000 was used to expand overseas business, RMB1,460,000,000 was used to develop wealth management and institutional securities services business, and RMB760,000,000 was used for funding working capital, establishing back-office systems and other general corporate purposes (the used proceeds from the issuance of H Shares denominated in RMB were calculated at the effective exchange rate; the used proceeds from the issuance of H Shares denominated in Hong Kong dollars were calculated at the

SECTION IV REPORT OF THE BOARD

current exchange rate; the exchange rate of the unused proceeds from the issuance of H Shares were calculated based on the exchange rate as of the end of 2017. Based on the translation at above exchange rates, the net proceeds from the issuance of H Shares amounted to RMB7,699,031,743.03.)

For details of the use of proceeds from all the bonds issued by the Company, please refer to “III. Use of Proceeds Raised from Issuance of Corporate Bonds” of Section IX “Relevant Information on Corporate Bonds” in this report.

(VIII) Impact of implementing IFRS 9 “Financial Instruments”

The Group adopted IFRS 9 on January 1, 2018. For the details of its major impact, please refer to Note 2 to the consolidated financial statements.

(IX) Financing channels of the Company

The financing channels of the Company comprise equity financing and debt financing. In 2017, the Company did not commence equity financing and its main debt financing instruments included: public corporate bonds, non-public corporate bonds, short-term corporate bonds of the securities companies, as well as debt income right transfer of financing business, structured notes, asset-backed plan backed by stock-pledged creditor's rights, margin refinancing from CSFC, inter-bank borrowing and gold leasing. The principle and interest of the debt financing instruments were all paid in a timely manner.

(X) Analysis of the financing capability of the Company

As an A- and H-share listed securities firm with good market reputation and domestic and overseas financing capabilities, the Company focuses on the maintenance of the financing instruments and relations with transaction parties and maintains a good partnership with commercial banks. In 2017, the Company obtained banking facilities from 36 banks with an aggregate amount of RMB219.2 billion at the end of the year, representing an increase of RMB41.5 billion. Meanwhile, the great capital strength of Everbright Group also provides solid protection for the Company.

SECTION IV REPORT OF THE BOARD

III. Management Discussion and Analysis on the Future Development of the Company

(I) Competition landscape and development trend of the industry

In 2018, the market environment will be more complicated with the opportunities and challenges in the securities industry coexisting. On the one hand, the opportunities brought by national development will start a new phase in the development of the industry. As the new era of socialism with Chinese characteristics begins, the development of the country ushers in new impetuses and opportunities. The reform on the supply side will continue to deepen. The opening up to the outside world has been continuously expanded and the coordinated development of the region has been promoted in an all-round mode. This has provided a direction for the return of financial enterprises to its original positioning and their high-quality development. On the other hand, the competition in the securities industry started to enter a period of differentiation. With the adjustment of economic structure, the expansion of market space, changes in customer needs and the concentration and exposure of risks, the industry concentration further increased, and the differentiation further intensified. The strong ones will always remain strong. The future industry position of securities companies will depend on their ability to adapt, transform and upgrade themselves.

(II) Development Strategy

In 2017, the Company persisted in seeking stability amidst changes and striving for progress. Adhering to the service concept of "Customer-centered", the Company integrated its operations and developed steadily. Led by the goal of developing a "versatile investment bank" and using its capital intermediary business as the link, the Company will continue its integrated management, synergistic linkage and innovative development. It will continue to promote the market-based reforms of the management system, operating mechanism and business models to strive to promote its transformation and development. The Company insisted on returning to the original positioning of investment banking, steadily promoted the integrated operation and contributed to and supported the regional development and the real economy, while effectively promoting the enhancement of overseas businesses and improving its market competitiveness and brand influence.

The year of 2018 is an important year. It is not only the first year for implementing the spirit of the 19th CPC National Congress, but also the crucial year for the strategic optimization and upgrading of

SECTION IV REPORT OF THE BOARD

the Company. Under the guidance of President Xi Jinping's socialism with Chinese characteristics in a new era, the Company will continue to adhere to the general work tone of "seeking progress while maintaining stability" and promote high-quality development under the premise of effectively controlling risks. By creating a high-quality customer base, high-quality business model, high-quality personnel, high-quality institutional mechanisms, high-quality risk control and compliance and high-quality capital strength, the Company will unswervingly move forward to its goal of building a "top-class versatile investment bank with global competitiveness".

(III) Business Plan

In 2018, the Company will continue to adhere to the general tone of "seeking progress while maintaining stability", focus on its work, consolidate its foundations, pay attention to compliance, optimize management, promote integration and strengthen the party building to vigorously promote the high-quality layout and high-quality development of operation and management.

Firstly, the Company will focus on strategic optimization to smoothly achieve the design and layout of a new path featuring high-quality development. The year of 2018 is the initial year for the Company to formulate its new five-year strategy, which will integrate the country's requirements for financial development into the Company's own development strategy and reposition the Company to the origins of investment banking to enhance its ability to serve the real economy.

The second task is to continuously improve the basic business. The Company will optimize and improve the retail business system, strengthen product sales, promote channel business transformation to wealth management, scientifically plan the network layout and implement branch-based management by class. The Company will enrich the supply of Internet products, services and content, optimize financial technology application experience and enhance the penetration and the activeness of Internet channels. The Company will also improve the customer service system, continue to enhance branches' capability to serve high-net-worth customers. The investment banking business should create an "investment banks+" service ecosystem; implement the large project strategy, look for business opportunities in the key industries, enterprises and major projects that are encouraged and supported by the state, and actively participate in the reform of state-owned enterprises to earnestly enhance its ability to serve the real economy.

The third task is to further strengthen businesses with comparative advantages. The Company will consolidate its leading market position in the bond business, extend and improve the chain of large-scale fixed-income business, strengthen cooperation with financial institutions such as large banks, further enrich product mix and project experience, provide comprehensive financial services and strengthen the continuous services in key districts and key areas for key customers. The Company will carefully analyze regulatory requirements for the stock pledge business and steadily increase its market share. The Company will promote the upgrading from general financial services to comprehensive financial services to steadily expand the business scale. While retaining existing customers, the Company will integrate resources through different lines to strengthen post-loan management and strictly control credit risks. Based in the Mainland and built on the solid foundation in Hong Kong, the Company's overseas business will radiate the surrounding, expand into the world, and effectively leverage the advantages of the integrated domestic and foreign operations. By focusing on possible cross-border synergy opportunities, the Company will effectively break barriers and strive to create new growth points to meet the diverse financial needs of customers.

SECTION IV REPORT OF THE BOARD

The fourth task is to focus on promoting the development of key business transformation. The asset management business will take the initiative to adapt to the changes brought by the new regulations, adjust its business strategies and steadily conduct transformation in its development. The Company will give full play to the advantages of active management, strengthen the construction of investment research system, make every effort to enhance the investment performance as the core competitiveness and build up the product brand. The traditional institutional sales business will proactively transform and achieve differentiated development, whereas the private equity business will integrate customer needs, complete incubation and support, cultivate FOF asset management capabilities, and strengthen PB system planning and construction.

The Company will also gradually remove internal and external bottlenecks by consolidating its customer base, optimizing its service system and improving its product system; attach importance to compliance and persevere in its pursuit of steady development; refine management to continuously improve the management and service level. At the same time, the Company will reposition itself to the origins of investment banking and leverage on financial integration to participate in and contribute to the integration of industry and finance.

(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.

SECTION IV REPORT OF THE BOARD

In view of its overseas expansion and business development, the Company may be exposed to foreign exchange risks. In terms of sources and use of proceeds, the Company's potential foreign exchange risks are mainly entailed in investment in foreign currency assets through onshore RMB financing and investment in RMB assets through foreign currency financing. As of the end of the Reporting Period, the Company has not commenced any of the above businesses. Proceeds from foreign currency financing by offshore subsidiaries will be all specifically used for investment in the local market to achieve natural hedging of foreign exchange risks. Looking forward, the Company will mitigate foreign exchange risks through a range of hedging measures based on the actual situation so as to support its overseas expansion and business development.

(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.

(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

SECTION IV REPORT OF THE BOARD

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.

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.

SECTION IV REPORT OF THE BOARD

During the Reporting Period, the Company continued to deepen the reform of information technology and enhance its support to information technology. It strengthened its maintenance services and safety management so as to ensure the safe, stable and efficient operation of the information system. It endeavored to promote its financial technology strategy, led innovative businesses with science and technology and promoted the upgrade of traditional businesses to achieve full use of science and technology in its business management. The Company will focus on attracting more scientific and technological talents, increasing the budget for the development of financial technology and adopting the Company's strategy to cover the front, middle and back office reforms of the Company.

Under the guidance of the operation and maintenance philosophy of "building up knowledge from experience, setting standards for knowledge, aligning procedures to the standards and optimizing the procedures for better operations", the Company persisted in the general philosophy of "prevention first and contingency plan as secondary measure" and continued to intensify the standardization of operation and maintenance management, the construction of standards and the optimization of operation and maintenance tools. The Company strengthened the operation and maintenance monitoring system and platform construction, increased the operation and maintenance automation application, enhanced the system capacity management, and continuously optimized various performance indicators of the system. Regular desktop simulations and drills were conducted to further improve and optimize the system emergency response process and comprehensive analysis and assessment of various risks faced by the information technology were conducted regularly so as to prevent and avoid all kinds of information technology risks. The Company continued to revise and improve the information technology management system, strengthened personnel training, enriched the operation and maintenance skills, and continuously improved its operation and maintenance management levels and emergency response capabilities.

(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 carried out appropriate and effective reputation risk management, established a standardized management system and a scientific organizational structure and system, and successively formulated and optimized the "Management Measures of Everbright Securities Company Limited on Information Release" (光大證券股份有限公司資訊發佈管理辦法), "Management Measures of Everbright Securities Company Limited on Reputation Risk Prevention and Control and Crisis Public Relations" (光大證券股份有限公司聲譽風險防控和危機公關事務管理辦法), "Management Measures of Everbright Securities Company Limited on Reporting of Major Incidents" (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 Plans 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 other internal measures.

SECTION IV REPORT OF THE BOARD

The Company set up a Media Affairs Management Working Group and an Emergency Response Leading Group for the coordination and unified administration of reputation risk management at the company and department levels. In addition, the Company has designated a special staff to take charge of public opinion monitoring and the maintenance of relations with external media, and also hired consultancy firms and law firms to assist in reputation risk management.

At present, the Company has realized full coverage of its subsidiaries' reputation risk prevention and control systems. All subsidiaries have established measures for the prevention and mitigation of reputation risk in accordance with their own actual conditions.

(7) Compliance risk

Compliance risk refers to the risk of legal liability, being subjected to regulatory proceedings, disciplinary action, or loss of property or business reputation arising from violation of laws, regulations and rules due to the operation and management or practices of the Company or its personnel.

In order to effectively control compliance risk, the Company, through establishing a practicable compliance management system, has realized effective identification, assessment and management of compliance risks and develops long-term compliance assessment accountability and training mechanisms, providing effective support and supervision for lawful and compliant operations of the Company.

(V) Business innovation

In 2017, the Company's faster innovation paces led to new competitive edges in key business areas, innovative financial technology and other fields. The newly established private equity subsidiary, as the first player in the industry that is dedicated to government and social capital cooperation related ventures, introduced an innovative integrated financial service pattern to form a new profit model in serving the real economy, thus building first-mover advantages in the industry. Resources were invested into FICC, OTC options, ABS, PB, PPP and other innovative businesses to develop new profit drivers. With efforts to improve the quality of information management and trading system, the pioneering "Continuous real-time securities transaction data processing method and device" was granted the industry's first national invention patent, filling the gap in the industry in this field. Based on financial innovation and Internet technology innovation, Smart Investment Matrix (智投魔方), an Internet-based integrated financial service product incorporating social media, intelligence, personalized scenes and data, was launched and marked a milestone in the Company's strategic presence in financial technology.

Focusing on the development status and risk characteristics of innovative business, the Company has established innovative operating policies and management structures, formulated corresponding management systems, clarified the commencement, assessment, approval and filing procedures of innovative business, and ensured that all innovative operations are commenced in accordance with the principles of compliance with laws and regulations, and with risks under control.

The Company incorporated its innovative business into the general risk management system, set up and actively monitored various risk control indicators and risk limitations according to the risk characteristics of innovative business and provided risk alerts and notices for business departments in a timely manner to ensure that risk exposures are under control within the bearable scope of the Company's net assets and liquidity level.

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 2017 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 2017, by virtue of regulatory provisions and business management requirements, the Company formulated and revised a series of internal management policies 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. The Company 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 during the Reporting Period and biographies, please refer to Section VII "Particulars about Directors, Supervisors, Senior Management and Employee" of this report.

SECTION IV REPORT OF THE BOARD

(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 entered into "Service Contracts for Directors" and "Service Contracts for Supervisors" with its incumbent Directors and Supervisors. For details of the service term of the Directors and Supervisors, please refer to Section VII "Particulars about Directors, Supervisors, Senior Management and Employee" of this report.

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 debentures of, the Company or any other body corporate.

(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.

SECTION IV REPORT OF THE BOARD

(VIII) Management contracts

For the year ended December 31, 2017, 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 2017, 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" of Financial Statements and note 52 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 Employee" of this report.

(XII) Equity-linked agreements

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

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

As of December 31, 2017, Mr. Yin Lianchen, a non-executive Director of the Company, had personal interest of 26,000 shares of Everbright Limited and 160,000 shares of China Everbright International Limited ("Everbright International") (a company listed on the Hong Kong Stock Exchange, stock code: 257), representing 0.00% and 0.00% of the total issued share capital of Everbright Limited and Everbright International, respectively. Everbright Limited and Everbright International are associated corporations of the Company.

SECTION IV REPORT OF THE BOARD

Save as disclosed above, as of December 31, 2017, 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 Kong 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) POVERTY ALLEVIATION

1. Targeted Poverty Alleviation Plan

Responding to the call of government for poverty alleviation, the Company promptly set up a poverty alleviation leading committee which is chaired by Xue Feng, the Chairman of the Company, and co-chaired by Liu Jiping, the chairman of the Supervisory Committee, and Zhou Jiannan, the Executive President of the Company, in accordance with the poverty alleviation requirements of the CSRC and Everbright Group. The Company signed one-to-one assistance agreements with 5 state-level impoverished counties (Xintian County of Hunan, Xiji County of Ningxia Hui autonomous region, and Wan'an County, Xingguo County and Xunwu County of Jiangxi) as well as the Qiaozhen Township Central Primary School in Ganquan County, Yan'an City of Shaanxi, while carrying forward the assistance to Daozhu Primary School in Zunyi City of Guizhou. The Company drew upon its advantages in the industry and continuously explored through practices to improve its innovative "Securities +" integrated poverty alleviation model. Project initiation was accelerated relying on Everbright Sunshine Foundation to actively follow the requirements of the CSRC and Everbright Group, as driven by the joint efforts with industrial, CPC and public welfare organizations in the supported areas and guided by broader vision, synergy, resource sharing and market awareness to enhance accountability, implementation, financial support, steering and publicity. In 2017, the Company helped poverty-stricken regions to introduce various financial resources totaling RMB4 billion, to support their infrastructure construction and economic development. The Company invested more than RMB20 million in 23 poverty alleviation and public welfare projects, covering 4,261 registered individuals, among which 502 persons have cast off poverty. Moreover, the Company helped nearly 400,000 teachers and students in 7 regions of 5 provinces to subscribe for critical illness insurance policies with a total insured amount of nearly RMB11 billion.

2. Summary of Targeted Poverty Alleviation Work in the Year

Securities + Industry: The aim is to strengthen industrial cultivation, local financing, company counseling, project introduction and resource input, to facilitate economic upgrade in the supported areas. The Company donated RMB2.25 million for the construction of a photovoltaic power station at

SECTION IV REPORT OF THE BOARD

Caocheng Village in Chengnan Township, Xi County of Shanxi, which is expected to help 149 persons in 58 households to cast off poverty. RMB500,000 was donated for poverty relief to support the apple cultivation at Tongju Village in Yanchang County of Shaanxi for stable income growth in impoverished households, which helped 53 persons in 25 households to cast off poverty. RMB500,000 was contributed for the construction of Everbright Comprehensive Market at Xiaxi Village, Lecheng Street, Lechang City of Guangdong. RMB100,000 was contributed to Longyinsi Village, Baimiao Town, Yuechi County, Guang'an City of Sichuan to fuel local economy.

Securities + Capital: The Company set up the first tranche of RMB300 million eco-economy fund in cooperation with Jingning She Minority Autonomous County of Zhejiang to promote local green economy. Also, the Company guided Xintian County of Hunan to raise financing of over RMB1 billion for improving infrastructures. With the aid of the Company, Xingguo County of Jiangxi planned to issue urban construction bonds of RMB1.5 billion for improving infrastructures. The Company also teamed up with Everbright Bank to set up Everbright Bank branches in Yongzhou City and Xintian County to vitalize economy at prefecture and county levels.

Securities + Futures + Insurance: The “Sunshine Agro (陽光惠農)” series products combining securities, futures and insurance are designed for hedging and price protection of agricultural products. The insurance and option products with agricultural product price as the underlying, which innovatively combine securities, futures and insurance, were developed and funded with RMB1.5 million, to provide price protection to 28,000 Mu of potato field of 2,261 registered impoverished households in Xiji County of Ningxia in order to mitigate the impact of price fluctuations. During the year, compensation of RMB560,000 was paid to the impoverished households, leading to approximately RMB250 income growth per household.

Securities + Real Economy: RMB1.6 million was contributed to 6 agricultural programs in Xintian County of Hunan, including a chicken breeding program. The Company gave full play to its information advantages to develop customer resources and helped poverty-stricken regions to introduce 8 registered enterprises.

Securities + Infrastructure: The donation for infrastructure upgrade included 10.2 kilometers of surface hardened village road, 3,000 square meters of lanes and one new bridge at poverty-stricken counties, which have benefited 2,691 persons. The Company also funded 6 newly established tap water projects and the renovation of 3 dams, solving drinking water safety concern of 1,521 persons. The Company worked with a telecommunication operator to lay 18 kilometers of telecommunication optical fiber to connect the underserved areas; and funded the improvement of facilities at the CPC member activity center and CPC branch office at Xiaoshuigan Village, Menlouxia Yao Minority Township, Xintian County.

Securities + Consumption: Drawing upon the “Everbright for Everyone” online mall for targeted poverty alleviation and Everbright Bank’s exclusive online mall, the Company took initiatives to forge the “Sunshine Farm” consumer goods brand dedicated for poverty alleviation. Agricultural and sideline products from poverty-stricken regions, including selenium-enriched farm products in Xintian County of Hunan and navel oranges in Xunwu County of Jiangxi, were co-marketed and sold on the online malls, creating a new pattern for Internet e-commerce targeting poverty alleviation. More than 4,100 purchase orders for special agricultural products from Xintian County of Hunan and 2,400 purchase orders for navel oranges from Ganzhou of Jiangxi were executed, with a total amount of RMB1.25 million.

SECTION IV REPORT OF THE BOARD

Securities + Intelligence: A professional tutor team was set up to provide training and counseling on capital market knowledge, including 5 training sessions with more than 700 participations. The Company provided counseling on corporate bonds to county-level urban construction companies, to help them broaden the financing channels. The Company worked with professional companies to provide fine cultivation training to local governments and farmers, while providing vocational skills training for local enterprises to promote employment.

Securities + Education: The Company actively participated in the Everbright “Mingde” student sponsorship scheme, calling employees to donate RMB243,300 to support 253 students in the Everbright Daozhu Primary School in Zunyi and other programs sponsored by Everbright Securities. In the “One-to-one Educational Aid” program, employees made donation to 19 students in Daozhu Primary School. RMB200,000 was donated to Qiaozhen Central Primary School in Ganquan County, Yan’an City of Shaanxi, to fund heating, schoolhouse maintenance, classroom renovation of the school. As a part of the Everbright Summer Camp, 35 teachers and students from Daozhu Primary School and five poverty-stricken counties were invited to join a study tour to Shanghai.

Securities + Healthcare: Approximately RMB3.65 million was contributed to the “Sunshine Care” charity scheme co-sponsored with Sun Life Everbright Life Insurance for a customized critical illness insurance plan with a total insured amount of RMB11 billion. The scheme included a customized “Seedlings in the Sunshine” plan which covers students in Xintian County of Hunan, Xiji County of Ningxia, and Wan’an County, Xingguo County and Xunwu County of Jiangxi, as well as the Qiaozhen Township Central Primary School in Ganquan County in Yan’an City and Daozhu Primary School in Guizhou. Also, a “Gardeners in the Sunshine” plan was customized for all teachers in the said poverty-stricken regions, thus shaking off the concern of approximately 360,000 teachers and students about disease-caused poverty.

Securities + Charity: RMB2 million was donated to support poverty-relief, student assistance, elderly care and other charity activities in Shanghai and Jing’an District.

3. Achievements of Targeted Poverty Alleviation

Unit: RMB0’000

Indicator	Amount/Status
I. General information	2,086.038
Including: 1. Cash	2,086.038
2. Value of goods	
3. Number of registered impoverished individuals having cast off poverty (person)	502
II. Breakdown	
1. Poverty alleviation through economic development	1,296.733

SECTION IV REPORT OF THE BOARD

Indicator	Amount/Status
	<input checked="" type="checkbox"/> Agriculture and forestry <input type="checkbox"/> Tourism <input checked="" type="checkbox"/> E-commerce <input checked="" type="checkbox"/> Return on assets <input type="checkbox"/> Technology <input type="checkbox"/> Others
Including: 1.1 Category of poverty alleviation	
1.2 Number of programs	19
1.3 Project investment	1,296.733
1.4 Number of registered impoverished individuals having cast off poverty (person)	502
2. Poverty alleviation through employment	
Including: 2.1 Investment in vocational skills training	
2.2 Participation in vocational skills training (participants)	
2.3 Number of registered impoverished individuals employed (person)	
3. Poverty alleviation through relocation	
Including: 3.1 Number of individuals employed after relocation (person)	
4. Education related poverty alleviation	84.33
Including: 4.1 Subsidies to students in need	24.33
4.2 Number of sponsored students in need (person)	
4.3 Education resource investment in poverty-stricken regions	60
5. Poverty alleviation relating to healthcare	364.975
Including: 5.1 Healthcare resource investment in poverty-stricken regions	364.975 (provided aids to about 365,000 teachers and students)
6. Poverty alleviation relating to ecological protection	
Including: 6.1 Project name	<input type="checkbox"/> Ecological protection and construction <input type="checkbox"/> Establishment of ecological protection and compensation model <input type="checkbox"/> Establishment of ecological public welfare posts <input checked="" type="checkbox"/> Others

SECTION IV REPORT OF THE BOARD

Indicator	Amount/Status
6.2 Project investment	Set up the first tranche of RMB300 million eco-economy fund in cooperation with Jingning She Minority Autonomous County of Zhejiang
7. Financial subsidies	
Including: 7.1 Subsidies to "three types of left-behind" individuals	
7.2 Number of subsidized "three types of left-behind" individuals (person)	
7.3 Subsidies to the impoverished disabled	
7.4 Number of the subsidized disabled (person)	
8. Social poverty alleviation	140
Including: 8.1 Contribution to the Eastern-western poverty alleviation cooperation program	
8.2 Contribution to the targeted poverty alleviation program	
8.3 Poverty alleviation foundation	140
9. Other projects	200
Including: 9.1 Number of projects	1
9.2 Project investment	200
9.3 Number of registered impoverished individuals having cast off poverty (person)	
9.4. Notes to other projects	RMB2 million was donated to support poverty-relief, student assistance, elderly care and other charity activities in Shanghai and Jing'an District

SECTION IV REPORT OF THE BOARD

Indicator	Amount/Status
III. Awards and recognitions (details and class)	The Company was named “Charity Star of Shanghai” (provincial level) by Shanghai Charity Foundation and Shanghai Civilization Office and “Charity Star of Jing’an District” (municipal level) by Shanghai Charity Foundation Jing’an Branch and Jing’an District Civilization Office. The Nanchang Square South Road Brokerage Branch was named “Outstanding Unit in Poverty Alleviation” (municipal level) by the CSRC Jiangxi Office and Jiangxi Securities and Futures Association. Zhou Guoping, an officer of Everbright Securities, was awarded the “Top 100 Figures for Poverty Alleviation” in Hunan (provincial level) by the Hunan Provincial Poverty Alleviation and Development Leading Group.

4. Subsequent Targeted Poverty Alleviation Plans

The Company will focus on economic poverty relief and targeted poverty alleviation, to step up the support to key sectors and the real economy in the supported areas and strive to increase the coverage of poverty relief and the number of persons casting off poverty. The Company will take a variety of initiatives to support financing of enterprises in poverty-stricken areas, seeking to offer services in IPO, NEEQ, green bonds (including asset securitization products) and corporate bonds for innovative startups. The Company will carry on the “securities + futures + insurance” poverty alleviation project in Xiji County of Ningxia, aiming to expand the coverage of similar programs. Efforts will be taken to examine and effectively implement “Seedlings in the Sunshine” and “Gardeners in the Sunshine”, two critical illness insurance plans respectively in favor of students and teachers in the supported areas. Deepening the consumption-based poverty alleviation model, the Company will work with Everbright Bank’s exclusive online mall to sharpen the “Sunshine Farm” brand as an effective sales channel for marketing special agricultural and other products from the supported areas. The Company will carry forward capital market knowledge training and counseling, seeking to translate favorable policies into poverty alleviation effect as soon as possible. Furthermore, the Company will soup up poverty alleviation via financial services by closely following and expediting the establishment branches of Everbright Securities and Everbright Bank.

SECTION IV REPORT OF THE BOARD

(XV) Active performance of social responsibilities

As a state-owned holding financial enterprise, the Company always upholds the philosophy of “creating value for customers, the staff, the shareholders and the community”, and actively fulfills the corporate social responsibility. At the time of publishing this report, the Company will also publish the 2017 Annual Corporate Social Responsibility Report of Everbright Securities Company Limited on the website of the SSE (<http://www.sse.com.cn>).

The Company has complied the “2017 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 “2017 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) and the Company’s website (www.ebscn.com). During the Reporting Period, the Company has complied with the “comply or explain” provisions set out in the Environmental, Social and Governance Reporting Guide.

(XVI) Donations

During the Reporting Period, the Group’s donations amounted to approximately RMB19.9 million in total.

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

Shanghai, the PRC
March 26, 2018

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 2016 annual general meeting of the Company considered and approved the proposal in relation to the Company's 2016 profit distribution proposal. On July 19, 2017, the Company's 2016 profit distribution was completed.

The 4th meeting of the fifth session of the Board considered and approved the proposal in relation to the Company's 2017 profit distribution plan: on the basis of a total share capital of 4,610,787,639 A Shares and H Shares in issue as of December 31, 2017, cash dividend of RMB2.00 per 10 shares (tax inclusive) 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 2017 annual general meeting of the Company. The above distribution proposal will be submitted to the Company's 2017 general meeting for consideration, and cash dividend will be distributed within two months after the pass of the proposal by the Company's 2017 general meeting.

The Company will announce in due course the date of the 2017 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 dividends to the holders of H Shares, as well as the record date and the date for the payment of the dividends to holders of A Shares.

SECTION V SIGNIFICANT EVENTS

- (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 (%)
2017	2.0	922,157,527.80	3,016,470,221.54	30.57
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

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, 2017 to December 31, 2017.

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, 2017 to December 31, 2017, 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, 2017 to December 31, 2017.

SECTION V SIGNIFICANT EVENTS

III. Appointment and Dismissal of Accounting Firms

	Previous engagement	Current engagement
Name of domestic accounting firm	KPMG Huazhen LLP (Special General Partnership)	Ernst & Young Hua Ming LLP (Special General Partnership)
Remuneration of domestic accounting firm	RMB2.2 million	RMB3.08 million
Years of audit service of domestic accounting firm	4	1
Name of overseas accounting firm	KPMG	Ernst & Young
Remuneration of overseas accounting firm	430	Note
Years of audit service of overseas accounting firm	4	1

	Name	Remuneration
Accounting firm for internal control	Ernst & Young Hua Ming LLP (Special General Partnership)	See note

Note: The Company's audit fees for domestic audit services and internal control amounted to RMB3.08 million; the audit fees paid to the overseas accounting firm for its provision of audit advice for ESIL and SHKFGL amounted to HK\$4.5 million (equivalent to RMB3.76 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.

SECTION V SIGNIFICANT EVENTS

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.

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 2017, the actual amount of rental income from the properties leased to Everbright Group and its affiliated parties was RMB3.3126 million, and the actual rental expenditure incurred for the properties rented from Everbright Group and its affiliated parties was RMB16.7399 million.

SECTION V SIGNIFICANT EVENTS

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 Shares 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.

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.

SECTION V SIGNIFICANT EVENTS

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 2017, the actual cash inflow from the transaction of securities and financial products was RMB111,725.0 million; and the actual cash inflow for the transaction of securities and financial products was RMB106,400.0 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 2017, the actual revenue gained by the Group for the securities and financial services provided to Everbright Group and its affiliated parties was RMB320.41 million, and the actual expense paid by the Group for the securities and financial services provided by Everbright Group and its affiliated parties was RMB117.06 million.

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.

SECTION V SIGNIFICANT EVENTS

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 for transactions involving 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 agreements governing the transactions; and
4. nothing has come to their attention that causes them to believe that the aggregate amount of the above-mentioned continuing connected transactions have exceeded the annual cap as set by the Company.

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

Related Party Transactions referred to in the Consolidated Financial Statements and Connected Transactions under the Hong Kong Listing Rules

Save as disclosed above, there is no related party connection or continuing related party transaction referred to in Note 56 to the Consolidated Financial Statements that falls into the category of connected transactions or continuing connected transactions that need to be disclosed under the Hong Kong Listing Rules. The Company has complied with the requirements under Chapter 14 of the Hong Kong Listing Rules with respect to the connected transactions and continuing connected transactions of the Company.

VI. Material Contracts and Their Performance

(I) Guarantees

Unit: RMB in 100 million

External guarantees provided by the Company (excluding guarantees provided for subsidiaries)

Total amount of guarantees provided during the Reporting Period (excluding guarantees provided for subsidiaries)	–
Total amount of guarantees outstanding at the end of the Reporting Period (A) (excluding guarantees provided for subsidiaries)	–

Guarantees provided by the Company and its subsidiaries for subsidiaries

Total amount of guarantees provided for subsidiaries during the Reporting Period	–
Total amount of guarantees provided for subsidiaries outstanding at the end of the Reporting Period (B)	136.50

SECTION V SIGNIFICANT EVENTS

Total amount of guarantees provided by the Company (including guarantees provided for subsidiaries)

Total amount of guarantees (A+B)	136.50
Proportion of the total amount of guarantees to the Company's net assets (%)	27.29%
Including:	
Guarantees provided for shareholders, de facto controller and their related parties (C)	—
Debt guarantees provided directly or indirectly for guaranteed objects with a gearing ratio of over 70% (D)	—
The guarantees whose total amount exceeds 50% of the net assets (E)	—
Total amount of the above three guarantees (C+D+E)	—
Description of guarantees outstanding that may be involved in joint and several liabilities	
Description of guarantees	

During the Reporting Period, guarantees provided by the Company mainly included the provision of net capital guarantee for Everbright Asset Management, a wholly-owned subsidiary of the Company, and the provision of a counter guarantee to the guarantor of the first tranche of offshore bonds issued by Double Charm Limited, an indirect wholly-owned subsidiary of the Company. As at December 31, 2017, the balance of the above guarantees amounted to RMB5.472 billion. Guarantees provided by controlling subsidiaries of the Company mainly included the loan guarantees and financing guarantees provided by EBSHK, a wholly-owned subsidiary of the Company, and its subsidiaries to their subsidiaries for the business development of such companies. As at December 31, 2017, the balance of the above guarantees amounted to RMB8.178 billion.

SECTION V SIGNIFICANT EVENTS

VII. Other Significant Events and Subsequent Events

(I) Completion of the Board and the Supervisory Committee re-election

On August 29, 2017, the Company held the 31st meeting of the fourth session of the Board to nominate candidates for directors and independent non-executive directors and propose for considering and approving the official assumption of duties of the fifth session of the Board at the Company's general meeting held on October 17, 2017. On October 26, 2017, the Company held the first meeting of the fifth session of the Board, at which Mr. Xue Feng was elected as the chairman of the fifth session of the Board of the Company, and members of each special committee under the Board were also elected. The fifth session of the Board currently consists of 11 directors, including four independent non-executive directors.

On August 29, 2017, the Company held the 17th meeting of the fourth session of the Supervisory Committee to nominate candidates for supervisors and external supervisors and propose for considering and approving the appointment of three employee supervisors elected by the Employee Congress of the Company as well as the official assumption of duties of the fifth session of the Supervisory Committee at the Company's general meeting held on October 17, 2017. On October 26, 2017, the Company held the first meeting of the fifth session of the Supervisory Committee, at which Mr. Liu Jiping was elected as the chairman of the fifth session of the Supervisory Committee of the Company, and members of each special committee under the Supervisory Committee were also elected. The fifth session of the Supervisory Committee currently consists of eight supervisors, including two external supervisors and three employee supervisors.

(II) Change of the legal representative

On October 26, 2017, the Company held the first meeting of the fifth session of the Board to appoint Mr. Zhou Jiannan as the Executive President of the Company. Pursuant to the Articles of Association, the legal representative of the Company was changed to Mr. Zhou Jiannan. The Company obtained the renewed business license issued by the Shanghai Administration for Industry and Commerce in January 2018 and completed the procedures for the change of legal representative.

SECTION V SIGNIFICANT EVENTS

(III) Increase in capital investment in subsidiaries

- (1) As considered and approved by the 30th meeting of the fourth session of the Board of the Company, the registered capital of Everbright Capital, a wholly-owned subsidiary of the Company, was increased from RMB2 billion to RMB4 billion. Everbright Capital completed the industrial and commercial registration procedures for such increase in its registered capital and obtained a new corporate business license in October 2017.
- (2) As considered and approved by the 16th meeting of the fourth session of the Board of the Company and in accordance with the “Reply on Approving the Qualification of Everbright Futures Co., Ltd. in the Operations of Public Offering of Securities Investment Funds” (Hu Zheng Jian Xu Ke [2017] No. 10), the registered capital of Everbright Futures, a wholly-owned subsidiary of the Company, was increased from RMB1 billion to RMB1.5 billion and the “operations of public offering of securities investment funds” was added to its scope of business. Everbright Futures completed the industrial and commercial registration procedures for such increase in capital investment and expansion of scope of business and obtained a new corporate business license in April 2017.
- (3) As considered and approved by the 22nd meeting of the fourth session of the Board of the Company and in accordance with the “Reply on the Proposed Increase in Capital Investment in Everbright Securities Financial Holdings Limited by Everbright Securities Company Limited” issued by the Securities and Funds Institutions Regulatory Department of the CSRC (Ji Gou Bu Han [2017] No. 1200), the paid-in capital of EBSHK, a wholly-owned subsidiary of the Company, was increased from HK\$1.765 billion to HK\$2.765 billion.

(IV) Establishment of subsidiaries

- (1) As reviewed and approved by the 23rd meeting of the fourth session of the Board of the Company, Everbright Development Investment Co., Ltd. (“Everbright Development”), a wholly-owned subsidiary of the Company, was officially established and obtained a business license. The registered capital of Everbright Development is RMB500 million and the Company holds all the issued shares of Everbright Development. Everbright Development is principally engaged in equity investment, equity investment management, investment management, asset management, project investment and investment consultation.
- (2) As considered and approved by the 29th meeting of the fourth session of the Board of the Company, Everbright Leasing, a controlling subsidiary of the Company, invested RMB120 million to jointly establish a finance leasing company with Guangdong Trading Holding Group and Fastwell Allied Development Limited.

SECTION V SIGNIFICANT EVENTS

(V) Establishment of branches

In accordance with the “Reply on the Approval for the Establishment of 19 Securities Branches by Everbright Securities Company Limited” (Hu Zheng Jian Xu Ke [2017] No. 43) issued by the CSRC Shanghai Bureau, the Company was approved to set up 19 securities brokerage branches. As of the date of this report, the establishment of the above branches had been completed. As considered and approved by the 2nd meeting of the fifth session of the Board of the Company, the Company proposes to establish a branch company in Fujian.

(VI) Litigation and other related events

- (1) A total of 502 cases of civil actions against the Company were brought by investors as a result of the “816 Event”, involving an aggregate claim amount of RMB68.73 million. As of the date of this report, 497 cases were closed and a total compensation of RMB41.55 million was paid to the plaintiffs, and 5 plaintiffs filed appeals against the judgment issued by the court of first instance. Such appeals are pending final judgment and involve an aggregate claim amount of RMB0.75 million.
- (2) On January 26, 2016, the Company received a notice of appearance issued by the People’s Court of Jing’an District of Shanghai in relation to a claim filed by a client against the Company for a compensation of RMB39.39 million together with the related litigation cost. It is alleged that the Company breached the agreement on delaying margin call of his margin financing and securities lending account, which caused loss to him. On November 30, 2016, the People’s Court of Jing’an District of Shanghai rejected the plaintiff’s claim in its first instance judgment. The plaintiff was dissatisfied with the judgment and therefore filed an appeal to the Shanghai No. 2 Intermediate People’s Court. On April 28, 2017, the Shanghai No. 2 Intermediate People’s Court made a final judgment, rejecting the appeal and upholding the original judgment. In December 2017, the Company received the “Notice of Appearance for Retrial of Civil Cases” from the Higher People’s Court of Shanghai, as the client filed a retrial application with the Higher People’s Court of Shanghai for being dissatisfied with the first instance judgment and the second instance judgment. In February 2018, the Higher People’s Court of Shanghai rules that the client’s retrial application should be dismissed.
- (3) In January 2016, the People’s Procuratorate of Huining County, Gansu Province, issued a written decision on case-filing 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, the 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. In December 2017, the People’s Procuratorate of Huining County decided not to prosecute the branch by officially issuing a Written Decision on Non-prosecution.

SECTION V SIGNIFICANT EVENTS

- (4) On February 22, 2018, the Company filed an action with the People's Court of Jing'an District of Shanghai, requesting the court to order a client of the margin financing and securities lending business of the Company surnamed Wu to repay the principal amount, accrued interest and overdue interest of financing in an aggregate amount of approximately RMB47.78 million and bear the litigation cost, preservation fee and other legal costs. As of the date of this report, the case has been accepted by the People's Court of Jing'an District and the case is pending hearing.
- (5) On August 10, 2016, a court hearing was conducted in respect of the case brought by Everbright Leasing against 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") about the relevant financial leasing contract dispute. On January 25, 2017, the Higher People's court of Shanghai delivered the first instance judgment as follows: Everbright Leasing's claim was supported, and Beixing Special Steel and Beiman Special Steel, as lessees, shall pay Everbright Leasing rent, liquidated damages, remaining purchase price, legal cost and insurance premium in aggregate of approximately RMB500 million. Meanwhile, Dongbei Special Steel Group and Dalian Special Steel, as guarantors, shall assume joint and several liability for the above-mentioned debts. As neither Everbright Leasing nor the defendants appealed against the first instance judgement, the judgement has taken effect. Previously, the four defendants successively entered the bankruptcy reorganization proceedings, and the judgment was suspended according to the law. Everbright Leasing made a timely declaration of claims, and the amount so declared was fully confirmed by the administrator. Subsequently, the reorganization plans of the four defendants have been approved by the People's Court. As of the date of this report, the reorganization plans of the four defendants are being enforced, and it is expected that Everbright Leasing will be compensated according to relevant laws and regulations as well as the reorganization plans.

SECTION V SIGNIFICANT EVENTS

- (6) On February 4, 2015, Everbright Futures, a subsidiary of the Company filed an action with 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: Xinhua Xin (as the defendant) shall compensate the margin calls of approximately RMB41.90 million and pay the corresponding interest incurred to Everbright Futures; Dajiao Niu (as the defendant) shall be jointly and severally 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' 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 the aforesaid claims of Xinhua Xin and sustained the order of the court of first instance judgment. In February 2017, Shanghai No. 1 Intermediate People's Court ordered enforcement of the judgment above. On August 15, 2017, Everbright Futures received an execution sum of approximately RMB4.96 million from Shanghai No.1 Intermediate People's Court. After deducting the litigation cost of approximately RMB0.25 million and the property preservation fee of RMB5,000, which approximately were paid in advance by Everbright Futures in the course of the first instance litigation, there is still approximately RMB37.19 million yet to be repaid by Xinhua Xin to Everbright Futures. On July 17, 2017, Everbright Futures received a notice of appearance issued by the Supreme People's Court regarding the retrial of this case. On October 12, 2017, the Supreme People's Court made the decision to dismiss the retrial application made by Chengdu Xinhua Xin Chemical Materials Co., Ltd.
- (7) On June 2, 2017, Everbright Fortune Investment Co., Ltd., a subsidiary of the Company, brought a civil action against Wuyang Construction Group Co., Ltd. ("Wuyang Construction") in the Shanghai No. 2 Intermediate People's Court in respect of a debt dispute, claiming for repayment of loan principal, interest and related expenses totaling RMB93,064,359.71 from the defendant Wuyang Construction. The Shanghai No. 2 Intermediate People's Court held three hearings on the case on August 2, September 7 and October 31, 2017, respectively. On March 8, 2018, the Shanghai No. 2 Intermediate People's Court issued the judgement of first instance ruling that the defendant Wuyang Construction should repay the loan principal, interest and related expenses totaling RMB90,111,998.07 to Everbright Fortune Investment Co., Ltd, and assume the corresponding interest arising from overdue interest.

SECTION V SIGNIFICANT EVENTS

- (8) On December 26, 2017, O:TU Investments Limited (“O:TU”) (as the plaintiff) filed an action against Shanghai International Wine Exchange Co., Ltd. (上海國際酒業交易中心股份有限公司) (“SIWE”) and Everbright Fortune Investment Co., Ltd. (“Everbright Fortune”, as the defendants), with Bank of China Limited Shanghai Branch as the third party. In November 2014, to carry out the distribution and investment business for O:TU wine products, Everbright Fortune signed a memorandum, an underwriting agreement and a supplemental agreement with O:TU and SIWE to set out the key elements of the wine products to be launched, ways of distribution, investment returns, repurchase undertaking and other terms. In December 2017, O:TU alleged that the aforesaid contract was invalid and claimed for a compensation of loss of approximately RMB12.95 million from SIWE and Everbright Fortune. In January 2018, Everbright Fortune received a notice of appearance issued by the Shanghai No. 2 Intermediate People’s Court. As at the date of this report, the case is undergoing the evidence producing process and yet to be scheduled for trial.
- (9) On February 2, 2018, Everbright Fortune filed an action against Yiwu Urban and Rural New Community Investment and Construction Group Co., Ltd. (義烏市城鄉新社區投資建設集團有限公司) (“Yiwu Construction”) (as the defendant), with Wuyang Construction as the third party. Wuyang Construction had previously entered into a Creditor’s Right Transfer Agreement with Everbright Fortune, pursuant to which the creditor’s right of Wuyang Construction in the receivables from Yiwu Construction should be transferred to Everbright Fortune. Everbright Fortune claimed for payment by Yiwu Construction of the outstanding payment of approximately RMB17.61 million in relation to projects under dispute. The case has been filed by the court but is yet to be scheduled for hearing.
- (10) On August 14, 2017 or so, China Everbright Securities (HK) Limited filed an action against its client Mr. Man Yuan to recover the outstanding margin loan together with the relevant litigation cost, involving an aggregate claim amount of approximately HK\$22.41 million (equivalent to approximately RMB19.31 million). The court has issued a property preservation order to temporarily freeze Mr. Man’s property. The Company’s external legal advisor is communicating with the court to determine the date of hearing.
- (11) On August 30, 2014, Global Bridge Assets Limited and Long Prosperity Industrial Limited (as the plaintiffs) filed a civil action against Sun Hung Kai Financial Limited (currently known as China Everbright Sun Hung Kai Financial Company Limited) (EBSHK), claiming for a compensation of loss of no less than HK\$33.90 million (equivalent to RMB27.40 million). On May 26, 2016, the High Court of Hong Kong dismissed the action and decided that the litigation cost of EBSHK should be borne by the plaintiffs. The High Court of Hong Kong also ordered Mr. Chin Kam Chiu (秦錦釗), a witness for the plaintiffs, to be listed as a respondent by virtue of the litigation cost thereof (the “Order”). Mr. Chin applied for a permission to appeal on the Order, but it was subsequently dismissed by the appellate court in November 2017.

SECTION V SIGNIFICANT EVENTS

- (12) On March 6, 2017, the reported value of new shares subscribed by Everbright Asset Management under its collective asset management schemes exceeded the total cash amount of the collective scheme. In view of this, CSRC Shanghai Office issued the "Reminder Regarding the Supervision on Shanghai Everbright Securities Asset Management Co., Ltd." on March 6, 2017.

- (13) In 2016, the Department of Corporate Bond Supervision of CSRC conducted a special inspection on the bond business of the Company and found that (a) in the bond trustee operations, timely supervision was absent for the receipt, deposit, transfer and repayment of principal and interest of proceeds raised from issuance of bonds, (b) interim trustee management reports on the use of proceeds raised from bond issuance were not issued in a timely manner, and (c) the duties as a trustee manager were not fully fulfilled. The findings of the inspection were forwarded to the Securities Association of China. On August 9, 2017, based on the aforesaid findings, the Securities Association of China imposed a warning on the Company as a self-disciplinary mechanism.

- (14) On March 12, 2018, the Company received the "Decision on Taking the Measure of Issuing a Warning Letter to Everbright Securities Company Limited" issued by the CSRC, stating that in sponsoring the proposed IPO of Zhejiang SF Oilless Bearing Co., Ltd., the Company's verification on the related-party relationships and related-party transactions of the proposed issuer was not sufficient and there was a lack of effective internal control of the proposer issuer. In October 2017, the IPO application was reviewed at the fourth meeting of the 17th Public Offering Review Committee of the CSRC while the application was not approved. There are no other subsequent matters that may pose risks to the Company as a result of this project.

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 between January 1, 2017 and 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.

SECTION V SIGNIFICANT EVENTS

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. In December 2017, Sun Hung Kai Financial Limited, a wholly-owned subsidiary of SHKFGL, was officially renamed “Everbright Sun Hung Kai Limited”, and its business has operated under the brand of “Everbright Sun Hung Kai” since then. As of the end of the Reporting Period, the Company had not submitted an application for a spin-off to the Hong Kong Stock Exchange. The Company will disclose the information relating to the spin-off as required by the Hong Kong Listing Rules. No final decision had 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.

SECTION V SIGNIFICANT EVENTS

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.

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.

SECTION V SIGNIFICANT EVENTS

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 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.

SECTION V SIGNIFICANT EVENTS

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) Changes in ordinary share capital

During the Reporting Period, there were no changes in the total number of the Company's ordinary shares and the structure of share capital.

For the year ended December 31, 2017, the number of the Company's shares in issue amounted to 4,610,787,639, including 3,906,698,839 A Shares and 704,088,800 H Shares.

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 (RMB in 100 million)	Date of listing	Number of shares permitted to be listed for trading (RMB in 100 million)	Date of termination of transaction
Convertible corporate bonds, detachable convertible bonds and corporate bonds						
Corporate bonds	January 11, 2017	4.00%	20	January 20, 2017	20	July 11, 2017
Corporate bonds	January 11, 2017	4.10%	20	January 20, 2017	20	July 11, 2018
Corporate bonds	February 14, 2017	4.30%	20	February 23, 2017	20	February 14, 2019
Corporate bonds	February 14, 2017	4.45%	20	February 23, 2017	20	February 14, 2020
Corporate bonds	April 26, 2017	4.95%	30	May 10, 2017	30	April 26, 2019
Corporate bonds	April 26, 2017	5.00%	40	May 10, 2017	40	April 26, 2020
Corporate bonds	July 4, 2017	4.58%	30	July 19, 2017	30	July 4, 2020
Corporate bonds	July 4, 2017	4.70%	15	July 19, 2017	15	July 4, 2022
Short-term corporate bonds	September 20, 2017	4.88%	30	October 10, 2017	30	September 20, 2018
Corporate bonds	October 13, 2017	4.80%	41	October 27, 2017	41	October 16, 2020
Corporate bonds	October 13, 2017	4.90%	16	October 27, 2017	16	October 16, 2022
Short-term corporate bonds	November 16, 2017	5.15%	22	November 27, 2017	22	November 16, 2018
Corporate bonds	December 6, 2017	5.50%	30	December 15, 2017	30	December 6, 2018

(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 49 to the consolidated financial statements in the 2017 audit report.

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	92,262 (of which 92,062 were holders of A Shares and 200 were registered holders of H Shares)
Total number of shareholders of ordinary shares at the end of last month	89,912 (of which 89,719 were holders of A Shares and 193 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		State-owned legal person
China Everbright Limited	(65,000,000)	1,074,250,000	23.30	Nil		Foreign legal Person
HKSCC Nominees Limited	(9,200)	703,638,400	15.26	Unknown		Others
China Securities Finance Corporation Limited	122,243,440	200,839,788	4.36	Nil		Others
Pingan Dahua Fund – Pingan Bank – Ping An Bank Company Limited	0	152,718,387	3.31	Nil		Others
New China Fund – Minsheng Bank – Everbright Securities Private Placement No. 1 Asset Management Plan	(751,000)	60,336,354	1.31	Nil		Others
China Great Wall Asset Management Corporation	0	54,978,619	1.19	Nil		State-owned legal person
Central Huijin Asset Management Ltd.	0	37,568,900	0.81	Nil		Others
Anhui Railway Development Fund Co Ltd	0	18,821,017	0.41	Nil		Others
China International Capital Corporation Limited	17,233,700	17,233,700	0.37	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	1,074,250,000	RMB ordinary shares	1,074,250,000
HKSCC Nominees Limited	703,638,400	Overseas listed foreign shares	703,638,400
China Securities Finance Corporation Limited	200,839,788	RMB ordinary shares	200,839,788
Pingan Dahua Fund – Pingan Bank – Ping An Bank Company Limited	152,718,387	RMB ordinary shares	152,718,387
New China Fund – Minsheng Bank – Everbright Securities Private Placement No. 1 Asset Management Plan	60,336,354	RMB ordinary shares	60,336,354
China Great Wall Asset Management Corporation	54,978,619	RMB ordinary shares	54,978,619
Central Huijin Asset Management Ltd.	37,568,900	RMB ordinary shares	37,568,900
Anhui Railway Development Fund Co Ltd	18,821,017	RMB ordinary shares	18,821,017
China International Capital Corporation Limited	17,233,700	RMB ordinary shares	17,233,700

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

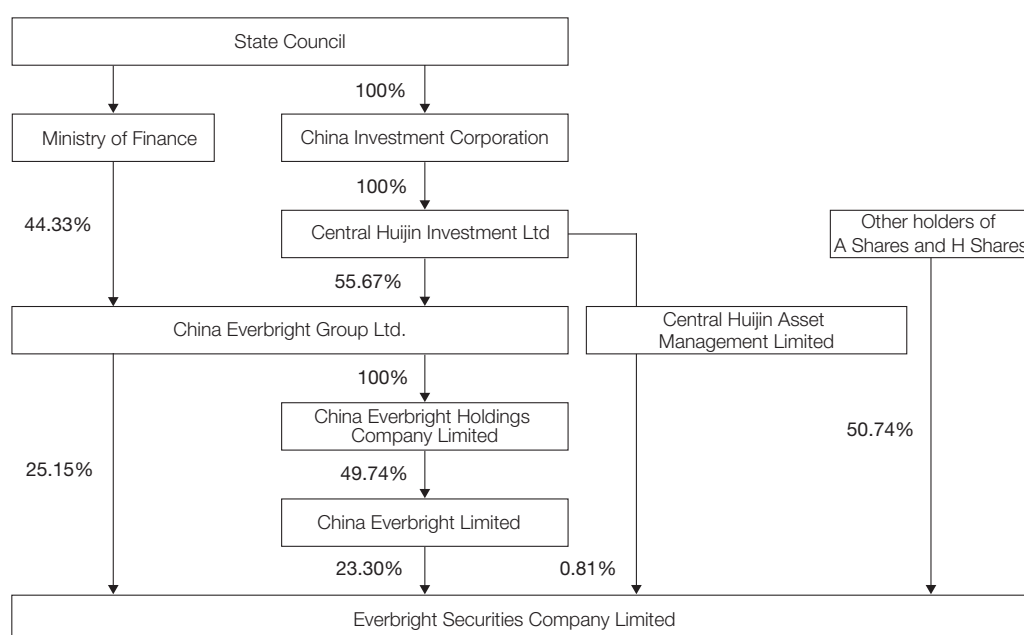
1. Legal person

Name	China Everbright Group Ltd.
Person in charge of the unit or legal representative	Li Xiaopeng
Date of establishment	November 12, 1990
Principal business	Investment and management of the financial business, including banking, securities, insurance, funds, trust, futures, leasing, gold and silver transactions; asset management; investment and management of non-financial business. (The company may select and commence business projects of its own accord in accordance with the law; the business activities required to obtain approval by law may only be carried out upon approval by the relevant authorities; and the business activities forbidden or restricted by municipal industrial policies are prohibited.)
Shareholding in other domestic and overseas listed subsidiaries and investees during the Reporting Period	<ul style="list-style-type: none"> • directly and indirectly holding 29.00% of Everbright Bank • directly and indirectly holding 49.74% of Everbright Limited • directly and indirectly holding 41.40% of China Everbright International Limited • directly and indirectly holding 20.00% of China CYTS Tours Holding Co., Ltd. • directly and indirectly holding 16.72% of Cachet Pharmaceutical Co., Ltd. • directly and indirectly holding approximately 4.98% of Shenwan Hongyuan Group Co., Ltd.

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, 2017

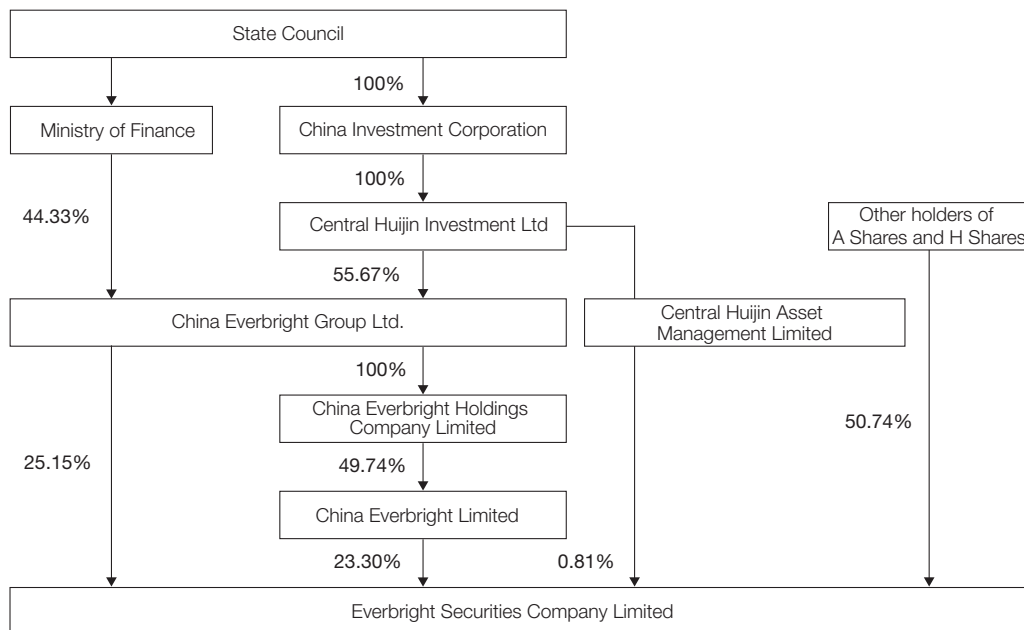


SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

(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, 2017



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, 2017, 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 ⁽⁸⁾	Type of share	Nature of interests	Number of corresponding shares of the Company held ⁷ (share)	Percentage of total issued shares of the Company ⁷ (%)	Percentage of total issued A Shares/ H Shares of the Company ⁷ (%)	Long position/ short position
1	Central Huijin Investment Ltd. (中央匯金投資有限責任公司)	A Share	Interests in controlled corporation ¹	37,568,900	0.81	0.96	Long position
		A Share	Interests in controlled corporation ²	2,233,706,183	48.45	57.18	Long position
				2,271,275,083	49.26	58.14	Long position
2	Central Huijin Asset Management Limited (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. (中國光大集團股份有限公司)	A Share	Beneficial owners	1,159,456,183	25.15	29.68	Long position
		A Share	Interests in controlled corporation ³	1,074,250,000	23.30	27.50	Long position
				2,233,706,183	48.45	57.18	Long position
4	China Everbright Holdings Company Limited (中國光大集團有限公司)	A Share	Interests in controlled corporation ³	1,074,250,000	23.30	27.50	Long position
5	Datten Investments Limited	A Share	Interests in controlled corporation ³	1,074,250,000	23.30	27.50	Long position
6	Honorich Holdings Limited	A Share	Interests in controlled corporation ³	1,074,250,000	23.30	27.50	Long position
7	China Everbright Limited (中國光大控股有限公司)	A Share	Beneficial owners	1,074,250,000	23.30	27.50	Long position
8	China State Construction Engineering Corporation	H Share	Interests in controlled corporation ⁴	138,812,800	3.01	19.72	Long position
9	China State Construction Engineering Corporation Limited (中國建築股份有限公司)	H Share	Interests in controlled corporation ⁴	138,812,800	3.01	19.72	Long position
10	CSCEC Capital (Hong Kong) Limited	H Share	Beneficial owners	138,812,800	3.01	19.72	Long position

SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

No.	Name of substantial shareholders ⁽⁸⁾	Type of share	Nature of interests	Number of corresponding shares of the Company held ⁷ (share)	Percentage of total issued shares of the Company ⁷ (%)	Percentage of total issued A Shares/ H Shares of the Company ⁷ (%)	Long position/ short position
11	Hengjian International Investment Holding (Hong Kong) Limited (恒健國際投資控股(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 (廣東恒健投資控股有限公司)	H Share	Interests in controlled corporation ⁵	131,344,200	2.85	18.65	Long position
13	China Life Insurance (Group) Company (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 (中國船舶重工集團公司)	H Share	Interests in controlled corporation ⁶	112,704,000	2.44	16.01	Long position
15	China Shipbuilding Capital Limited (中國船舶資本有限公司)	H Share	Beneficial owners	112,704,000	2.44	16.01	Long position

Notes:

1. 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.
2. 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.
3. 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. 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. 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. 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, 2017, the total issued shares of the Company were 4,610,787,639, of which 3,906,698,839 were A Shares and 704,088,800 were H Shares.
8. Under Part XV of the SFO, disclosure of interest forms shall be submitted by shareholders of the Company upon satisfaction of certain conditions. If there are changes in the shareholders' shareholdings in the Company, shareholders are not required to inform the Company and the Hong Kong Stock Exchange, except where certain conditions have been satisfied. Therefore, there could be a difference between the substantial shareholders' latest shareholdings in the Company and the information on their shareholdings submitted to the Hong Kong Stock Exchange.

Save as disclosed above, as of December 31, 2017, 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.

SECTION VI CHANGES IN ORDINARY SHARES AND PARTICULARS ABOUT SHAREHOLDERS

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

Name of legal-person shareholder	Person in charge of the unit or legal representative	Date of establishment	Code of the organization	Registered capital	Main business or managed activities
China Everbright Limited	Cai Yunge	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 (as of December 31, 2017)	Adhering to the strategy of "Big Asset Management", Everbright Limited focuses on fund management and investment operations such as funds of primary market and secondary market, structural financing and investment, and actively develops aircraft leasing business in China and emerging markets as the largest shareholder of China Aircraft Leasing Group Holdings Limited. Its asset management products include the front-end private equity funds, venture capital funds, industry funds, the middle-end structured financing and investment products, mezzanine funds and back-end hedge funds and bond investment funds.

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 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 EMPLOYEE

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 ^(note)	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 related party of the Company or not
Gao Yunlong	Non-executive Director	Male	1958	October 17, 2017	October 16, 2020	0.00	Yes
Ge Haijiao	Non-executive Director	Male	1971	October 17, 2017	October 16, 2020	0.00	Yes
Xue Feng	Chairman, Executive Director	Male	1967	October 17, 2017	October 16, 2020	334.59	No
Ju Hao	Non-executive Director	Male	1959	October 17, 2017	October 16, 2020	0.00	No
Yin Lianchen	Non-executive Director	Male	1966	October 17, 2017	October 16, 2020	0.00	Yes
Chan Ming Kin	Non-executive Director	Male	1969	October 17, 2017	October 16, 2020	0.00	Yes
Xue Keqing	Non-executive Director	Male	1963	November 9, 2017	October 16, 2020	0.00	Yes
Xu Jingchang	Independent Non-executive Director	Male	1965	October 17, 2017	October 16, 2020	12.49	No
Xiong Yan	Independent Non-executive Director	Male	1956	October 17, 2017	October 16, 2020	12.49	No
Li Zheping	Independent Non-executive Director	Male	1965	October 17, 2017	October 16, 2020	12.49	No
Au Sing Kun	Independent Non-executive Director	Male	1952	October 17, 2017	October 16, 2020	12.49	No
Liu Jiping	Chairman of the Supervisory Committee	Male	1964	October 17, 2017	October 16, 2020	241.31	No
Zhang Jingcai	Supervisor	Male	1963	October 17, 2017	October 16, 2020	0.00	Yes
Wang Hongyang	Supervisor	Male	1977	October 17, 2017	October 16, 2020	0.00	Yes
Zhu Wuxiang	External Supervisor	Male	1965	October 17, 2017	October 16, 2020	8.33	No
Zhang Limin	External Supervisor	Male	1955	October 17, 2017	October 16, 2020	8.33	No
Wang Wenyi	Employee Supervisor	Female	1966	October 17, 2017	October 16, 2020	275.46	No
Huang Qin	Employee Supervisor	Female	1975	October 17, 2017	October 16, 2020	254.85	No
Li Xianzhi	Employee Supervisor	Male	1965	October 17, 2017	October 16, 2020	245.27	No
Zhou Jiannan	Executive President	Male	1969	December 5, 2017	-	41.86	No
Xiong Guobing	Vice President	Male	1968	September 14, 2007	-	230.03	No
Wang Cuiting	Vice President	Female	1966	May 30, 2005	-	230.28	No
Wang Zhong	Vice President	Male	1972	March 12, 2015	-	222.59	No
Mei Jian	Vice President	Male	1970	January 12, 2017	-	230.13	No
Chen Lan	Chief Compliance Officer	Female	1969	December 29, 2008	-	190.61	No
Wang Yong	Chief Risk Officer	Male	1964	August 5, 2014	-	469.33	No
Li Bingtao	Business Line Director	Male	1976	February 13, 2017	-	444.45	No
Pan Jianyun	Business Line Director	Male	1970	February 8, 2017	-	273.11	No
Zhu Qin	Secretary to the Board	Female	1970	February 6, 2017	-	212.26	No
Dong Jie	Business Line Director	Female	1967	July 22, 2017	-	110.72	No
Total	/	/	/	/	/	4,073.47	/

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

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 chairman of the Board, chairman of the Supervisory Committee and senior management of the Company during the Reporting Period includes wages, benefits and deferred payment of remuneration in previous years for the year of 2017. The Company has not implemented any non-cash remuneration plan by means of shares or options.
- (2) Mr. Xue 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 as shown in the table above represents the term of office of the fifth session of the Board of the Company.
- (3) Mr. Li Bingtao received remuneration from an overseas subsidiary of the Company as the Company's business line director, 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 ^(note)	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 related party of the Company or not
Tang Shuangning	Non-executive Director	Male	1954	September 15, 2014	February 24, 2017	0.00	Yes
Yang Guoping ⁽¹⁾	Non-executive Director	Male	1956	September 15, 2014	September 15, 2017	0.00	Yes
Zhu Ning ⁽¹⁾	Independent Non-executive Director	Male	1973	September 15, 2014	September 15, 2017	10.36	No
Jiang Bo	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 Baoqing ⁽¹⁾	Vice President	Male	1958	May 25, 2006	September 26, 2017	230.92	No

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Notes:

- (1) Mr. Tang Shuangning, Mr. Yang Guoping, Mr. Zhu Ning, Ms. Jiang Bo, Mr. Nie Ting Ming and Mr. Wang Baoqing 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.

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

Name	Main Working Experience
Gao Yunlong (高雲龍)	Mr. Gao is currently a non-executive Director of the Company, vice chairman of the 13 th National Committee of the Chinese People's Political Consultative Conference, chairman of All-China Federation of Industry and Commerce, president of All-China Chamber of Industry and Commerce, vice chairman and general manager of China Everbright Group Ltd., chairman of Beijing Committee of the China National Democratic Construction Association, non-executive director and vice chairman of China Everbright Holdings Company Limited, 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), director of Sun Life Everbright Life Insurance Co., Ltd., chairman of the Beijing China National Democratic Construction Association and master supervisor of the PBC School of Finance of 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 th and 12 th Chinese People's Political Consultative Conferences.
Ge Haijiao (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 EMPLOYEE

Name	Main Working Experience
Xue Feng (薛峰)	Mr. Xue is currently the chairman and an executive Director of the Company, chairman of EBSHK, chairman of SHKFGL, chairman of Everbright SHK 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 president, president and vice chairman of the Company, chairman of Everbright Fortune, chairman of Everbright Yunfu and chairman of Everbright Eascreate.
Ju Hao (居昊)	Mr. Ju is currently a non-executive Director of the Company, a director of Everbright Group, a director of China Everbright Industrial (Group) Co., Ltd., and also holds positions in Central Huijin Investment Ltd.; he successively served as a deputy director of corporate finance asset accounting regulatory management department and general affairs department, the director of the second division of the Department of Treaty and Law of the Ministry of Finance, a deputy director (director level) and director of research division and assistant counsel of the economic department of the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region, an assistant counsel of the department of treaty and law, deputy counsel of the education, science and culture division and counsel of the social security division of the Ministry of Finance.
Yin Lianchen (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, executive Director, and a member of the Executive Committee and the Strategy Committee of Everbright Limited (a company listed on the Hong Kong Stock Exchange, stock code: 165) 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 KMV Company (China), vice president of Beijing Yangde Investment Co., Ltd., director of the general division of the general office of Everbright Group and assistant general manager and member of the management committee of Everbright Limited.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Main Working Experience
Chan Ming Kin (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 (a company listed on the Hong Kong Stock Exchange, stock code: 165). 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.
Xue Keqing (薛克慶)	Mr. Xue is currently a non-executive Director of the Company and the chief financial officer of China State Construction Engineering Corporation Limited. He previously served as general manager of the treasury department, general manager of the finance department and deputy chief accountant of China State Construction Engineering Corporation Limited, general manager and legal representative of China Construction CPA Limited, and vice chairman, director and general manager of China State Construction Finance Co., Ltd.
Xu Jingchang (徐經長)	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 is an independent director of CITIC Heavy Industries Co., Ltd. (a company listed on the SSE, stock code: 601608), an independent director of Sinochem International Corporation (a company listed on the SSE, stock code: 600500) and an independent director of Hainan Airlines Holding Company Limited (a company listed on the SSE, stock code: 600221). Mr. Xu is also an executive member of the council of the Banking Accounting Society of China and a member of the council of the Accounting Society of China. Mr. Xu was previously deputy dean of the accounting department of the School of Business of Renmin University of China.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Main Working Experience
Xiong Yan (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 rd council of China Mergers and Acquisitions 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. He was also an independent director of Cachet Pharmaceutical Co., Ltd. (a company listed on the SZSE, stock code: 002462).
Li Zheping (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.. He was also an independent director of China CITIC Bank Corporation Limited (a company listed on the SSE and the Hong Kong Stock Exchange, SSE stock code: 601998, Hong Kong Stock Exchange stock code: 998).
Au Sing Kun (區勝勤)	Mr. Au is currently an independent non-executive Director of the Company and a director of Nice International Investments Limited. He held various positions with HSBC, including serving as regional manager, manager of the credit department and branch president of HSBC (Hong Kong), chief operating officer of HSBC (China), branch 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, vice chairman of the Macau Association of Banks 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).
Liu Jiping (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 Everbright Group, chief supervisor of Shanghai Everbright Convention & Exhibition Center Co., Ltd., a supervisor of Everbright Investment and Management Limited, and a director of Everbright Financial Holding Asset Management Co., Ltd.. Mr. Liu was also a deputy director and a director of the investment and audit division of the State Auditing Administration.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Main Working Experience
Zhang Jingcai (張敬才)	Mr. Zhang is currently a Supervisor of the Company and general manager of Legal Department of Everbright Group. Mr. Zhang is a non-practicing member of the Chinese Institute of Certified Public Accountants. He held various positions in 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), including manager and assistant to general manager of Credit Department of the Head Office, general manager of Credit Management Department of the Head Sales Office, deputy general manager and general manager of Corporate Banking Department of the Head Office, vice president of Dalian Branch, director of the Northern Regional Credit Approval Center, and general manager of Credit Approval Department of the Head Office.
Wang Hongyang (汪紅陽)	Mr. Wang is currently a Supervisor of the Company, deputy chief financial officer of Everbright Limited (a company listed on the Hong Kong Stock Exchange, stock code: 165), and vice chairman of Everbright Prestige Capital Asset Management Co., Ltd. Mr. Wang is a non-practicing member of the Chinese Institute of Certified Public Accountants. He was an associate, assistant manager, manager, senior manager and partner of KPMG Huazhen LLP (Special General Partnership).
Zhu Wuxiang (朱武祥)	Mr. Zhu is currently an external Supervisor of the Company. He also serves as a professor and doctoral tutor of the Department of Finance of the School of Economics and Management of Tsinghua University. He is an independent director of Beijing Properties (Holdings) Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0925), China Fortune Land Development Co., Ltd. (a company listed on the SSE, stock code: 600340), AVIC Trust Co., Ltd., ZTE Corporation (a company listed on the SZSE and Hong Kong Stock Exchange, SZSE stock code: 000063, Hong Kong Stock Exchange stock code: 763), and China Cinda Asset Management Co., Ltd. (a company listed on the Hong Kong Stock Exchange, stock code: 01359), as well as a supervisor of Unisplendour Corporation Limited (a company listed on the SZSE, stock code: 000938). He was the chairman of supervisor committee of Unisplendour Corporation Limited (a company listed on the SZSE, stock code: 000938), independent director of Dongxing Securities Co., Ltd. (a company listed on the SSE, stock code: 601198), independent director of Rongxin Power Electronic Co., Ltd. (a company listed on the SZSE, stock code: 002123), and independent director of Offshore Oil Engineering Co., Ltd. (a company listed on the SSE, stock code: 600583).

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Main Working Experience
Zhang Limin (張立民)	Mr. Zhang is currently an external Supervisor of the Company. He is also an accounting professor at Beijing Jiaotong University. He is an independent director of Shenzhen Centralcon Investment Holding Co., Ltd. (a company listed on the SZSE, stock code: 000042), Gemdale Corporation (a company listed on the SSE, stock code: 600383), and China Merchants Expressway Network Technology Holdings Co., Ltd. (a company listed on the SZSE, stock code: 001965). 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. He was an accounting professor of Sun Yat-sen Business School and vice president of China Audit Society, as well as independent director of Shenzhen Expressway Co., Ltd. (a company listed on the SZSE and Hong Kong Stock Exchange, stock code: 600548 and 548, respectively), Tianjin Benefo Tejing Electric Co., Ltd. (a company listed on the SSE, stock code: 600468), and Guangzhou Hangxin Aviation Technology Co., Ltd. (a company listed on the SZSE, stock code: 300424).
Wang Wenyi (王文藝)	Ms. Wang is currently an employee representative Supervisor and the vice chairman of the trade union of the Company. She was the general manager of the brokerage branch of the Company in Urumqi, general manager of the brokerage branch of the Company in Yuetan North Street, Beijing and the general manager of the Beijing branch of the Company.
Huang Qin (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.
Li Xianzhi (李顯志)	Mr. Li is currently an employee representative Supervisor and general manager of Audit Department of the Company. He served in Xiangcai Securities Company (currently known as Xiangcai Securities Co., Ltd.) as deputy general manager and general manager of Information Technology Department, general manager of Corporate Information Technology Department, and director of Innovation Office.
Zhou Jiannan (周健男)	Mr. Zhou is currently the executive president of the Company and chairman of Everbright Eascreate. He served in the CSRC as senior staff member and principal staff member of Institutional Department as well as secretary at deputy division director and division director levels of the General Office, and in the SZSE as director of the General Office, director and assistant to general manager of International Department. He was also a deputy director of Listed Companies Supervision Department of the CSRC, director of executive committee of Dacheng Fund, and director of Dacheng International Asset Management Co., Ltd.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Main Working Experience
Xiong Guobing (熊國兵)	Mr. Xiong is currently a vice president of the Company, chairman of Everbright Capital, chairman of Everbright Asset Management and chairman of Everbright Development. 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 (王翠婷)	Ms. Wang is currently a vice president of the Company and chairman of Everbright Leasing. 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 (王忠)	Mr. Wang is currently a vice president of the Company and chairman of Everbright Fortune. 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 Junan An Securities Co., Ltd. (a company listed on the SSE and the Hong Kong stock Exchange, SSE stock code 601211, Hong Kong Stock Exchange stock code: 2611).
Mei Jian (梅鍵)	Mr. Mei is currently a vice president of the Company and chairman of Everbright Futures. 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.
Chen Lan (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 (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.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Main Working Experience
Li Bingtao (李炳濤)	Mr. Li is currently a business line director of the Company, a director and the general manager of EBSHK, an executive Director and the chief executive officer of Everbright SHK, and a director of Everbright Capital. He previously served as a 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 (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 (朱勤)	Ms. Zhu is currently the secretary to the Board and securities affairs representative, and a director of Everbright SHK. 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, deputy director and director of the Board office.
Dong Jie (董捷)	Ms. Dong is currently a business line director of the Company and a director of Everbright Eascreate. She previously worked as a senior manager of budget finance department of Dalian branch of Bank of Communications Co., Ltd., assistant to the president and vice president of Dalian branch of China Everbright Bank Co., Ltd.

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.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

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 Ltd.	Vice chairman and general manager	July 2014	–
Ge Haijiao	China Everbright Group Ltd.	Deputy general manager	December 2016	–
Ju Hao	China Everbright Group Ltd.	Director	June 2015	–
Yin Lianchen	China Everbright Limited	Chief investment officer and member of management decision committee	April 2012	–
Yin Lianchen	China Everbright Limited	Executive director, member of executive committee and strategy committee	June 2017	–
Chan Ming Kin	China Everbright Limited	General legal counsel and company secretary, member of investment decision committee	December 2007	–
Zhang Jingcai	China Everbright Group Ltd.	General manager of legal department	March 2007	–
Wang Hongyang	China Everbright Limited	Deputy chief financial officer	October 2016	–

(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 Holdings Company Limited	Non-executive director, vice chairman	November 2016	–
Gao Yunlong	China Everbright Bank Co., Ltd.	Vice chairman	December 2014	–

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

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	Sun Life Everbright Life Insurance Co., Ltd.	Director	October 2014	–
Ge Haijiao	China Everbright Industrial (Group) Co., Ltd.	Director, chairman	January 2017	–
Xue Feng	China Securities Credit Investment Co., Ltd.	Director	May 2015	–
Ju Hao	Central Huijin Investment Ltd.	–	July 2015	–
Ju Hao	China Everbright Industrial (Group) Co., Ltd.	Director	September 2015	–
Yin Lianchen	China Everbright Bank Co., Ltd.	Supervisor	December 2014	–
Xue Keqing	China State Construction Engineering Corporation Limited	Chief Financial Officer	June 2016	–
Xu Jingchang	CITIC Heavy Industries Co., Ltd.	Independent director	August 2017	–
Xu Jingchang	Sinochem International Corporation	Independent director	May 2014	–
Xu Jingchang	Hainan Airlines Holding Co., Ltd.	Independent director	November 2016	–
Xiong Yan	Beijing Guofu Capital Co., Ltd.	Chairman	April 2015	–
Xiong Yan	Beijing Watertek Information Technology Co., Ltd.	Independent director	June 2010	–
Li Zheping	UBS SDIC Fund Management Co., Ltd	Independent director	August 2008	–
Li Zheping	AVIC Securities Co., Ltd.	Independent director	October 2009	–

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name of employee	Name of other companies	Positions held in other companies	Start of the term of office	Expiration of the term of office
Li Zheping	Guangdong Nanyue Bank Co., Ltd.	Independent director	July 2014	–
Au Sing Kun	Nice International Investments Limited	Director	December 2009	–
Wang Hongyang	Everbright Prestige Capital Asset Management Co., Ltd.	Vice chairman	November 2016	–
Zhu Wuxiang	Beijing Properties (Holdings) Limited	Independent non-executive director	January 2011	–
Zhu Wuxiang	China Fortune Land Development Co., Ltd.	Independent director	December 2013	–
Zhu Wuxiang	AVIC Trust Co., Ltd.	Independent director	August 2014	–
Zhu Wuxiang	ZTE Corporation	Independent non-executive director	March 2016	–
Zhu Wuxiang	China Cinda Asset Management Co., Ltd.	Independent non-executive director	October 2016	–
Zhu Wuxiang	Unisplendour Corporation Limited	Supervisor	May 2015	–
Zhang Limin	Shenzhen Centralcon Investment Holdings Co., Ltd.	Independent director	October 2013	–
Zhang Limin	Golden (Group) Co., Ltd.	Independent director	April 2014	–
Zhang Limin	China Merchants Expressway Network & Technology Holdings Co., Ltd.	Independent director	September 2016	–

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

III. Remuneration of Directors, Supervisors and Senior Management

Decision-making
procedures of
remuneration of the
Directors, Supervisors
and senior management

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.

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.

The basis for determining
the remuneration of the
Directors, Supervisors
and senior management

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, Supervisors holding a position in the Company and senior management is determined in accordance with the remuneration system of the Company and is also linked to position and performance.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

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 Employee” of this report. 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. Pursuant to the above requirement, as approved by the Board of the Company, bonuses for 2016 partly distributed to the chairman of the Board, chairman of the Supervisory Committee and senior management of the Company include: RMB1.96 million to Xue Feng, RMB1.66 million to Liu Jiping, RMB1.38 million to Xiong Guobing, RMB1.50 million to Wang Cuiting, RMB1.20 million to Wang Zhong, RMB1.32 million to Mei Jian, RMB1.14 million to Chen Lan, RMB0.9 million to Wang Yong, RMB1.17 million to Pan Jianyun, RMB0.76 million to Zhu Qin and RMB1.35 million to Wang Baoqing (resigned).</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 Employee” of this report, which amounted to RMB40.7347 million. As approved by the Board of the Company, part of the bonuses for 2016 amounting to RMB14.3480 million in total have been distributed to the chairman of the Board, chairman of the Supervisory Committee and senior management of the Company.</p>

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

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

Name	Position	Change	Reason for Change
Tang Shuangning	Director	Resigned	On February 24, 2017, the Board of the Company received a resignation letter from Mr. Tang Shuangning. In order to focus on the strategic development of China Everbright Group Ltd., the controlling shareholder of the Company, Mr. Tang Shuangning ceased to be a director of the Company.
Yang Guoping	Non-executive Director	Resigned	On September 15, 2017, Mr. Yang Guoping ceased to be a Director of the Company due to expiration of his term of office.
Zhu Ning	Independent Non-executive Director	Resigned	On September 15, 2017, Mr. Zhu Ning ceased to be an independent Non-executive Director of the Company due to expiration of his term of office.
Ge Haijiao	Non-executive Director	Elected	Mr. Ge Haijiao was elected as a Director at the first extraordinary general meeting of the Company in 2017. Mr. Ge Haijiao's appointment became effective from March 27, 2017 according to the Reply in Relation to the Approval of the Qualification of Ge Haijiao as Director of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 32).
Ju Hao	Non-executive Director	Elected	Mr. Ju Hao was elected as a Director at fourth extraordinary general meeting of the Company in 2017. Mr. Ju Hao's appointment became effective from October 17, 2017 according to the Reply in Relation to the Approval of the Qualification of Ju Hao as Director of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 84).
Xue Keqing	Non-executive Director	Elected	Mr. Xue Keqing was elected as a Director at the fourth extraordinary general meeting of the Company in 2017. Mr. Xue Keqing's appointment became effective from November 9, 2017 according to the Reply in Relation to the Approval of the Qualification of Xue Keqing as Director of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 94).
Jiang Bo	Supervisor	Resigned	On February 24, 2017, the Supervisory Committee of the Company received a resignation letter from Ms. Jiang Bo. Ms. Jiang Bo ceased to be a supervisor of the Company due to retirement.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Position	Change	Reason for Change
Li Bingtao	Employee Supervisor	Resigned	On January 16, 2017, Mr. Li Bingtao resigned as an employee supervisor of the Company due to work adjustment.
Zhang Jingcai	Supervisor	Elected	Mr. Zhang Jingcai was elected as a Supervisor of the fourth session of the Supervisory Committee at the third extraordinary general meeting of the Company in 2017. Mr. Zhang Jingcai's appointment became effective from August 15, 2017 according to the Reply in Relation to the Approval of the Qualification of Zhang Jingcai as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 74).
Nie Ting Ming	Supervisor	Resigned	On March 27, 2017, Mr. Nie Ting Ming resigned as a Supervisor of the Company due to work adjustment.
Wang Hongyang	Supervisor	Elected	Mr. Wang Hongyang was elected as a Supervisor of the fourth session of the Supervisory Committee at the 2016 annual general meeting of the Company. Mr. Wang Hongyang's appointment became effective from May 24, 2017 according to the Reply in Relation to the Approval of the Qualification of Wang Hongyang as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 44).
Li Xianzhi	Employee Supervisor	Elected	Mr. Li Xianzhi was elected as an employee Supervisor of the fourth session of the Supervisory Committee at the third meeting of the fifth session of the employees' representative meeting of the Company in 2017. Mr. Li Xianzhi's appointment became effective from July 7, 2017 according to the Reply in Relation to the Approval of the Qualification of Li Xianzhi as Supervisor of Securities Company (Hu Zheng Jian Xu Ke [2017] No. 63).
Wang Baoqing	Vice President	Resigned	On September 26, 2017, Mr. Wang Baoqing resigned as Vice President of the Company for age reason.
Zhou Jiannan	Executive President	Appointed	Mr. Zhou Jiannan was appointed as the Executive President of the Company at the first meeting of the fifth session of the Board. On December 5, 2017, the qualification of Mr. Zhou Jiannan as senior management of a securities company was approved by CSRC Shanghai Bureau, and he formally started assuming his role as the Executive President of the Company.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

Name	Position	Change	Reason for Change
Mei Jian	Vice President	Appointed	Mr. Mei Jian was appointed as vice president of the Company at the 25 th 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 as the vice president of the Company.
Li Bingtao	Business line director	Appointed	Mr. Li Bingtao was appointed as a business line director at the 26 th 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 as a business line director of the Company.
Pan Jiangyun	Business line director	Appointed	Mr. Pan Jiangyun was appointed as a business line director at the 26 th meeting of the fourth session of the Board. On February 8, 2017, the qualification of Mr. Pan Jiangyun as senior management of a securities company was approved by CSRC Shanghai Bureau, and he formally started assuming his role as a business line director of the Company.
Zhu Qin	Secretary to the Board	Appointed	Ms. Zhu Qin was appointed as the Secretary to the Board at the 26 th 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 as the Secretary to the Board.
Dong Jie	Business line director	Appointed	Ms. Dong Jie was appointed as a business line director at the 26 th meeting of the fourth session of the Board. On July 22, 2017, the qualification of Ms. Dong Jie as senior management of a securities company was approved by CSRC Shanghai Bureau, and she formally started assuming her role as a business line director of the Company.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

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

(I) Information about the staff

As of December 31, 2017, the Company had 9,089 employees (including 3,105 brokers), of which parent company had 7,158 employees, wholly owned and controlled subsidiaries had 1,931 employees. The employee structure is as follows:

Number of staff employed by the parent company (persons)	7,158
Number of staff employed by the major subsidiaries (persons)	1,931
The total number of staff employed (persons)	9,089
Number of paid retired staff by the parent company and its subsidiaries (persons)	5

Profession Composition

Profession	Number	Percentage
Brokerage business	6,405	70.47%
Investment banking business	622	6.84%
Research department	179	1.97%
Assets management business	170	1.87%
Securities Investment business	118	1.30%
Information technology	224	2.46%
Financial department	163	1.79%
Compliance/risk management/Internal audit	143	1.57%
Other business and administration	1,065	11.72%
Total	9,089	100.00%

Education

Levels of education	Number	Percentage
Doctoral degree	82	0.90%
Master's degree	2,058	22.64%
Bachelor's degree	4,706	51.78%
Others	2,243	24.68%
Total	9,089	100.00%

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

(II) Remuneration policy

The Company adheres to implementing the MD rank-based wage system. Staff remuneration consists of three parts, namely wages, bonuses and benefits. Wages are determined based on factors such as the MD rank, qualifications, competencies and performance of an employee. Bonuses are linked with the performance of individuals, departments and the Company. The Company provides employees with a full range of benefits by establishing a comprehensive system 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 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 are physically fit and enjoy a quality life.

The Company implements risk reserve system and gives out incentives and imposes constraints to control risks, thus achieving sustainable development. Based on the strategic requirements of the Group, the Company benchmarks itself against industry standards in a timely manner, and regularly adjusts its salary structure and level so as to provide employees with competitive remuneration and benefits in the industry, aiming to achieve the goals of “attracting, retaining and motivating talents”.

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 cannot withdraw or utilize its funds contribution made to the defined contribution plans under any circumstances.

(III) Training plan

The Company continues to enrich and improve its hierarchical education and training systems and develop and implement annual training plans according to the strategic and business development needs of the Company based on the characteristics of employees' career development, with innovative training methods in place to effectively stimulate the enthusiasm for learning among employees. New forms such as classroom teaching, role play, sitcom, case study and themed activities have been adopted with focus on contents such as Party building work, strategic transformation, major business development, team building and talent cultivation, and cutting-edge hot spots and trends, to leverage the role of training in promoting reform, transmitting culture and teaching know-how. In 2017, the Company hosted 150 internal training sessions with 5,260 participants, arranged 577 participants to take part in 203 external training sessions, and used the new media and ELN platform to carry out WeChat group training and online training to supplement offline training in an effective manner.

SECTION VII PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEE

(IV) Labor outsourcing

The total number of labor outsourcing	62 persons
The total amount of remuneration paid for labor outsourcing	RMB7,511,053

VI. Customer Solicitation and Client Service by the Brokers Commissioned by the Company

In 2017, 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 Zi [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.

As of the end of the Reporting Period, the Company had 207 securities brokerage branches to carry out securities brokerage business, and 2,877 domestic securities brokers in China, 2,877 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

The Company is committed to building itself into an internationally competitive, first-class full-service investment bank. As a public company listed in both mainland China and Hong Kong, the Company has established a sound corporate governance system in strict compliance with the laws and regulations including the Company Law of the People's Republic of China, the Securities Law of the People's Republic of China, the 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 in Appendix 14 to the Hong Kong Listing Rules.

The Company has been continuing to improve its corporate governance structure towards independent functioning and checks and balances among general meeting, the Board, the Supervisory Committee and the management, so that each level plays its part within their respective scope of powers and duties to ensure standardized operation of the Company. Except as otherwise disclosed in this annual report, during the Reporting Period, the Company fully complied with all the provisions of the Corporate Governance Code in Appendix 14 to the Hong Kong Listing Rules, and met the requirements of the vast majority of the recommended best practices set out in the Corporate Governance Code.

During the Reporting Period, the Company further revised and improved the Articles of Association, the Rules of Procedure of the Board of Directors, the Rules of Procedure of the Supervisory Committee, the Compliance Management System, and the Work Rules for President according to regulatory requirements and its business development needs. During the Reporting Period, the Company convened 6 general meetings, 8 Board meetings, 5 meetings of the Supervisory Committee, 5 meetings of the Audit Committee, 2 meetings of the Remuneration, Nomination and Credentials Committee, and 2 meetings of the Risk Management 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's 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 stipulate the rights and obligations of shareholders, the functions and power of general meeting, the convening of general meetings, the procedure of voting and the proposal of 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 79 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 84 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) General meetings during the Reporting Period

Meeting	Date of meeting	Enquiry index of the websites designated for publication of the resolutions
The first extraordinary general meeting in 2017	March 6, 2017	For shareholders' resolutions during the Reporting Period, please refer to the announcements published on the following websites: http://www.sse.com.cn http://www.hkexnews.hk
The second extraordinary general meeting in 2017	April 17, 2017	
2016 annual general meeting	May 24, 2017	
The third extraordinary general meeting in 2017	August 15, 2017	
The fourth extraordinary general meeting in 2017	October 17, 2017	
The fifth extraordinary general meeting in 2017	December 13, 2017	

Description of General Meetings

- On March 6, 2017, the Company held the first extraordinary general meeting in 2017 at Room 1320, Block A, China Everbright Center, 25 Taipingqiao Street, Xicheng District, Beijing, China. The meeting considered and approved the Proposal on Election of Mr. Ge Haijiao as a Non-executive Director of the Company.
- On April 17, 2017, the Company held the second extraordinary general meeting in 2017 at Room 1320, Block A, China Everbright Center, 25 Taipingqiao Street, Xicheng District, Beijing, China. The meeting considered and approved the Proposal on Amendments to the Articles of Association and the Proposal on General Mandate for Issuance of Domestic Debt Financing Instruments of the Company.
- On May 24, 2017, the Company held the 2016 annual general meeting at Room 1320, Block A, China Everbright Center, 25 Taipingqiao Street, Xicheng District, Beijing, China. The meeting considered and approved the Work Report of the Board of Directors for 2016, the Work Report of the Supervisory Committee for 2016, the 2016 Annual Report, the Profit Distribution Plan for 2016, the Proposal on Election of Mr. Wang Hongyang as a Supervisor of the Company, the Proposal on the Expected Related Party/Connected Transactions in the Ordinary Course of Business in 2017, the Proposal on the Scale of Proprietary Trading Business in 2017, and the Proposal on Engagement of External Auditors for 2017.

SECTION VIII CORPORATE GOVERNANCE

4. On August 15, 2017, the Company held the third extraordinary general meeting in 2017 at Jing'an International Plaza located at No.1508, Xinzha Road, Jing'an District, Shanghai, China. The meeting considered and approved the Proposal on Amendments to the Articles of Association, the Proposal on Change of Certain Use of Proceeds from the Issuance of H Shares, and the Proposal on Election of Mr. Zhang Jingcai as a Supervisor of the Company.
5. On October 17, 2017, the Company held the fourth extraordinary general meeting in 2017 at Jing'an International Plaza located at No.1508, Xinzha Road, Jing'an District, Shanghai, China. The meeting considered and approved the Proposal on Election of Directors of the Fifth Session of the Board of Directors, the Proposal on Election of Independent Non-executive Directors of the Fifth Session of the Board of Directors, and the Proposal on Election of Supervisors of the Fifth Session of the Supervisory Committee of the Company.
6. On December 13, 2017, the Company held the fifth extraordinary general meeting in 2017 at Jing'an International Plaza located at No.1508, Xinzha Road, Jing'an District, Shanghai, China. The meeting considered and approved the Proposal on Amendments to the Articles of Association, the Proposal on Amendments to the Rules of Procedure of the Board of Directors, and the Proposal on Amendments to the Rules of Procedure of the Supervisory Committee.

As a responsible listed company, the Company effectively protects the rights and interests of minority shareholders, ensures their full right of information and the fairness of information disclosure, and continues to take a series of concrete actions to further enhance the quality and strength of communication with investors. The Company has formulated the Measures of Managing Information Disclosure of Everbright Securities (《光大證券信息披露事務管理制度》), Everbright Securities Insider Registration Management Rules (《光大證券內幕信息知情人登記管理規定》) and other rules and regulations. The Company has appointed the secretary to the Board of Directors and the company secretary to be responsible for information disclosure. 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 visitors, participation in investor meetings, overseas road shows and other forms. Shareholders may submit inquiries and express their opinions to the Board 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 and/or the relevant special committees under the Board, and ensure that the Company's shareholders, especially minority shareholders, are able to fully exercise their rights.

SECTION VIII CORPORATE GOVERNANCE

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 standardized and efficient 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, voting and resolutions 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 117 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% (inclusive) 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% (inclusive) 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 formulated the Procedures for Shareholders to Propose a Person for Election as Director, which has been published on the website of the Company.

SECTION VIII CORPORATE GOVERNANCE

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.

The Company seeks appropriate candidates for Directors through a variety of channels in the Company and the human resource market. The criteria of candidates to be considered 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 all current 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 meets the independence requirements set out 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 accountable 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 finance decision making.

SECTION VIII CORPORATE GOVERNANCE

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, chief risk 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 the Company; to receive the work report of the president of the Company and examine the work of the general manager; 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; to undertake ultimate responsibility for comprehensive risk management; other powers and duties conferred by the law, administrative regulations, department regulations and the Articles of Association.

The Company purchased 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 and the Rules of Procedure of the Supervisory Committee in accordance with the new regulatory requirements.

SECTION VIII CORPORATE GOVERNANCE

3. Duties and responsibilities of the management

According to the Articles of Association, the president is accountable 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, chief risk 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 determine the salary, benefits, 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 and eligible for re-appointment.

4. Chairman and president

Since November 4, 2016, Mr. Xue Feng, the executive Director and president of the Company, had been appointed as the chairman by the Board of Directors. On October 26, 2017, the Company received a resignation letter from Mr. Xue Feng. In order to better coordinate the strategic development of the Company, Mr. Xue Feng applied to resign from the position as president of the Company. Upon resignation from this position, Mr. Xue Feng continued to serve as chairman of the Company. The Company convened the first meeting of the fifth session of the Board on the same day. The Board considered and approved the Proposal regarding the Appointment of Mr. Zhou Jiannan as the Executive President, and agreed to appoint Mr. Zhou Jiannan to serve as the executive president of the Company. Mr. Zhou Jiannan's appointment has become effective from December 5, 2017 according to the Reply Letter Regarding the Appointment of Zhou Jiannan as Managerial Level Senior Management of a Securities Company issued by the CSRC Shanghai Bureau (Hu Zheng Jian Xu Ke [2017] No. 102).

SECTION VIII CORPORATE GOVERNANCE

The Company is of the view that, during the period from November 4, 2016 to December 4, 2017, although the roles of chairman and president of the Company are performed by the same individual, the Board of the Company has several non-executive Directors and 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 able 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 believed that the balance of power between the Board and senior management of the Company is not impaired. In addition, the power of the Company does not vest on the same individual, and all significant decisions are made upon negotiations among the Board of Directors, its relevant board committees and senior management.

In addition, as Mr. Zhou Jiannan's appointment as the executive president of the Company has become effective from December 5, 2017, the chairman of the Board and chief executive of the Company have been taken up by different individuals from December 5, 2017 to the date of this annual report, which is in compliance with the relevant code provision of the Corporate Governance Code.

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 accountable 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.

SECTION VIII CORPORATE GOVERNANCE

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.

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

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 written resolutions	Attendance by proxy	Absence		
Gao Yunlong	No	8	6	4	2	0	No	1
Ge Haijiao	No	6	6	2	0	0	No	0
Xue Feng	No	8	8	3	0	0	No	6
Ju Hao	No	2	2	1	0	0	No	0
Yin Lianchen	No	8	7	5	1	0	No	0
Chan Ming Kin	No	8	8	5	0	0	No	0
Xue Keping	No	1	1	1	0	0	No	0
Xu Jingchang	Yes	8	7	3	1	0	No	0
Xiong Yan	Yes	8	8	4	0	0	No	1
Li Zheping	Yes	8	7	3	1	0	No	0
Au Sing Kun	Yes	8	8	5	0	0	No	0

Note: Mr. Tang Shuangning resigned on February 24, 2017. During the Reporting Period, Mr. Tang Shuangning was required to attend one Board meeting and he actually attended one Board meeting.

SECTION VIII CORPORATE GOVERNANCE

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

Number of board meetings convened during the year	8
Of which: number of on-site meetings	4
Number of meetings held by written resolutions	3
Number of meetings held both on-site and via teleconference	1

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

1. The 26th meeting of the fourth session of the Board of Directors was held on January 17, 2017. The meeting considered and approved the Proposal on Nominating Mr. Ge Haijiao as the Candidate for the Director of the Company, the Proposal on Appointing Members of Senior Management and the Proposal on Holding the Company's First Extraordinary General Meeting in 2017.
2. The 27th meeting of the fourth session of the Board of Directors was held on February 27, 2017. The meeting considered and approved the Proposal on Amending the Articles of Association, the Proposal on the General Mandate of Issuance of Onshore Debt Financing Instruments by the Company, the Proposal on Determining the Remuneration of the Senior Management of the Company for 2015 and the Proposal on Holding the Company's Second Extraordinary General Meeting in 2017.
3. The 28th meeting of the fourth session of the Board of Directors was held on March 29, 2017. The meeting considered and approved the Proposal on the Company's Annual Report for 2016, the Proposal on the Board of Directors' Annual Work Report for 2016, the Proposal on the Company's Profit Distribution Plan for 2016, the Proposal on the Company's Internal Control Evaluation Report for 2016, the Proposal on the Company's Risk Assessment Report for 2016, the Proposal on the Company's Compliance Report for 2016 and the Proposal on the Company's Social Responsibility Report for 2016, the Special Report on the Depositing and Actual Use of the Company's Funds Raised in 2016, the Proposal on Appointing External Auditors for 2017, the Proposal on the Company's Expected Day-to-day Related/Connected Transactions in 2017, the Proposal on the Scale of the Company's Proprietary Trading Business in 2017, the Proposal on the Company's Risk Preference in 2017, the Proposal on the Board of Directors' Authorization to the Company's Management in 2017, the Proposal on Establishing Everbright Sunshine Foundation, the Proposal on the Company's Organizational Structure Adjustment Plan, the Proposal on Implementing the Comprehensive Risk Management Standards Scheme and the Proposal on Holding the Company's Annual General Meeting for 2016.

SECTION VIII CORPORATE GOVERNANCE

4. The 29th meeting of the fourth session of the Board of Directors was held on April 28, 2017. The meeting considered and approved the Proposal on the Company's First Quarter Report for 2017 and the Proposal on Jointly Establishing a Finance Leasing Company by Everbright Fortune International Leasing Co., Ltd. and Guangdong Trading Holding Group.
5. The 30th meeting of the fourth session of the Board of Directors was held on June 27, 2017. The meeting considered and approved the Proposal on Amending the Articles of Association, the Proposal on Revising Everbright Securities Company Limited's Basic Risk Management System, the Proposal on Increasing the Capital Investment in Everbright Capital Investment Co., Ltd., the Company's Wholly-owned Subsidiary and the Proposal on Changing the Use of Funds Raised Through H Shares and the Proposal on Holding the Company's Third Extraordinary General Meeting in 2017.
6. The 31st meeting of the fourth session of the Board of Directors was held on August 29, 2017. The meeting considered and approved the Proposal on Changing the Company's Accounting Policy, the Proposal on the Company's Interim Report for 2017, the Proposal on the Company's Interim Compliance Report for 2017, the Proposal on the Company's Semi-annual Statement of Net Capital and Risk Control Parameters Supervision Statement for 2017, the Proposal on Adjusting the Scale of the Company's Proprietary Trading Business in 2017, the Proposal on Establishing an Inspection Office, the Proposal on Nominating Candidates for Directors of the Fifth Session of the Board of Directors of the Company, the Proposal on Nominating Candidates for Independent Directors of the Fifth Session of the Board of Directors of the Company, the Proposal on Determining the Remuneration of the Senior Management of the Company for 2016 and the Proposal on Holding the Company's Fourth Extraordinary General Meeting in 2017.
7. The 1st meeting of the fifth session of the Board of Directors was held on October 26, 2017. The meeting considered and approved the Proposal on Electing Mr. Xue Feng as the Chairman of the Fifth Session of the Board of Directors of the Company, the Proposal on Electing Members of Each Special Committee under the Fifth Session of the Board of Directors of the Company, the Proposal on Appointing Mr. Zhou Jiannan as the Executive President, the Proposal on the Company's Third Quarter Report for 2017, the Proposal on Amending the Articles of Association, the Proposal on Revising Everbright Securities Company Limited's Compliance Management System, the Proposal on Revising the Rules of Procedures for the Board Meetings, the Proposal on Revising the Working Rules of the President, the Proposal on the Quota on Poverty Alleviation Funds and the Proposal on Holding the Company's Fifth Extraordinary General Meeting in 2017.
8. The 2nd meeting of the fifth session of the Board of Directors was held on December 11, 2017. The meeting considered and approved the Proposal on Establishing a Branch Company in Fujian and the Proposal on Leasing a Floor of Hang Lung – Plaza 66.

SECTION VIII CORPORATE GOVERNANCE

(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.

On December, 15, 2017, all Directors and Supervisors of the Company attended Everbright Securities Company Limited – Training Programme for Directors and Supervisors of Listed Companies held by King & Wood Mallesons, the PRC legal advisor to the Company, as well as special training programmes on Responsibilities and Obligations of Directors and Supervisors of Companies Listed in Hong Kong and Day-to-day Compliance Matters of Companies Listed in Hong Kong held by Latham & Watkins, the Hong Kong legal advisor to the Company.

(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, of which 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.

SECTION VIII CORPORATE GOVERNANCE

In 2017, the special committees under the Board of Directors convened a total of nine meetings, of which the Remuneration, Nomination and Credentials Committee convened two meetings, the Audit Committee convened five meetings, and the Risk Management Committee convened two 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 fifth session of the Board of Directors has been formed through election at the Company's fourth extraordinary general meeting in 2017. Special committees under the fifth session of the Board of Directors have been formed through election at the 1st meeting of the fifth session of the Board of Directors and the composition of which is set out as follows:

Remuneration, Nomination and Credentials Committee	Xiong Yan (chairman), Ge Haijiao, Xue Feng, Xu Jingchang, Au Sing Kun
Strategies and Development Committee	Ge Haijiao (chairman), Xue Feng, Yin Lianchen, Xue Keqing, Xiong Yan
Audit Committee	Xu Jingchang (chairman), Ju Hao, Chan Ming Kin, Xiong Yan, Li Zheping
Risk Management Committee	Li Zheping (chairman), Ju Hao, Yin Lianchen, Au Sing Kun

The duties and convention of meetings of these 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 formulate 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;

SECTION VIII CORPORATE GOVERNANCE

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.

To achieve diversity and reasonable structure, of the Board of Directors, the 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.

SECTION VIII CORPORATE GOVERNANCE

The Terms of Reference of the Remuneration, Nomination and Credentials Committee have 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 details are set out as follows:

Date	Session	Resolutions
January 12, 2017	The 8 th meeting of the fourth session of the Remuneration, Nomination and Credentials Committee	The Proposal on Nominating Mr. Ge Haijiao as the Candidate for the Director of the Company The Proposal on Appointing Dong Jie as the Company's Business Line Director
August 28, 2017	The 9 th meeting of the fourth session of the Remuneration, Nomination and Credentials Committee	The Proposal on Nominating Candidates for Directors of the Fifth Session of the Board of Directors of the Company The Proposal on Nominating Candidates for Independent Directors of the Fifth Session of the Board of Directors of the Company The Proposal on Determining the Total Amount of Remuneration of the Senior Management of the Company for 2016

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

Name	Position	Number of actual attendances/ Number of meetings required attendance
Xiong Yan (chairman)	Independent non-executive Director	2/2
Ge Haijiao ⁽¹⁾	Non-executive Director	0/0
Xue Feng	Chairman, executive Director	2/2
Zhu Ning ⁽²⁾	Independent non-executive Director	2/2
Xu Jingchang	Independent non-executive Director	2/2
Au Sing Kun	Independent non-executive Director	2/2

Notes:

- (1) Mr. Ge Haijiao was appointed as a member of the Remuneration, Nomination and Credentials Committee at the 1st meeting of the fifth session of the Board of Directors held on October 26, 2017. From October 26, 2017 to December 31, 2017 the Remuneration, Nomination and Credentials Committee did not convene any meetings.

SECTION VIII CORPORATE GOVERNANCE

- (2) On September 15, 2017, Mr. Zhu Ning ceased to be an independent non-executive director and a member of the Remuneration, Nomination and Credentials Committee of the Company due to expiration of his term of service.

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 Terms of Reference of the Strategies and Development Committee have been published on the websites of the Company and the Hong Kong Stock Exchange. During the Reporting Period, the Strategies and Development Committee did not convene special meetings.

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;

SECTION VIII CORPORATE GOVERNANCE

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 Terms of Reference of the Audit Committee have 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 five meetings, and the details are set out as follows:

Date	Session	Resolutions
January 20, 2017	The 10 th meeting of the fourth session of the Audit Committee	<p>Reviewing External Auditor KPMG's Audit Plan and Audit Focus for 2016</p> <p>Reviewing the Company's Unaudited Financial Statements for 2016</p> <p>Reviewing the Company's Internal Audit Report for 2016</p>
March 10, 2017	The 11 th meeting of the fourth session of the Audit Committee	<p>Discussing the audit work in 2016 with accountants responsible for annual examination on site</p> <p>Reviewing the Proposal on the Company's Internal Control Evaluation Report for 2016</p> <p>Reviewing the Proposal on the Company's Expected Related-party Transactions in 2017</p> <p>Reviewing the Proposal on Appointing External Auditors for 2017</p> <p>Reviewing the Special Report on the Depositing and Actual Use of the Company's Funds Raised in 2016</p> <p>Receiving the Company's Audit Committee Performance Report for 2016</p> <p>Receiving the Company's Internal Audit Report for 2016</p>

SECTION VIII CORPORATE GOVERNANCE

Date	Session	Resolutions
March 29, 2017	The 12 th meeting of the fourth session of the Audit Committee	<p>Considering the Proposal on the Company's Financial Report for 2016</p> <p>Considering the Special Report on the Company's Risk Control Parameters Supervision Statement</p> <p>Considering the Proposal on the Company's Internal Control Evaluation Report for 2016</p> <p>Reviewing the Proposal on the Company's Internal Control Audit Report for 2016</p> <p>Considering the Proposal on the Company's Expected Day-to-day Related/Connected Transactions in 2017</p> <p>Considering the Proposal on Appointing External Auditors for 2017</p> <p>Considering the Special Report on the Depositing and Actual Use of the Company's Funds Raised in 2016</p> <p>Receiving the Report on the Company's Operational Plan and Budget for 2017</p>
August 29, 2017	The 13 th meeting of the fourth session of the Audit Committee	<p>Considering the Proposal on Changing the Company's Accounting Policies</p> <p>Considering the Proposal on the Company's Interim Report for 2017</p>
December 22, 2017	The 1st meeting of the fifth session of the Audit Committee	Reviewing the 2017 Audit Plan and Audit Focus of the External Auditor Ernst & Young Hua Ming LLP (Special General Partnership)

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/ Number of meetings requiring attendance
Xu Jingchang	Independent non-executive Director	5/5
Ju Hao ⁽¹⁾	Non-executive Director	1/1
Chan Ming Kin	Non-executive Director	4/5
Yang Guoping ⁽²⁾	Non-executive Director	4/4
Xiong Yan	Independent non-executive Director	5/5
Li Zheping	Independent non-executive Director	4/5

Notes:

- (1) Mr. Ju Hao was appointed as a member of the Audit Committee at the 1st meeting of the fifth session of the Board of Directors held on October 26, 2017. From October 26, 2017 to December 31, 2017, the Audit Committee held one meeting.
- (2) On September 15, 2017, Mr. Yang Guoping ceased to be a non-executive director and a member of the Audit Committee of the Company due to expiration of his term of service. From January 1, 2017 to September 15, 2017, the Audit Committee held four meetings.

Overview of the audit work of the Company:

Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young ("EY") carried out the 2017 audit on the Company by two stages, the preliminary audit and year-end audit. In the preliminary audit stage, EY conducted the audit on internal control as required, 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 interviews, EY understood the Company's control environment, the main operation conditions, business innovation, system updates and fraud risk. EY conducted a preliminary audit on major subjects of financial statements, such as financial instruments, operating income, investment income and other subjects. EY 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, EY 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.

SECTION VIII CORPORATE GOVERNANCE

In order to successfully complete the audit in 2017 and issue relevant reports, the Audit Committee of the Board of Directors authorized the planning and finance department of the Company to discuss with EY 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 auditing period, the Audit Committee made multiple rounds of supervision. On March 26, 2018, EY issued the standard unqualified audit reports to the Company within the scheduled time.

The Audit Committee reviewed the independence, objectivity and audit procedure of EY to ensure that the reports issued are true and objective. EY 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 EY 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 accountable 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 Terms of Reference of the Risk Management Committee have 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 two meetings, and the details are set out as follows:

Date	Session	Resolutions
March 21, 2017	The 11 th meeting of the fourth session of the Risk Management Committee	<p>Considering the Proposal on the Company's Risk Assessment Report for 2016</p> <p>Receiving the Company's Risk Report for 2016</p> <p>Considering the Proposal on the Company's Compliance Report for 2016</p> <p>Considering the Proposal on the Company's Risk Preference in 2017</p> <p>Considering the Proposal on Implementing the Comprehensive Risk Management Standards Scheme</p>
August 25, 2017	The 12 th meeting of the fourth session of the Risk Management Committee	<p>Considering the Proposal on the Company's Interim Compliance Report for 2017</p> <p>Considering the Proposal on the Company's Interim Risk Control Parameters Supervision Statement for 2017</p>

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/ Number of meetings required attendance
Li Zheping (chairman)	Independent non-executive Director	2/2
Ju Hao ⁽¹⁾	Non-executive Director	0/0
Zhu Ning ⁽²⁾	Independent non-executive Director	2/2
Yang Guoping ⁽³⁾	Non-executive Director	2/2
Yin Lianchen	Non-executive Director	2/2
Au Sing Kun	Independent non-executive Director	2/2

SECTION VIII CORPORATE GOVERNANCE

Notes:

- (1) Mr. Ju. Hao was appointed as a member of the Risk Management Committee at the 1st meeting of the fifth session of the Board of Directors held on October 26, 2017. From October 26, 2017 to December 31, 2017, the Risk Management Committee did not convene any meeting.
- (2) On September 15, 2017, Mr. Zhu Ning ceased to be an independent non-executive director and a member of the Risk Management Committee of the Company due to expiration of his term of office.
- (3) On September 15, 2017, Mr. Yang Guoping ceased to be a non-executive director and a member of the Risk Management Committee of the Company due to expiration of his term of office.

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 2017, 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.

SECTION VIII CORPORATE GOVERNANCE

(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 three on-site meetings and two meeting via written resolutions, 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 set out as follows:

1. The 14th meeting of the fourth session of the Supervisory Committee was held on March 28, 2017. The meeting considered and approved the Proposal on the Company's Annual Report for 2016, the Proposal on the Company's Supervisory Committee Work Report for 2016, the Proposal on the Company's Internal Control Evaluation Report for 2016, the Proposal on the Company's Compliance Report for 2016, the Proposal on the Company's Risk Assessment Report for 2016, the Special Report on the Depositing and Actual Use of the Company's Funds Raised in 2016, the Proposal on the Company's Social Responsibility Report for 2016 and the Proposal on Nominating Mr. Wang Hongyang as the Candidate for the Supervisor of the Company.
2. The 15th meeting of the fourth session of the Supervisory Committee was held on April 28, 2017. The meeting considered and approved the Proposal on the Company's First Quarterly Report for 2017.
3. The 16th meeting of the fourth session of the Supervisory Committee was held on June 26, 2017 by means of written resolutions. The meeting considered and approved the Proposal on Nominating Mr. Zhang Jingcai as the Candidate for the Supervisor of the Company.

SECTION VIII CORPORATE GOVERNANCE

4. The 17th meeting of the fourth session of the Supervisory Committee was held on August 29, 2017. The meeting considered and approved the Proposal on Changing the Company's Accounting Policy, the Proposal on the Company's Interim Report for 2017, the Proposal on the Company's Interim Compliance Report for 2017 and the Proposal on Nominating Candidates for Supervisors of the Fifth Session of the Supervisory Committee of the Company.
5. The 1st meeting of the fifth session of the Supervisory Committee was held on October 26, 2017. The meeting considered and approved the Proposal on Electing Mr. Liu Jiping as the Chairman of the Fifth Session of the Supervisory Committee of the Company, the Proposal on Electing Members of Each Special Committee under the Fifth Session of the Supervisory Committee of the Company, the Proposal on the Company's Third Quarter Report for 2017 and the Proposal on Revising the Rules of Procedures for the Supervisory Committee.

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 written resolutions	Attendance by proxy	Absence
Liu Jiping	5	5	2	0	0
Zhang Jingcai	2	2	1	0	0
Wang Hongyang	3	3	2	0	0
Zhu Wuxiang	5	5	2	0	0
Zhang Limin	5	3	3	2	0
Wang Wenyi	5	5	3	0	0
Huang Qin	5	5	3	0	0
Li Xianzhi	2	2	0	0	0

Note: Ms. Jiang Bo resigned on February 24, 2017 and Mr. Nie Ting Ming resigned on March 27, 2017. During the Reporting Period, the number of the meetings of the Supervisory Committee that Ms. Jiang Bo and Mr. Nie Ting Ming should attend is nil. Ms. Jiang Bo and Mr. Nie Ting Ming were not required to attend any meeting of the Supervisory Committee.

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

SECTION VIII CORPORATE GOVERNANCE

(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 October 2017, Zhang Jingcai, Wang Wenyi and Huang Qin, the Supervisors of the Company, attended a training programme on performance capabilities of the Supervisory Committee held by Everbright Group. Through systematic and professional training, these Supervisors acquired practical and theoretical knowledge to commence effective supervision of the Supervisory Committee.
2. In December 2017, Wang Wenyi and Li Xianzhi, the Supervisors of the Company, attended a training programme for directors and supervisors of listed companies held by the CSRC Shanghai Bureau and the Listed Companies Association of Shanghai.

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 made proposals on 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 Board of Directors 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 accountable 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 and compliance department, and various other business and management departments work in cooperation with a due division of labour, 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.

SECTION VIII CORPORATE GOVERNANCE

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 changing 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 mitigation tools or methods, and minimizes the impact that is or may be caused by the risk events incurred on the Company.

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, make contingency plans, 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 internal policies and regulations that are incomplete 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.

SECTION VIII CORPORATE GOVERNANCE

(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, 2017 and found no material or significant defects in the Company's financial and non-financial reports.

In 2018, 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 reporting. According to the requirements of the 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 reporting was sound and the operation was in good condition, which could guarantee the quality of financial reporting 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 internal control in respect of financial reporting.

(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, 2017, in accordance with laws and regulations such as the Basic Standards for Enterprise Internal Control. For details, please refer to the 2017 Annual Internal Control Evaluation Report of Everbright Securities disclosed by the Company on the SSE's website (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.

SECTION VIII CORPORATE GOVERNANCE

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

The Board of Directors has engaged Ernst & Young Hua Ming LLP (Special General Partnership) to conduct auditing on the internal control design and operation of the Company as of December 31, 2017, 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 internal control system of the Company. For details, please refer to the 2017 Annual Internal Control Audit Report of Everbright Securities Company Limited disclosed by the Company on the SSE's website (www.sse.com.cn).

(VI) The defects of internal control and their identification

In accordance with the requirements on the identification of material defects, significant 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 reviewed 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.

SECTION VIII CORPORATE GOVERNANCE

(VII) Management of inside information

The Company attaches great importance to insider information management. In order to strengthen the confidentiality of insider information, safeguard the fairness of information disclosure and protect the legitimate rights and interests of investors, the Company has formulated 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 securities 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 leakage of insider information.

In accordance with the relevant provisions of the Measures of Registration of Insiders, the Company has issued a confidentiality reminder 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 set forth 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 primary 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 remedy the material defects identified, and requiring the Board of Directors to revise the relevant internal policies when necessary.

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

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 taking into account 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 system 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 related works 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 Work Committee.

SECTION VIII CORPORATE GOVERNANCE

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.

Risk management functional departments

Risk management functional departments include risk management department, legal and compliance department, internal 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 securities brokerage branches of the Company have set up independent risk control positions and report risk management events timely to the departments that are responsible for 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 preference 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 internal audit department. The Company has ensured the implementation of risk management system through auditing, inspection, performance appraisal and other means.

SECTION VIII CORPORATE GOVERNANCE

In 2017, the Company focused on the implementation of the new rules of the Norms for Overall Risk Management of Securities Companies, amended the Articles of Association, clarified the philosophy of risk management, strengthened the promotion of risk prevention culture, comprehensively reviewed and revised the relevant systems of risk management, further enriched the risk management teams and set up a risk management information system covering all kinds of businesses to promote the continuous improvement of the Company's comprehensive risk management system.

The Company strictly implemented the relevant requirements of the regulatory authorities and fully established supplementary mechanisms for dynamic monitoring of risk control indicators such as net capital: 1) the Company has established a risk control indicators' monitoring system for indicators such as net capital and continued to update the system in accordance with regulatory guidelines; 2) the Company has formulated and implemented structural systems and supporting internal management systems for the construction and operation of the security monitoring system, and clearly defined the processes and mechanisms for dynamic monitoring of net capital, stress test, emergency response and net capital replenishment; 3) the Company designated the Risk Management Department as the functional department for managing the risk control indicators and conducted regular or specific stress tests for risk control indicators such as net capital as necessary.

SECTION VIII CORPORATE GOVERNANCE

(II) Compliance work

Pursuant to the relevant rules of the CSRC, the Company, after considering its actual situation, the Company established a scientific and reasonable compliance management system with clear division of responsibilities. The compliance management system of the Company corresponds with its scope of operation, organizational structure and business scale. Firstly, the Company has built the philosophy of compliance and compliance culture and held fast to the belief that every member of the Company, led by the management, should put compliance into practice as compliance creates values and is the foundation of the Company's existence in the market. Secondly, the Company specified the objectives and standards of compliance management and established a scientific, efficient and practically feasible compliance management system so as to effectively identify, assess and manage compliance risks and provide effective support and supervision for the Company to operate in compliance with laws and regulations. The Company's compliance management strictly complies with the principles of independence, comprehensiveness, efficiency and authority. Thirdly, the Company improved the organizational structure and scope of responsibilities of compliance management. The Company established a hierarchical compliance management and control mechanism with specific division of responsibility according to the requirements of the Measures for the Compliance Management of Securities Companies and Securities Investment Fund Management Companies, specifying the corresponding compliance management duties of the Board of Directors, the Supervisory Committee, major persons-in-charge of operations management, the chief compliance officer, other executives, the legal and compliance department and the compliance management staff. As a result, the Company comprehensively improved its compliance management responsibility system covering decision making, implementation, supervision and feedback. Fourthly, the Company ensured the performance of duties of the chief compliance officer and the compliance management staff by setting up safeguarding systems in relation to remuneration and assessment as well as fully protecting the chief compliance officer and the compliance management staff's rights to know and investigate as required in the performance of their duties. Fifthly, the Company clarified the reporting and handling mechanisms of infringements of laws and regulations and potential compliance risks and formulated reporting responsibilities, methods and handling mechanisms accordingly. Sixthly, the Company further improved its compliance assessment and accountability mechanisms and established a compliance management and control mechanism that links compliance accountability, assessment and performance appraisal results and remuneration payment.

SECTION VIII CORPORATE GOVERNANCE

In 2017, the Company continued to promote the construction and improvement of the compliance management system in strict compliance with external regulatory requirements and the strategic development plan of the Company, actively optimized the compliance management workflow, continued to enhance the compliance management and control of various businesses and continuously improved its compliance management standards. Firstly, the Company actively promoted the formation of a compliance culture and conducted various forms of compliance advocacy activities, prompting the fulfilment of the compliance management responsibilities of all divisions and creating a positive compliance atmosphere. Secondly, the Company established a scientific, efficient and practically feasible compliance management system so as to effectively identify, assess and manage compliance risks and provide effective support and supervision for the Company to operate in compliance with laws and regulations. Thirdly, the Company further improved its compliance management responsibility system at all levels and established a hierarchical compliance management and control mechanism with specific division of responsibilities, constantly consolidated various compliance management functions, and strengthened compliance control over key areas to achieve effective identification, assessment and management of compliance risks. Fourthly, the Company comprehensively strengthened its safeguarding mechanism for compliance management to fully ensure the independence of compliance management. Fifthly, we further improved our compliance assessment and accountability mechanisms and established a compliance management and control mechanism that links compliance accountability, assessment and performance appraisal results and remuneration payment. The overall compliance of the Company in 2017 was stable and the compliance environment was positive.

In 2017, the Company carried out a total of 11 inspections regarding investment banking business, self-inspection and rectification of the "Two Regulations", proprietary bond business, PB business, anti-money laundering, information Chinese wall, suitability management and marketing actions, compliance of information system permission and customer trading management in accordance with regulatory requirements and market risk points. Besides, the Company continuously increased the inspection frequency and coverage of key business areas by conducting on-site inspections of 15 branches, one NEEQ project and one bond project among 12 branch companies.

SECTION VIII CORPORATE GOVERNANCE

(III) Internal audit work

During the Reporting Period, the Company closely followed the business development of the Company in accordance with the principle of risk prevention, periodic coverage and relevant regulatory requirements, strengthened the supervision over the front and back offices and subsidiaries of the Company, and conducted routine internal audits, mandatory leave audits and economic responsibility audits upon departure, special audits and special assessments to earnestly perform the functions of audit supervision and advisory services.

During the Reporting Period, the Company completed a total of 102 internal auditing projects of various types. The auditing objects covered 10 departments in the headquarters, 7 branch companies, 3 subsidiaries and 79 securities brokerage branches of the Company. Special audit (and assessment) work was conducted over the construction of corporate information systems, anti-money laundering work, and comprehensive risk management system construction, etc.

Through internal audits and checks, the Company discovered the problems and weaknesses in the operation, internal control and other aspects of its subordinate units and urged relevant units to implement rectification measures diligently, so as to promote the continuous improvement of the internal management of the Company and the continuous enhancement of its operation and management.

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 carrying out various investor relations activities to keep communications with shareholders and meet their reasonable needs in a timely manner. Meanwhile, the Company publishes the Company's announcements, financial information and other relevant information on the Company's website 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
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, amendments made to the Articles of Association are set forth as follows:

1. At the Company's second extraordinary general meeting for 2017 convened on April 17, 2017, the Shareholders considered and approved the following amendments to the Articles of Association:
 - (1) The resolution regarding the establishment of private equity subsidiaries specializing in PPP-related business was considered and approved by the Board. The CSRC Shanghai Bureau approved the Company's establishment of a private equity subsidiary specializing in PPP-related business, and also raised specific requirements requiring the Company to clarify in the Articles of Association that the Company could establish subsidiaries to carry out public-private-partnership related business. As such, the Company consequentially amended the Articles of Association pursuant to the requirements of the CSRC Shanghai Bureau.
 - (2) On June 7, 2016, the Company received the Letter on Transmitting the Letter of Recommendation for Shareholders Issued by China Securities Investor Services Corporation Limited (CSISCL) (《關於轉發中證中小投資者服務中心有限責任公司〈股東建議函〉的函》) (Shang Zheng Gong Han [2016] No. 0731) from the SSE. CSISCL made specific recommendations on the amendments to certain articles of the Articles of Association in accordance with the Opinions on Further Strengthening the Work for Protection of Legitimate Rights and Interests of Minority Investors and the Guidelines on the Articles of Association of Listed Companies. In order to better protect the interests of the investors, especially those of the minority investors, the Company adopted the recommendations of the SSE and CSISCL to explicitly state in the Articles of Association that the votes by minority investors should be separately counted and to explicitly state in the Articles of Association that no limitation should be imposed on the minimum shareholding percentage for solicitation of voting rights. The Company consequentially amended the Articles of Association accordingly.

For details of the above amendments, please refer to the circular in respect of the second extraordinary general meeting of the Company for 2017 dated February 28, 2017.

SECTION VIII CORPORATE GOVERNANCE

2. At the Company's third extraordinary general meeting for 2017 convened on August 15, 2017, the Shareholders considered and approved the following amendments to the Articles of Association:

- (1) On December 30, 2016, the Securities Association of China issued the revised Norms for Comprehensive Risk Management of Securities Companies, stating that a securities company should have clear division of responsibilities for comprehensive risk management among its board of directors, board of supervisors and management, etc. It also requires that a senior officer (chief risk officer) should be appointed to take charge of comprehensive risk management. Pursuant to the Notice on Revision of Four Self-regulatory Rules Including the Norms for Comprehensive Risk Management of Securities Companies (Zhong Zheng Xie Fa [2016] No. 251), the Company is required to implement the relevant requirements on comprehensive risk management by the end of June 2017. The Securities Association of China also issued the Management Rules on Private Investment Fund Subsidiaries of Securities Companies and the Management Rules on Alternative Investment Subsidiaries of Securities Companies, requiring each securities company to build up and improve its self-management system for its private investment fund subsidiaries and alternative investment subsidiaries, thereby putting into full play the oversight role of the securities company as a parent company and the self-discipline of its subsidiaries and effectively preventing systemic risks. In light of the latest requirements of the regulatory authorities and the Company's actual situation, the Company made amendments to the relevant articles of the Articles of Association.
- (2) In September 2015, the Guidance on Deepening the Reform of State-owned Enterprises (《關於深化國有企業改革的指導意見》) issued by the Central Committee of the Communist Party of China and the State Council was officially published, requiring that the overall requirements for party building work shall be included in the articles of association of state-owned enterprises. In view of this, the Company amended the Articles of Association to incorporate the articles regarding party building work into the Articles of Association in accordance with the policies of the central authorities.

For details of the above amendments, please refer to the circular in respect of the third extraordinary general meeting of the Company for 2017 dated June 28, 2017.

SECTION VIII CORPORATE GOVERNANCE

3. At the Company's fifth extraordinary general meeting for 2017 convened on December 13, 2017, the Shareholders considered and approved the following amendments to the Articles of Association:
 - (1) On June 9, 2017, the CSRC issued the Administrative Measures on Compliance of Securities Firms and Securities Investment Fund Management Companies (《證券公司和證券投資基金管理公司合規管理辦法》) (the "Measures"). On September 8, 2017, the Securities Association of China issued the Guidelines for Implementation of Compliance Management of Securities Firms (《證券公司合規管理實施指引》) (the "Guidelines"). The Measures and Guidelines became effective on October 1, 2017. Pursuant to the respective regulatory requirements in the Measures and Guidelines, the Company made amendments to the relevant articles of the Articles of Association.

For details of the above amendments, please refer to the Company's circular in respect of the fifth extraordinary general meeting for 2017 dated October 27, 2017.

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, Ernst & Young, please refer to the independent auditors' report.

SECTION VIII CORPORATE GOVERNANCE

(II) Appointment of external auditors and their remuneration

According to the Administrative Measures for Financial Enterprises to Select and Employ Accounting Firms by Bidding (tentative) issued by the MOF, there are restrictions in respect of the tenure of audit services that an accounting firm can continuously provide to a state-owned enterprise and its subsidiaries. Given the aforesaid requirements, the Company, KPMG Huazhen LLP (Special General Partnership) and KPMG agreed on the issues regarding the non-renewal of their appointment.

According to the Articles of Association, appointment of external auditors of the Company shall be decided by the general meeting, and the auditors shall serve a term of one year and may be re-engaged. In view of the fact that Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young 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 28th meeting of the fourth session of the Board and the 2016 annual general meeting considered and approved the Resolution Regarding the Appointment of External Auditors for 2017 and agreed to (1) engage Ernst & Young Hua Ming LLP (Special General Partnership) as the PRC external auditors of the Company for the year 2017 to provide relevant domestic audit services in accordance with the PRC GAAP; (2) engage Ernst & Young as the overseas external auditors of the Company for the year 2017 to provide relevant overseas audit and review services in accordance with the IFRS; and (3) authorize the management of the Company to determine the audit fees based on market principles and to enter into the relevant agreements.

In the year of 2017, the Company paid the remuneration to Ernst & Young Hua Ming LLP (Special General Partnership) and Ernst & Young in respect of auditing the annual financial statements with a total of RMB6.84 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.

SECTION VIII CORPORATE GOVERNANCE

(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.

(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 billion)	Interest rate (%)	Principal and interest payment method	Places of transaction
1504 EBS Subordinated Bonds	15 EVERBRIGHT	123085	April 27, 2015	April 27, 2020	6	5.70%	Payment of interest on a yearly basis	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
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 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
1705 EBS Non-public Offering Corporate Bonds (Type 1)	17 EVERBRIGHT SECURITIES 05	145506	April 26, 2017	April 26, 2019	3	4.95%	Payment of interest on a yearly basis	SSE
1706 EBS Non-public Offering Corporate Bonds (Type 2)	17 EVERBRIGHT SECURITIES 06	145507	April 26, 2017	April 26, 2020	4	5.00%	Payment of interest on a yearly basis	SSE
17G1 EBS Public Offering Corporate Bonds (Type 1)	17 EVERBRIGHT SECURITIES G1	143154	July 4, 2017	July 4, 2020	3	4.58%	Payment of interest on a yearly basis	SSE
17G2 EBS Public Offering Corporate Bonds (Type 2)	17 EVERBRIGHT SECURITIES G2	143155	July 4, 2017	July 4, 2022	1.5	4.70%	Payment of interest on a yearly basis	SSE
17D1 EBS Non-public Securities Offering Short-term Corporate Bonds	17 EVERBRIGHT SECURITIES D1	145802	September 20, 2017	September 20, 2018	3	4.88%	Payment of principal and interest outright	SSE
17G3 EBS Public Offering Corporate Bonds (Type 1)	17 EVERBRIGHT SECURITIES G3	143325	October 13, 2017	October 16, 2020	4.1	4.80%	Payment of interest on a yearly basis	SSE
17G4 EBS Public Offering Corporate Bonds (Type 2)	17 EVERBRIGHT SECURITIES G4	143326	October 13, 2017	October 16, 2022	1.6	4.90%	Payment of interest on a yearly basis	SSE
17D2 EBS Non-public Securities Offering Short-term Corporate Bonds	17 EVERBRIGHT SECURITIES D2	145745	November 16, 2017	November 16, 2018	2.2	5.15%	Payment of principal and interest outright	SSE

SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

Bond name	Abbreviation	Code	Issue date	Date of expiry	Balance of	Interest rate (%)	Principal and interest payment method	Places of transaction
					bonds (RMB in billion)			
1707 EBS Non-public Offering Corporate Bonds	17 EVERBRIGHT SECURITIES 07	150015	December 6, 2017	December 6, 2018	3	5.50%	Payment of principal and interest outright	SSE
1801 EBS Non-public Offering Corporate Bonds (Type 1)	18 EVERBRIGHT SECURITIES 01	150093	January 18, 2018	January 18, 2019	2	5.45%	Payment of principal and interest outright	SSE
1802 EBS Non-public Offering Corporate Bonds (Type 2)	18 EVERBRIGHT SECURITIES 02	150094	January 18, 2018	January 18, 2020	2	5.55%	Payment of interest on a yearly basis	SSE
18D1 EBS Non-public Securities Offering Short-term Corporate Bonds	18 EVERBRIGHT SECURITIES D1	150189	March 19, 2018	March 19, 2019	0.8	5.22%	Payment of principal and interest outright	SSE

In 2017, 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 provides the issuer with the option for early redemption at the end of the third year. If the issuer does not exercise the option, the coupon rate of subordinated bonds for the current period in the following two interest periods will increase by 300 basis points.

17 EVERBRIGHT SECURITIES G1, 17 EVERBRIGHT SECURITIES G2, 17 EVERBRIGHT SECURITIES G3 and 17 EVERBRIGHT SECURITIES G4 are targeted at accredited investors for public offering. The remaining bonds for each tranche are targeted at qualified investors for non-public offering.

SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

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

Credit Rating Agency		Name Office address	China Chengxin Securities Rating Co. Ltd. Room 968 One Building, No. 599 Xingye Road, Qingpu District, Shanghai, China	
Bond trustee manager				
Bond name	Name	Office address	Contact person	Contact number
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 04	Industrial Securities Co., Ltd.	No. 36 Changliu Road, Pudong New Area, Shanghai, China	Yang Lingshan	021-20370733
16 EVERBRIGHT SECURITIES 05	Industrial Securities Co., Ltd.	No. 36 Changliu Road, Pudong New Area, Shanghai, China	Yang Lingshan	021-20370733
16 EVERBRIGHT SECURITIES 06	Industrial Securities Co., Ltd.	No. 36 Changliu Road, Pudong New Area, Shanghai, China	Yang Lingshan	021-20370733
17 EVERBRIGHT SECURITIES 07	Industrial Securities Co., Ltd.	No. 36 Changliu Road, Pudong New Area, Shanghai, China	Yang Lingshan	021-20370733
18 EVERBRIGHT SECURITIES 01	Industrial Securities Co., Ltd.	No. 36 Changliu Road, Pudong New Area, Shanghai, China	Yang Lingshan	021-20370733
18 EVERBRIGHT SECURITIES 02	Industrial Securities Co., Ltd.	No. 36 Changliu Road, Pudong New Area, Shanghai, China	Yang Lingshan	021-20370733
17 EVERBRIGHT SECURITIES G1	Guotai Junan Securities Co., Ltd.	No. 618 Shangcheng Road, China (Shanghai) Pilot Free Trade Zone	Cao Ning	021-38032079
17 EVERBRIGHT SECURITIES G2	Guotai Junan Securities Co., Ltd.	No. 618 Shangcheng Road, China (Shanghai) Pilot Free Trade Zone	Cao Ning	021-38032079
17 EVERBRIGHT SECURITIES G3	Guotai Junan Securities Co., Ltd.	No. 618 Shangcheng Road, China (Shanghai) Pilot Free Trade Zone	Cao Ning	021-38032079
17 EVERBRIGHT SECURITIES G4	Guotai Junan Securities Co., Ltd.	No. 618 Shangcheng Road, China (Shanghai) Pilot Free Trade Zone	Cao Ning	021-38032079
17 EVERBRIGHT SECURITIES D1	CSC Financial Co., Ltd.	No. 188 Chaoyangmen Inner Street, Dongcheng District, Beijing, China	Zhao Ye	010-85130421
17 EVERBRIGHT SECURITIES D2	CSC Financial Co., Ltd.	No. 188 Chaoyangmen Inner Street, Dongcheng District, Beijing, China	Zhao Ye	010-85130421
18 EVERBRIGHT SECURITIES D1	CSC Financial Co., Ltd.	No. 188 Chaoyangmen Inner Street, Dongcheng District, Beijing, China	Zhao Ye	010-85130421
17 EVERBRIGHT SECURITIES 02	China Galaxy Securities Co., Ltd.	2-6/F, 35 Finance Street, Xicheng District, Beijing, China	Chen Qu	010-83574504
17 EVERBRIGHT SECURITIES 03	China Galaxy Securities Co., Ltd.	2-6/F, 35 Finance Street, Xicheng District, Beijing, China	Chen Qu	010-83574504
17 EVERBRIGHT SECURITIES 04	China Galaxy Securities Co., Ltd.	2-6/F, 35 Finance Street, Xicheng District, Beijing, China	Chen Qu	010-83574504
17 EVERBRIGHT SECURITIES 05	China Galaxy Securities Co., Ltd.	2-6/F, 35 Finance Street, Xicheng District, Beijing, China	Chen Qu	010-83574504
17 EVERBRIGHT SECURITIES 06	China Galaxy Securities Co., Ltd.	2-6/F, 35 Finance Street, Xicheng District, Beijing, China	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 15 EVERBRIGHT 04, 16 EVERBRIGHT SECURITIES 05, 16 EVERBRIGHT SECURITIES 06 and 17 EVERBRIGHT SECURITIES 02, after deducting issuance expenses and other related expenses, were all used in the replenishment of working capital of the Company.

The proceeds raised from the issuance of 17 EVERBRIGHT SECURITIES 03, 17 EVERBRIGHT SECURITIES 04, 17 EVERBRIGHT SECURITIES 05, 17 EVERBRIGHT SECURITIES 06, 17 EVERBRIGHT SECURITIES 07, 17 EVERBRIGHT SECURITIES D1, 17 EVERBRIGHT SECURITIES G1, 17 EVERBRIGHT SECURITIES G2, 17 EVERBRIGHT SECURITIES G3, 17 EVERBRIGHT SECURITIES G4, 18 EVERBRIGHT SECURITIES 01, 18 EVERBRIGHT SECURITIES 02 and 18 EVERBRIGHT SECURITIES D1, after deducting issuance expenses and other related expenses, will be used in the replenishment of working capital of the Company; or be used for adjusting the Company's debt structure and improving its financial structure.

The proceeds raised from the issuance of 17 EVERBRIGHT SECURITIES D2, after deducting issuance expenses and other related expenses, will all be used for adjusting the Company's debt structure.

IV. Information on Credit Rating Agency of Corporate Bonds

China Chengxin Securities Rating Co., Ltd. was engaged by the Company to conduct credit rating. Pursuant to the credit rating report issued by China Chengxin Securities Rating Co., Ltd. in March 2018, the 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.

SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

VI. Performance of Trustee Manager of Corporate Bonds

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, 16 EVERBRIGHT SECURITIES 04, 16 EVERBRIGHT SECURITIES 05, 16 EVERBRIGHT SECURITIES 06, 17 EVERBRIGHT SECURITIES 07, 18 EVERBRIGHT SECURITIES 01 and 18 EVERBRIGHT SECURITIES 02; China Galaxy Securities Co., Ltd. was engaged as the bond trustee manager of 17 EVERBRIGHT SECURITIES 02, 17 EVERBRIGHT SECURITIES 03, 17 EVERBRIGHT SECURITIES 04, 17 EVERBRIGHT SECURITIES 05 and 17 EVERBRIGHT SECURITIES 06; Guotai Junan Securities Co., Ltd. was engaged as the bond trustee manager of 17 EVERBRIGHT SECURITIES G1, 17 EVERBRIGHT SECURITIES G2, 17 EVERBRIGHT SECURITIES G3 and 17 EVERBRIGHT SECURITIES G4; and CSC Financial Co., Ltd. was engaged as the bond trustee manager of 17 EVERBRIGHT SECURITIES D1, 17 EVERBRIGHT SECURITIES D2 and 18 EVERBRIGHT SECURITIES D1. The Company entered into the respective bond trustee management agreements with the above bond trustee managers. During the Reporting Period, the bond trustee managers performed their duties according to the bond trustee management agreements. Pursuant to the bond trustee management agreements, the bonds trustee management reports for 2017 of the bonds mentioned above will be disclosed by June 30, 2018 for the attention of investors.

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

Unit: Yuan Currency: RMB

Main indicator	2017	2016	Increase/decrease for the period over the same period last year (%)	Reason for the change
EBITDA	6,307,792,702.59	6,061,658,650.78	4.06	
Current ratio	1.93	2.38	(18.91)	
Quick ratio	0.88	1.07	(17.76)	
Gearing ratio (%)	69.67%	60.26%	increased by 9.41 percentage points	
EBITDA to total debts ratio	0.12	0.16	(25.00)	
Interest coverage ratio	3.23	3.38	(4.44)	
Cash interest coverage ratio	(13.50)	1.63	N/A	The net cash flow generated from operating activities decreased
EBITDA interest coverage ratio	3.45	3.62	(4.70)	
Loan payment ratio	N/A	N/A	N/A	
Interest payment ratio	112.58%	137.04%	decreased by 24.46 percentage points	

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.

SECTION IX RELEVANT INFORMATION ON CORPORATE BONDS

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

In 2017, the Company's other debt financing instruments included debt income right transfer of financing business, structured notes, asset-backed plan backed by stock-pledged creditor's rights, 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 2017, the Company obtained banking facilities from 36 banks with an aggregate amount of RMB219.2 billion at the end of the year, representing an increase of RMB41.5 billion.

X. Other Matters

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

Everbright Securities Company Limited

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

Audited Consolidated Financial Statements

31 December 2017

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 pages 11 to 151, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<u>Fair value of financial instruments</u>	
<p>As at 31 December 2017, the fair value of the Group's financial assets totalled RMB75,600 million of which RMB16,202 million, RMB51,525 million and RMB7,873 million were classified under the fair value hierarchy as level 1, 2 and 3 financial instruments respectively.</p> <p>As at 31 December 2017, the fair value of the Group's financial liabilities totalled RMB613 million of which RMB6 million, RMB392 million and RMB215 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. 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>The Group has developed its own models to value certain financial instruments which also involves significant management judgement. 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>	<p>Our audit procedures to assess the fair value of financial instruments included the following:</p> <ul style="list-style-type: none"> assessed 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; assessed 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; read 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; involved 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 compared 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; assessed 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;

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Fair value of financial instruments (continued)</i>	
Refer to note 59 to the consolidated financial statements and the significant accounting judgements and estimates in note 3.	<ul style="list-style-type: none"> for the key underlying systems used for the processing of transactions in relation to financial instruments, involved 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.

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<u>Consolidation of structured entities</u>	
<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 exposures 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>As at 31 December 2017, the carrying amount of the Group's interests in structured entities sponsored by third party institutions which were not consolidated by the Group was RMB20,514 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 RMB1,199 million.</p>	<p>Our audit procedures to assess the consolidation of structured entities included the following:</p> <ul style="list-style-type: none"> • made inquiries of management and inspected 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; • selected significant structured entities for each key product type and performed the following procedures: <ul style="list-style-type: none"> - inspected 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; - evaluated 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 managements judgement as to exposure, or rights, to variable returns from the Group's involvement in such an entity; - evaluated 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 managements judgement over the Group's ability to influence its own returns from the structured entity; - evaluated management's judgement over whether the structured entity should be consolidated or not;

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<i>Consolidation of structured entities (continued)</i>	
<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> <p>Refer to note 23 to the consolidated financial statements and the significant accounting judgements and estimates in note 3.</p>	<ul style="list-style-type: none"> assessed the disclosures in the consolidated financial statements in relation to structured entities with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<u>Impairment of goodwill</u>	
<p>As at 31 December 2017, 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 RMB1,200 million representing 2% 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>We identified 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.</p>	<p>Our audit procedures to assess potential impairment of goodwill included the following:</p> <ul style="list-style-type: none"> assessed 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; evaluated the competence, capabilities and objectivity of the external appraiser appointed by management; involved 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; tested the assumptions and critical judgements 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 pipe line reports, industry research reports and industry statistics; assessed 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 compared our calculations with the discount rates adopted in the discounted cash flow forecasts; performed 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;

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
<u><i>Impairment of goodwill (continued)</i></u>	
<p>Refer to note 20 to the consolidated financial statements and the significant accounting policies in note 3.</p>	<ul style="list-style-type: none"> assessed the results of the value-in use calculations by comparison with valuations derived from price/book multiples of comparable companies in the market; and assessed 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.

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

Other information included in the Annual Report

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

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

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

Responsibilities of the directors for the consolidated financial statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Group either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

INDEPENDENT AUDITOR'S REPORT (continued)
To the shareholders of Everbright Securities Company Limited
(Incorporated in the People's Republic of China with limited liability)

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

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.
- 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 (continued)

To the shareholders of Everbright Securities Company Limited

(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 Wong Shu Hing.

Certified Public Accountants

Hong Kong
26 March 2018

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Revenue			
Fee and commission income	5	6,714,916	7,358,470
Interest income	6	5,128,883	4,867,387
Net investment gains	7	2,494,639	972,261
Total revenue		14,338,438	13,198,118
Other income and gains	8	422,797	670,411
Total revenue and other income		14,761,235	13,868,529
Fee and commission expenses	9	(1,091,297)	(1,265,215)
Interest expenses	10	(3,883,383)	(3,271,665)
Staff costs	11	(3,201,233)	(3,037,902)
Depreciation and amortization expenses	12	(399,822)	(394,680)
Tax and surcharges		(70,675)	(214,309)
Other operating expenses	13	(1,669,174)	(1,417,457)
Provision for impairment losses	14	(451,282)	(335,242)
Total expenses		(10,766,866)	(9,936,470)
Operating profit		3,994,369	3,932,059
Share of profit of associates and joint ventures		83,288	59,399
Profit before income tax		4,077,657	3,991,458
Income tax expense	15	(950,658)	(914,768)
Profit for the year		3,126,999	3,076,690
Attributable to:			
Shareholders of the Company		3,016,470	3,013,019
Non-controlling interests		110,529	63,671
Total		3,126,999	3,076,690
Basic and diluted earnings per share (in Renminbi per share)	18	0.6542	0.7389

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	<u>2017</u>	<u>2016</u>
Profit for the year	<u>3,126,999</u>	<u>3,076,690</u>
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Available-for-sale financial assets		
-Net change in fair value	55,226	(1,106,626)
-Reclassified to profit or loss	(1,012,509)	(157,346)
Share of other comprehensive income of associates	3,554	(6,630)
Exchange differences on translation of financial statements in foreign currencies	(111,028)	(12,008)
Income tax impact	<u>242,077</u>	<u>315,993</u>
Total other comprehensive income for the year, net of tax	<u>(822,680)</u>	<u>(966,617)</u>
Total comprehensive income for the year	<u>2,304,319</u>	<u>2,110,073</u>
Attributable to:		
Shareholders of the Company	2,250,622	1,971,631
Non-controlling interests	<u>53,697</u>	<u>138,442</u>
Total	<u><u>2,304,319</u></u>	<u><u>2,110,073</u></u>

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	Notes	31 December 2017	31 December 2016
Non-current assets			
Property and equipment	19	830,279	860,227
Goodwill	20	1,199,675	1,506,746
Other intangible assets	21	557,703	761,860
Interest in associates and joint ventures	24	1,229,774	1,737,404
Held-to-maturity investments	25	378,885	159,340
Available-for-sale financial assets	26	10,435,863	10,409,409
Financial assets held under resale agreements	27	5,530,800	4,208,468
Refundable deposits	28	3,713,016	5,784,187
Deferred tax assets	29	503,160	509,005
Finance lease receivables	30	5,092,231	2,740,139
Other non-current assets	31	498,615	1,085,304
Total non-current assets		29,970,001	29,762,089
Current assets			
Accounts receivable	32	3,113,373	2,484,480
Finance lease receivables	30	577,613	1,318,855
Other receivables and prepayments	33	4,177,813	2,196,624
Margin accounts receivable	34	37,708,357	37,427,744
Available-for-sale financial assets	26	27,520,440	7,285,465
Financial assets held under resale agreements	27	14,550,244	5,377,987
Financial assets at fair value through profit or loss	35	37,446,511	24,650,113
Derivative financial assets	36	196,874	97,317
Clearing settlement funds	37	738,426	150,433
Cash held on behalf of brokerage clients	38	40,105,816	51,573,237
Cash and bank balances	39	9,758,897	15,312,915
Total current assets		175,894,364	147,875,170
Total assets		205,864,365	177,637,259

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	<u>Notes</u>	<u>31 December 2017</u>	<u>31 December 2016</u>
Current liabilities			
Loans and borrowings	41	7,137,860	7,345,161
Short-term debt instruments issued	42	18,491,732	5,929,702
Placements from other financial institutions	43	2,993,700	9,107,560
Financial liabilities at fair value through profit or loss	44	456,941	596,900
Accounts payable to brokerage clients	45	41,060,343	55,343,327
Employee benefits payable	46	2,031,053	2,268,881
Other payables and accruals	47	9,498,470	5,482,436
Current tax liabilities	29	800,644	603,214
Financial assets sold under repurchase agreements	48	23,315,495	8,516,901
Derivative financial liabilities	35	156,280	81,623
Long-term bonds due within one year	49	15,978,921	11,492,244
Total current liabilities		<u>121,921,439</u>	<u>106,767,949</u>
Net current assets		<u>53,972,925</u>	<u>41,107,221</u>
Total assets less current liabilities		83,942,926	70,869,310
Non-current liabilities			
Loans and borrowings	41	5,326,106	2,646,456
Long-term bonds	49	24,938,709	17,134,486
Deferred tax liabilities	29	47,938	269,961
Employee benefits payable	46	2,051	-
Other non-current liabilities	50	3,605,454	2,181,743
Total non-current liabilities		<u>33,920,258</u>	<u>22,232,646</u>
Net assets		<u>50,022,668</u>	<u>48,636,664</u>

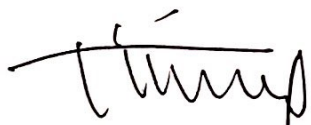
The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)
31 December 2017


(All amounts expressed in RMB thousands unless otherwise specified)

	Notes	31 December 2017	31 December 2016
Equity			
Share capital	51	4,610,788	4,610,788
Reserves	52	32,334,276	32,078,114
Retained profits	52	11,630,848	10,506,810
Total equity attributable to shareholders of the Company		48,575,912	47,195,712
Non-controlling interests		1,446,756	1,440,952
Total equity		50,022,668	48,636,664

Approved and authorised for issue by the Board of Directors on 26 March 2018.



Xue Feng
Chairman of the Board,
Executive Director



Xu Jingchang
Director

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	Attributable to shareholders of the Company							Total	Non-controlling interests	Total equity
	Share capital (Note 51)	Capital reserve	Surplus reserves	General reserve	Fair value reserve	Translation reserve	Retained profits (Note 52)			
As at 1 January 2017	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
Profit for the year	-	-	-	-	-	-	3,016,470	3,016,470	110,529	3,126,999
Other comprehensive income	-	-	-	-	(713,634)	(52,214)	-	(765,848)	(56,832)	(822,680)
Total comprehensive income	-	-	-	-	(713,634)	(52,214)	3,016,470	2,250,622	53,697	2,304,319
Transaction with non-controlling interests	-	-	-	-	-	-	-	-	(25,764)	(25,764)
Other movement in capital reserve	-	51,736	-	-	-	-	-	51,736	-	51,736
Appropriation to surplus reserve	-	-	271,888	-	-	-	(271,888)	-	-	-
Appropriation to general reserve	-	-	-	698,386	-	-	(698,386)	-	-	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	(922,158)	(922,158)	(22,129)	(944,287)
As at 31 December 2017	<u>4,610,788</u>	<u>23,559,011</u>	<u>2,909,756</u>	<u>6,357,665</u>	<u>(229,572)</u>	<u>(262,584)</u>	<u>11,630,848</u>	<u>48,575,912</u>	<u>1,446,756</u>	<u>50,022,668</u>

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	Attributable to shareholders of the Company										
	Reserves										
	Share capital (Note 51)	Capital reserve	Surplus reserves	General reserve	Fair value reserve	Translation reserve	Retained profits (Note 52)	Total	Non-controlling interests	Total equity	
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	
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	
Share 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	

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:			
Profit before income tax		4,077,657	3,991,458
Adjustments for:			
Interest expenses		2,516,161	1,916,111
Share of profit of associates and joint ventures		(83,288)	(59,399)
Depreciation and amortisation expenses		399,822	394,680
Provision for impairment losses	14	451,282	335,242
Gain on disposal of property and equipment and other intangible assets		(392)	(9)
Foreign exchange losses		110,127	(314,828)
Dividend income and interest income from available-for-sale financial assets		(138,963)	(74,964)
Unrealised fair value changes of financial instruments at fair value through profit or loss		172,928	1,185,752
Unrealised fair value changes of derivative financial instruments		(17,228)	(776,204)
Operating cash flows before movements in working capital		<u>7,488,106</u>	<u>6,597,839</u>

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
(continued)		
<i>Changes in operating assets</i>		
Decrease/(increase) in refundable deposits	2,071,171	(1,789,169)
(Increase)/decrease in margin accounts receivable	(406,649)	5,979,038
Increase in finance lease receivables	(1,635,229)	(195,393)
Increase in accounts receivable, other receivables and prepayments	(1,300,306)	(17,492)
Increase in financial assets held under resale agreements	(10,494,589)	(3,237,834)
(Increase)/decrease in financial instruments at fair value through profit or loss	(12,911,656)	217,090
Increase in derivative financial instruments	(7,671)	(93,543)
Increase in restricted bank deposits	(4,780)	(7,875)
Decrease in cash held on behalf of brokerage clients	11,467,421	18,753,871
Increase in other investments	(19,865,013)	(1,669,597)
<i>Changes in operating liabilities</i>		
Decrease in accounts payable to brokerage clients	(14,282,984)	(15,758,717)
Increase/(decrease) in other payables and accruals	2,900,416	(1,662,493)
Decrease in employee benefits payable	(235,777)	(373,880)
Increase/(decrease) in financial assets sold under repurchase agreements	14,798,594	(12,268,540)
(Decrease)/increase in placements from other financial institutions	(6,113,860)	8,607,560
Cash generated from/(used in) operations	(28,532,806)	3,080,865
Income taxes paid	(727,329)	(2,333,588)
Interest paid for operating activities	(1,348,832)	(1,638,970)
Net cash flows used in operating activities	<u>(30,608,967)</u>	<u>(891,693)</u>

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS (continued)
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Cash flows from investing activities:			
Proceeds from disposal of property and equipment and other intangible assets		42,306	1,667
Dividends received from associates and joint ventures		18,965	20,571
Dividends and interest received from available-for-sale financial assets		44,295	74,963
Purchases of property and equipment, other intangible assets and other non-current assets		(178,820)	(289,549)
Purchases of held-to-maturity investments		(219,545)	(29,809)
Proceeds from disposal/ (purchase) of associates and joint ventures		553,257	(883,420)
(Purchases)/disposal of available-for-sale financial assets for investment purpose		(797,046)	67,197
Purchase of non-controlling interests shareholding in a subsidiary		(25,764)	(794,843)
Proceeds from disposal of investments classified as receivables and other investments		2,517,523	(3,455,741)
Net cash flows from/(used in) investing activities		1,955,171	(5,288,964)
Cash flows from financing activities:			
Proceeds from issuance of ordinary shares		-	7,437,738
Proceeds from issuance of long-term bonds		25,914,520	14,035,000
Proceeds from issuance of short-term debt instruments		25,891,035	8,378,205
Proceeds from bank and other loans		24,297,982	7,994,056
Long-term bonds repaid		(13,500,000)	(23,500,000)
Short-term debt instruments repaid		(13,329,005)	(4,548,503)
Bank and other loans repaid		(20,285,090)	(3,278,941)
Loans, bonds and debt instruments interest paid		(2,060,558)	(2,296,109)
Dividends paid		(944,287)	(2,414,994)
Net cash flows from financing activities		25,984,597	1,806,452
Net decrease in cash and cash equivalents		(2,669,199)	(4,374,205)
Cash and cash equivalents at the beginning of the year		8,937,392	12,996,769
Effect of foreign exchange rate changes		(110,127)	314,828
Cash and cash equivalents at the end of the year	40	6,158,066	8,937,392

The accompanying notes form an integral part of these financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in Renminbi (“RMB”) thousands unless otherwise specified)

1. GENERAL INFORMATION

Everbright Securities Company Limited (光大证券股份有限公司) (the “Company”), formerly known as Everbright Securities Limited Liability Company (光大证券有限责任公司), 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 (光大证券股份有限公司) 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, and 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 listing 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 Overallotment Option, in respect of 24,088,800 H Shares with a par value of RMB1.00 each.

As at 31 December 2017, the Company’s registered capital was RMB 4,610,787,639 and the Company had 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”) are 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 the CSRC.

2.1 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”), which comprise all standards and interpretations approved by the International Accounting Standards Board (“IASB”). The consolidated 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 “Listing Rules”) and the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair value, as explained in the accounting policies set out below. The consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

The nature and the impact of the amendments are described below:

- (a) Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in notes 41, 42 and 49 to the financial statements.
- (b) Amendments to IAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.
- (c) Amendments to IFRS 12 clarify that the disclosure requirements in IFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of IFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group does not have a disposal group.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ¹
IFRS 9	Financial Instruments ¹
Amendments to IFRS 9	Prepayment Features with Negative Compensation ²
Amendments to IFRS 10 and IAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
IFRS 15	Revenue from Contracts with Customers ¹
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers ¹
IFRS 16	Leases ²
Amendments to IAS 40	Transfers of Investment Property ¹
IFRIC-Int 22	Foreign Currency Transactions and Advance Consideration ¹
IFRIC-Int 23	Uncertainty over Income Tax Treatments ²
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28 ¹

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ No mandatory effective date yet determined but available for adoption

Further information about those IFRSs that are expected to be applicable to the Group is described below. Of those standards, IFRS 9 and IFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

The IASB issued amendments to IFRS 2 in June 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt IFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of IFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group classify its financial assets in accordance with the features of contractual cash flow characteristics and the entity's business model into financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortized cost or at fair value through other comprehensive income to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its debt instruments and other receivables, etc. within the next twelve months.

Upon the initial adoption of the standard, management had performed necessary assessments and believe that the impact on net assets would not exceed 0.5% of net assets as at 31 December 2017.

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the IASB in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)

IFRS 15, issued in May 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt IFRS 15 from 1 January 2018. The Group has performed a detailed assessment that the adoption of this standard will not have a significant impact on the Group's consolidated financial statements other than additional quantitative and qualitative disclosure.

IFRS 16, issued in January 2016, replaces IAS 17 Leases, IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases - Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group is currently assessing the impact of IFRS 16 on its consolidated financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)

Amendments to IAS 40, issued in December 2016, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

IFRIC-Int 22, issued in December 2016, provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

IFRIC-Int 23, issued in June 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's consolidated financial statements.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in the consolidated statement of profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate or a joint venture is classified as held for sale, it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises, (only if there are revalued assets in the financial statements) unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where 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 of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group 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; (If the Group is itself such a plan) and the sponsoring employers of the post-employment benefit plan;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

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

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost (Or valuation) less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Types of assets	Estimated useful lives	Estimated residual values	Depreciation rates
Buildings	40 years	-	2.50%
Motor vehicles	5 years	-	20.00%
Electronic equipment	3 years	-	33.33%
Furniture and fixtures	5 years	-	20.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Useful lives of each category of intangible assets are as follows:

Types of assets	Estimated useful lives
Software	3 years
Customer relationship	2.5 to 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.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)
Subsequent measurement (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the statement of profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

Derecognition of financial assets

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

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

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the statement of profit or loss.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "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. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the statement of profit or loss if the subsequent increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss.

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, an amount due to the ultimate holding company, derivative financial instruments and interest-bearing bank and other borrowings.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in IAS 39 are satisfied.

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.

- 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

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, and 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, are amortised over the period of the respective transaction using the effective interest method and is included in interest income and interest expenses respectively.

Investments in subsidiaries

In the Group's consolidated financial statements, investments in subsidiaries are accounted for in accordance with the principles described in Note 2.1.

In the Company's statement of financial position, investments in subsidiaries are accounted for using the cost method. The investment is stated at cost less impairment loss in the company level statement 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.

Accounts payable to brokerage customers

Accounts payable to brokerage customers are all deposited in the bank accounts designated by the Group. The Group recognizes the funds as liabilities for settlement to the customers.

The Group executes trade orders through stock exchanges on behalf of the customers. If the total amount of purchased securities exceeds that of sold securities, accounts payable to brokerage customers decrease by the difference in addition to the withholding stamp duty and commission. If the total amount of sold securities exceeds that of purchased securities, accounts payable to brokerage customers increase by the difference after deducting withholding stamp duty and commission.

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.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

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.

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.

Advisory fees

Consultancy and financial advisory fee income is recognised when the relevant transactions have been arranged or the relevant services have been rendered.

Asset management fees

Asset management fees are recognised when the Group is entitled to receive the income under the asset management agreement.

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.

Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity investments.

Other income

Other income is recognised on an accrual basis.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expenses recognition

Commission expenses

Commission expenses relate mainly to transactions, which are recognised as expenses when the services are received.

Interest expenses

Interest expenses are recognised based on the principal outstanding and at the effective interest rate applicable.

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.

Other expenses

Other expenses are recognised on an accrual basis.

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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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.

Employee benefits

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.

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.

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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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.

Dividends

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.

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. 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.

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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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 2.4. Impairment losses are recognised in accordance with the accounting policies described in Note 2.4. Income derived from operating leases is recognised in 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.

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 receivables, 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 end of the reporting period, 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.

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 a 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.

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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 resources 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 product 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 the actual transaction price for such transactions for segment reporting, and segment accounting policies are consistent with those for the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Classification of financial asset and liability

The Group's accounting policies provide the scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In classifying a financial asset or liability as "trading", the Group has determined that it meets the definition of trading assets and liabilities set out in Note 2.4.
- In designating a financial asset or liability 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 2.4.
- In classifying a financial asset 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 the accounting policy set out in Note 2.4. In evaluating whether requirements to classify a financial asset as held-to-maturity are met, management makes significant judgements. 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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.

Determination of the 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.

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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

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 judgement which would affect the amount of impairment losses.

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 the maximum use of market inputs and rely as little as possible on the Group's specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations require management's estimates. The Group reviews the above estimations and assumptions periodically and makes adjustments if necessary.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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, an 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 flows 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.

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 assumptions.

Impairment of goodwill

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.

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.

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 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

4. TAXATION

The Group's main applicable taxes and tax rates are as follows:

Tax type	Tax basis	Tax rate
Corporate income tax	Taxable profits	16.5%-25%
Value added tax ("VAT")	Taxable revenue	3%-17%
City maintenance and construction tax	Value added tax paid	1%-7%
Education surcharge	Value 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%.

5. FEE AND COMMISSION INCOME

	2017	2016
Income from securities brokerage and investment advisory business	3,522,133	4,035,242
Income from asset management business	1,653,745	1,435,490
Income from underwriting and sponsorship business	970,294	1,353,610
Income from futures brokerage business	305,596	307,962
Income from financial advisory business	241,126	207,714
Others	22,022	18,452
Total	6,714,916	7,358,470

6. INTEREST INCOME

	2017	2016
Interest income arising from		
- Margin financing and securities lending	2,216,168	2,315,624
- Deposit in financial institutions	1,767,357	1,951,741
- Securities-backed lending and stock repurchases	761,982	361,375
- Finance lease	216,560	163,743
- Financial assets held under resale agreements	25,932	35,437
- Others	140,884	39,467
Total	5,128,883	4,867,387

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

7. NET INVESTMENT GAINS

	2017	2016
Net realised gains from disposal of available-for-sale financial assets	1,012,509	436,185
Dividend income and interest income from available-for-sale financial assets	904,090	258,786
Net realised losses from disposal of financial instruments at fair value through profit or loss	(563,381)	(307,014)
Dividend income and interest income from financial instruments at fair value through profit or loss	1,463,103	1,202,091
Net realised losses from disposal of derivative financial instruments	(165,982)	(208,239)
Unrealised fair value changes of financial instruments at fair value through profit or loss	(172,928)	(1,185,752)
Unrealised fair value changes of derivative financial instruments	17,228	776,204
Total	<u>2,494,639</u>	<u>972,261</u>

8. OTHER INCOME AND GAINS

	2017	2016
Government grants	357,318	209,936
Rental income	14,278	13,463
Income from agent business	95,329	70,989
Income from advisory business	13,635	7,716
Exchange (losses)/gains	(110,127)	314,828
Others	52,364	53,479
Total	<u>422,797</u>	<u>670,411</u>

9. FEE AND COMMISSION EXPENSES

	2017	2016
Expenses arising from		
- Securities brokerage and advisory business	996,558	1,013,990
- Underwriting and sponsorship business	72,415	90,593
- Asset management business	1,745	106,416
- Futures brokerage business	20,579	49,077
- Financial advisory business	-	5,139
Total	<u>1,091,297</u>	<u>1,265,215</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

10. INTEREST EXPENSES

	2017	2016
Interest expenses for		
- Long-term bonds	1,830,314	1,675,521
- Financial assets sold under repurchase agreements	748,048	570,798
- Loans and borrowings	441,343	187,152
- Other structured entities' holders	287,967	406,034
- Short-term debt instruments issued	244,504	53,438
- Placements from other financial institutions	140,912	149,564
- Accounts payable to brokerage clients	116,092	190,213
- Others	74,203	38,945
Total	<u>3,883,383</u>	<u>3,271,665</u>

11. STAFF COSTS

	2017	2016
Salaries, bonuses and allowances	2,727,248	2,644,299
Contributions to pension schemes	212,400	160,914
Other social welfare	261,585	232,689
Total	<u>3,201,233</u>	<u>3,037,902</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 labour and social welfare authorities based on a certain percentage of the employees' salaries. These social welfare plans are defined contribution plans and contributions to the plans are expensed as incurred.

12. DEPRECIATION AND AMORTIZATION EXPENSES

	2017	2016
Depreciation of property and equipment	128,525	122,959
Amortisation of other intangible assets	230,450	229,728
Amortisation of leasehold improvements and long-term deferred expenses	40,847	41,993
Total	<u>399,822</u>	<u>394,680</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

13. OTHER OPERATING EXPENSES

	2017	2016
Rental expenses and utilities	377,960	361,741
Funds and asset management plans distribution and custodian expenses	290,842	180,977
IT expenses	235,285	218,440
Promotion and entertainment expenses	166,861	128,839
Business travel expenses	142,240	138,127
Postal and communication expenses	87,818	75,905
Labour outsourcing expenses	72,801	45,915
Stock exchanges management fees	57,481	60,025
Securities/futures investor protection funds	52,440	61,334
Consulting and professional services	28,319	19,640
Loan arrangement services	16,803	-
Auditors' remuneration	9,191	7,477
Compensation and penalties	1,971	41,693
Others	129,162	77,344
Total	1,669,174	1,417,457

14. PROVISION FOR IMPAIRMENT LOSSES

	2017	2016
Provision for impairment losses against available-for-sale financial assets	-	276,080
Reversal of impairment losses against accounts receivable and other non-current assets	(4,915)	(15,994)
Provision for impairment losses against other receivables	26,439	45,710
Provision for impairment losses against accounts receivable of finance lease	24,379	38,241
Provision for impairment losses against factoring receivables	11,972	-
Provision for/(reversal of) impairment losses against margin accounts receivable	176,589	(8,795)
Provision for impairment of goodwill	216,818	-
Total	451,282	335,242

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

15. INCOME TAX EXPENSE

(a) Taxation in the consolidated statement of profit or loss represents:

	2017	2016
Current tax		
- Mainland China income tax	996,781	1,149,898
- Hong Kong profits tax	65,305	42,478
	1,062,086	1,192,376
Adjustment in respect of prior years		
- PRC income tax	(137,327)	116,658
Deferred tax		
Origination and reversal of temporary differences	25,899	(394,266)
Total	950,658	914,768

According to the PRC Corporate Income Tax ("CIT") Law that took effect on 1 January 2008, the Company and the Group's Mainland China's 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.

(b) Reconciliation between income tax expense and accounting profit at the applicable tax rate:

	2017	2016
Profit before income tax	4,077,657	3,991,458
Notional tax calculated using PRC statutory tax rate	1,019,414	997,865
Tax effect of non-deductible expenses	67,758	33,368
Tax effect of non-taxable income	(168,947)	(132,141)
Effect of losses and different tax rates of subsidiaries	19,712	3,302
Recognition of deductible temporary differences previously not recognised	122,822	(119,344)
Adjustment for prior years	(137,327)	116,658
Utilisation of tax losses previously not recognized	19,815	15,806
Others	7,411	(746)
Total	950,658	914,768

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

16. DIRECTORS' AND SUPERVISORS' REMUNERATION

The remuneration of directors and supervisors paid by the Group who held office during the reporting period is as follows:

	2017				
Name	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	Total
Directors					
Gao Yunlong ⁽¹⁾	-	-	-	-	-
Ge Haijiao ⁽¹⁾⁽⁶⁾	-	-	-	-	-
Xue Feng	-	2,619	127	600	3,346
Ju Hao ⁽⁷⁾	-	-	-	-	-
Yin Lianchen ⁽¹⁾	-	-	-	-	-
Chan Ming Kin ⁽¹⁾	-	-	-	-	-
Xue Keqing ⁽¹⁾⁽⁸⁾	-	-	-	-	-
Yang Guoping ⁽¹⁾⁽²⁾	-	-	-	-	-
Independent directors					
Xu Jingchang	125	-	-	-	125
Xiong Yan	125	-	-	-	125
Li Zheping	125	-	-	-	125
Au Sing Kun	125	-	-	-	125
Zhu Ning ⁽²⁾	-	-	-	-	-
Supervisors					
Liu Jiping	-	1,688	125	600	2,413
Zhang jingcai ⁽¹⁾⁽⁹⁾	-	-	-	-	-
Wang Hongyang ^{(1) (10)}	-	-	-	-	-
Zhu Wuxiang	83				83
Zhang Limin	83				83
Wang Wenyi	-	737	118	1,900	2,755
Huang Qin	-	920	223	1,406	2,549
Nie Tingming ^{(1) (4)}	-	-	-	-	-
Li Bingtao ⁽⁵⁾	-	-	-	-	-
Li Xianzhi ⁽¹¹⁾	-	775	253	1,425	2,453
Total	666	6,739	846	5,931	14,182

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

16. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

	2016				
Name	Directors' fees	Salaries, allowances and benefits in kind	Contribution to pension schemes	Discretionary bonuses	Total
Directors					
Guo Xinshuang ⁽¹⁾⁽³⁾	-	-	-	-	-
Xue Feng	-	2,680	50	603	3,333
Tang Shuangning ⁽¹⁾	-	-	-	-	-
Gao Yunlong ⁽¹⁾	-	-	-	-	-
Yin Lianchen ⁽¹⁾	-	-	-	-	-
Chan Ming Kin ⁽¹⁾	-	-	-	-	-
Yang Guoping ⁽¹⁾⁽²⁾	-	-	-	-	-
Independent directors					
Zhu Ning ⁽²⁾	141	-	-	-	141
Xu Jingchang	141	-	-	-	141
Xiong Yan ⁽¹⁾	141	-	-	-	141
Li Zheping	141	-	-	-	141
Au Sing Kun	54	-	-	-	54
Supervisors					
Liu Jiping	-	1,748	50	360	2,158
Jiang Bo ⁽¹⁾	-	-	-	-	-
Nie Tingming ^{(1) (4)}	-	-	-	-	-
Zhu Wuxiang	96	-	-	-	96
Zhang Limin	96	-	-	-	96
Wang Wenyi	-	744	50	2,613	3,407
Li Bingtao ⁽⁵⁾	-	1,714	50	2,331	4,095
Huang Qin	-	907	50	2,131	3,088
Total	810	7,793	250	8,038	16,891

⁽¹⁾The remunerations of these directors and supervisors of the Company were borne by its shareholders and other related parties including China Everbright Group Ltd. and China Everbright Limited. No allocation of the remunerations between these related parties and the Group has been made during the reporting period.

⁽²⁾ Expiration as director on 15 September 2017.

⁽³⁾ Resigned as director on 2 November 2016.

⁽⁴⁾ Resigned as supervisor on 27 March 2017.

⁽⁵⁾ Resigned as supervisor on 16 January 2017.

⁽⁶⁾ Appointed as director on 27 March 2017.

⁽⁷⁾ Appointed as director on 17 October 2017.

⁽⁸⁾ Appointed as director on 9 November 2017.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

16. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

⁽⁹⁾ Appointed as supervisor on 15 August 2017.

⁽¹⁰⁾ Appointed as supervisor on 24 May 2017.

⁽¹¹⁾ Appointed as supervisor on 7 July 2017.

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.

17. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, none are directors or supervisors whose emoluments are disclosed in Note 16. The aggregate of the emoluments is as follows:

	2017	2016
Salaries and allowances	5,750	14,743
Discretionary bonuses	71,946	44,462
Employer's contribution to pension schemes	259	134
Total	77,955	59,339

The emoluments with the highest emoluments are within the following bands:

	2017	2016
	Number of individuals	Number of 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	-	-
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	-	-
More than HKD 10,000,000	5	5

No emoluments are paid or payable to these individuals as benefits for 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

18. 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>2017</u>	<u>2016</u>
Profit attributable to shareholders of the Company	<u>3,016,470</u>	<u>3,013,019</u>
Weighted average number of ordinary shares in issue (thousands) (a)	<u>4,610,788</u>	<u>4,077,891</u>
Basic and diluted earnings per share attributable to equity shareholders (in Renminbi per share)	<u>0.6542</u>	<u>0.7389</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>2017</u>	<u>2016</u>
Number of ordinary shares as at 1 January	4,610,788	3,906,699
Increase in weighted average number of ordinary shares	<u>-</u>	<u>171,192</u>
Weighted average number of ordinary shares in issue	<u>4,610,788</u>	<u>4,077,891</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

19. PROPERTY AND EQUIPMENT

	Buildings	Motor vehicles	Electric equipment	Furniture and fixtures	Construction in progress	Total
Cost						
As at 1 January 2016	914,993	26,551	520,817	287,302	420	1,750,083
Additions	-	1,842	72,812	28,760	3,750	107,164
Transfers during the year	-	-	-	-	(1,609)	(1,609)
Disposals	-	(2,878)	(32,091)	(12,030)	-	(46,999)
As at 31 December 2016	914,993	25,515	561,538	304,032	2,561	1,808,639
Additions	-	1,885	74,734	26,049	2,521	105,189
Transfers during the year	-	-	-	769	(4,415)	(3,646)
Disposals	-	(2,940)	(77,473)	(25,295)	-	(105,708)
As at 31 December 2017	<u>914,993</u>	<u>24,460</u>	<u>558,799</u>	<u>305,555</u>	<u>667</u>	<u>1,804,474</u>
Accumulated depreciation						
As at 1 January 2016	(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
As at 31 December 2016	(246,290)	(21,253)	(442,449)	(238,420)	-	(948,412)
Charge for the year	(23,746)	(1,774)	(81,262)	(21,743)	-	(128,525)
Disposals	-	2,521	76,495	23,726	-	102,742
As at 31 December 2017	<u>(270,036)</u>	<u>(20,506)</u>	<u>(447,216)</u>	<u>(236,437)</u>	<u>-</u>	<u>(974,195)</u>
Carrying amount						
As at 31 December 2017	<u>644,957</u>	<u>3,954</u>	<u>111,583</u>	<u>69,118</u>	<u>667</u>	<u>830,279</u>
As at 31 December 2016	<u>668,703</u>	<u>4,262</u>	<u>119,089</u>	<u>65,612</u>	<u>2,561</u>	<u>860,227</u>

As at 31 December 2017 and 2016, included in buildings, there is a carrying amount of RMB1,415 thousands and RMB1,459 thousands respectively, for which the Group has yet to obtain the relevant land or building certificates.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

20. GOODWILL

	31 December 2017	31 December 2016
Cost	1,504,201	1,504,201
Effect of exchange rate changes for cost	79,992	190,392
Less: Provision for impairment losses	(383,212)	(166,394)
Effect of exchange rate changes for impairment provision	(1,306)	(21,453)
Carrying amount	<u>1,199,675</u>	<u>1,506,746</u>

Impairment testing on goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to operating segments as follows:

	31 December 2017	31 December 2016
Futures brokerage	9,380	9,380
Wealth management, investment banking and brokerage	<u>1,574,813</u>	<u>1,685,213</u>
Total	<u>1,584,193</u>	<u>1,694,593</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.

In the second half of 2016, 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

20. GOODWILL (continued)

The recoverable amount of the 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 19.76% (2016: 20.30%), 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.

21. OTHER INTANGIBLE ASSETS

	Customer relationship	Software and others	Total
Cost			
As at 1 January 2016	881,237	543,228	1,424,465
Additions	43,207	62,588	105,795
Disposals	-	(1,255)	(1,255)
As at 31 December 2016	924,444	604,561	1,529,005
Additions	-	65,242	65,242
Disposals	(60,924)	(18,112)	(79,036)
As at 31 December 2017	863,520	651,691	1,515,211
Accumulated amortisation			
As at 1 January 2016	(135,038)	(403,610)	(538,648)
Charge for the year	(161,259)	(68,469)	(229,728)
Disposals	-	1,231	1,231
As at 31 December 2016	(296,297)	(470,848)	(767,145)
Charge for the year	(161,938)	(68,512)	(230,450)
Disposals	27,189	12,898	40,087
As at 31 December 2017	(431,046)	(526,462)	(957,508)
Carrying amount			
As at 31 December 2017	432,474	125,229	557,703
As at 31 December 2016	628,147	133,713	761,860

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 31 December		Principal activities	Auditor ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Everbright Futures Co., Ltd.* ⁽¹⁾ 光大期貨有限公司	PRC 8 April 1993	RMB 1,500,000,000	100%	100%	Futures brokerage	EY PRC PRC GAAP	KPMG PRC PRC GAAP
Everbright Pramerica Fund Management Co., Ltd.* ⁽¹⁾ 光大保德信基金管理有限公司	PRC 22 April 2004	RMB 160,000,000	55%	55%	Fund management	EY PRC PRC GAAP	KPMG PRC PRC GAAP
Everbright Capital Investment Co., Ltd.* ⁽¹⁾ 光大資本投資有限公司	PRC 7 November 2008	RMB 4,000,000,000	100%	100%	Direct investment	EY PRC PRC GAAP	KPMG PRC PRC GAAP
Everbright Securities Financial Holdings Limited ⁽¹⁾ Shanghai Everbright Securities Assets Management Co., Ltd.* ⁽¹⁾ 上海光大證券資產管理有限公司	Hong Kong 19 November 2010 PRC 21 February 2012	HKD 2,765,000,000 RMB 200,000,000	100%	100%	Investment holding Asset management	EY HKFRS EY PRC PRC GAAP	KPMG HKFRS KPMG PRC PRC GAAP
Everbright Fortune Investment Co., Ltd.* ⁽¹⁾ 光大富尊投資有限公司	PRC 26 September 2012	RMB 2,000,000,000	100%	100%	Alternative Investment	EY PRC PRC GAAP	KPMG PRC PRC GAAP
Everbright Securities (International) Limited Everbright Photon Investment Management Co., Ltd.* 光大光子投資管理有限公司	British Virgin Islands 14 July 1992 PRC 26 June 2014	HKD 1,000 RMB 120,000,000	100%	100%	Investment holding Risk management service	N/A EY PRC PRC GAAP	N/A KPMG PRC PRC GAAP
Everbright Development Investment Co., Ltd. 光大发展投资有限公司	PRC 12 June 2017	RMB 500,000,000	100%	-	Direct investment	EY PRC PRC GAAP	N/A

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Everbright Financial Investment Limited	Hong Kong 14 August 2014	HKD 650,000,000	100%	100%	Investment holding Securities brokerage and margin financing	EY HKFRS	KPMG HKFRS
China Everbright Securities (HK) Limited ⁽³⁾	Hong Kong 4 January 1991	HKD 1,000,000,000	100%	100%	Investment research	EY HKFRS	KPMG HKFRS
China Everbright Research Limited ⁽³⁾	Hong Kong 30 July 1992	HKD 5,500,000	100%	100%	Futures brokerage and leveraged foreign exchange	EY HKFRS	KPMG HKFRS
China Everbright Forex & Futures (HK) Limited ⁽³⁾	Hong Kong 19 August 1993	HKD 200,000,000	100%	100%	Investment holding and provision of management services	EY HKFRS	KPMG HKFRS
China Everbright Securities International Limited ⁽³⁾	Hong Kong 4 January 1994	HKD 5,000,000	100%	100%	Corporate finance advisory	EY HKFRS	KPMG HKFRS
China Everbright Capital Limited ⁽³⁾	Hong Kong 4 January 1994	HKD 50,000,000	100%	100%			
Luxfull Limited ⁽³⁾	British Virgin Islands 7 March 1997	USD1	100%	100%	Investment holding	N/A	N/A

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Timbo Investment Limited ⁽³⁾	British Virgin Islands 8 April 1997	USD1	100%	100%	Investment holding	N/A	N/A
China Everbright Wealth Management Limited ⁽³⁾	Hong Kong 6 December 2002	HKD 500,000	100%	100%	Wealth management	EY HKFRS	KPMG HKFRS
China Everbright Bullion Investment Limited ⁽³⁾	Hong Kong 20 August 2004	HKD1,000	100%	100%	Bullion trading services	EY HKFRS	KPMG HKFRS
Bolson Limited ⁽³⁾	Hong Kong 2 November 2007	HKD10,000	100%	100%	Holding of motor vehicle and license	EY HKFRS	KPMG HKFRS
Shenzhen Baoyoudi Technology Co., Ltd.* ⁽³⁾ 深圳寶又迪科技有限公司	PRC 18 January 2008	HKD 8,000,000	100%	100%	Inactive	Peng sheng PRC GAAP	Peng sheng PRC GAAP
Majestic Luck Limited ⁽³⁾	British Virgin Islands 6 September 2011	USD1	100%	100%	Investment holding	N/A	N/A
Everbright Fortune (Shenzhen) Financial Services Co., Ltd.* ⁽³⁾ 陽光富尊(深圳)金融服務諮詢有限公司	PRC 23 September 2011	HKD 30,000,000	100%	100%	Advisory services	Bozhong PRC GAAP	Bozhong PRC GAAP
China Everbright Securities Asset Management Limited ⁽³⁾	Hong Kong 23 September 2011	HKD 10,000,000	100%	100%	Asset management	EY HKFRS	KPMG HKFRS

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
China Everbright Fortune Immigration Services Limited ⁽³⁾	Hong Kong 9 December 2011	HKD1,000	100%	100%	Immigration services	EY HKFRS	KPMG HKFRS
Ever Rapid Limited ⁽³⁾	British Virgin Islands 18 April 2012	USD1	100%	100%	Investment holding	N/A	N/A
China Everbright Securities Finance Limited ⁽³⁾	Hong Kong 23 May 2012	HKD 1,000,000	100%	100%	Money lending	EY HKFRS	KPMG HKFRS
China Everbright Fortune Investment Limited ⁽³⁾	Hong Kong 4 July 2013	HKD1,000	100%	100%	Investment	EY HKFRS	KPMG HKFRS
China Everbright Property Agency Limited ⁽³⁾	Hong Kong 7 October 2013	HKD1,000	100%	100%	Property agency	EY HKFRS	KPMG HKFRS
Sun Hung Kai Financial Group Limited	British Virgin Islands 14 September 2010	USD 301,217,140	70%	70%	Investment holding	EY HKFRS	KPMG HKFRS
Everbright Fortune International Leasing Co., Ltd.*	PRC 29 September 2014	RMB 1,000,000,000	85%	85%	Finance lease	EY PRC PRC GAAP	KPMG PRC PRC GAAP
光大幸福國際租賃有限公司							
Everbright Sun Hung Kai Company Limited (formerly known as “Sun Hung Kai Financial Limited”) ⁽⁴⁾	Hong Kong 27 February 1973	HKD 157,748,221	100%	100%	Investment holding	EY HKFRS	KPMG HKFRS

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Dynamic Force Investments Limited ⁽⁴⁾	British Virgin Islands 8 January 2004	USD1	100%	100%	Investment holding	EY HKFRS	KPMG HKFRS
Lexshan Nominees Limited ⁽³⁾	Hong Kong 11 August 1978	HKD2	100%	100%	Nominee services	EY HKFRS	KPMG HKFRS
SHK Absolute Return Managers Ltd. ⁽⁴⁾	Cayman Islands 15 April 2005	USD10	100%	100%	Investment holding	EY HKFRS	KPMG HKFRS
SHK Alpha Managers Ltd. ⁽⁴⁾	Cayman Islands 14 February 2007	USD10	100%	100%	Funds management	EY HKFRS	KPMG HKFRS
SHK Alternative Managers Limited ⁽⁴⁾	Cayman Islands 11 January 2006	USD1	100%	100%	Funds management	EY HKFRS	KPMG HKFRS
SHK Dynamic Managers Ltd. ⁽⁴⁾	Cayman Islands 30 March 2006	USD10	100%	100%	Funds management	EY HKFRS	KPMG HKFRS
SHK Fund Management Limited ⁽⁴⁾	Hong Kong 20 January 1989	HKD 106,000,000	100%	100%	Funds marketing investment advising and fund management	EY HKFRS	KPMG HKFRS
SHK Global Managers Limited ⁽⁴⁾	British Virgin Islands 23 April 2002	USD5,000	100%	100%	Funds management	EY IFRS	KPMG IFRS
SHK Income Fund Manager ⁽⁴⁾	Cayman Islands 23 October 2008	USD100	100%	100%	Investment holding	EY HKFRS	KPMG HKFRS

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
SHK Online (Securities) Limited ⁽⁴⁾	Hong Kong 23 December 1975	HKD 40,000,000	100%	100%	Online securities broking and margin financing Securities, futures and option trading Funds management and investment holding Business marketing and promotion	EY HKFRS	KPMG HKFRS
SHK Arbitrage Opportunities Limited ⁽⁴⁾	Hong Kong 2 May 1975	HKD 20,000,000	100%	100%	Funds management and investment holding Business marketing and promotion	EY HKFRS	KPMG HKFRS
SHK Private Equity Managers Ltd ⁽⁴⁾	Cayman Islands 14 February 2007	USD10	-	100%	Funds management and investment holding Business marketing and promotion	N/A	KPMG HKFRS
SHK Private Limited ⁽⁴⁾	Hong Kong 11 July 1975	HKD100,000	100%	100%	Funds management and investment holding Business marketing and promotion	EY HKFRS	KPMG HKFRS
SHK Quant Managers Ltd. ⁽⁴⁾	Cayman Islands 15 April 2005	USD10	100%	100%	Funds management and investment holding Business marketing and promotion	EY HKFRS	KPMG HKFRS
EBSHK Risk Solutions Limited (formerly known as "SHK Solutions Limited") ⁽⁴⁾	Hong Kong 6 March 2000	HKD2	100%	100%	Inactive	EY HKFRS	KPMG HKFRS
Shun Loong Forex Company Limited ⁽⁴⁾	Hong Kong 6 July 1973	HKD 32,000,000	100%	100%	Inactive	EY HKFRS	KPMG HKFRS
Shun Loong Futures Limited ⁽⁴⁾	Hong Kong 16 August 1977	HKD 15,000,000	100%	100%	Inactive	EY HKFRS	KPMG HKFRS

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Shun Loong Holdings Limited ⁽⁴⁾	Hong Kong 1 August 1980	HKD 200,000,000	100%	100%	Investment holding	EY HKFRS	KPMG HKFRS
Shun Loong Securities Company Limited ⁽⁴⁾	Hong Kong 4 May 1995	HKD 50,000,000	-	100%	Inactive	N/A	KPMG HKFRS
Sun Hung Bullion Company Limited ⁽⁴⁾	Hong Kong 24 November 1992	HKD5,500,000	100%	100%	Bullion trading	EY HKFRS	KPMG HKFRS
Sun Hung Kai (Nominees) Limited ⁽⁴⁾	Hong Kong 18 April 1972	HKD200	100%	100%	Nominee services	EY HKFRS	KPMG HKFRS
Sun Hung Kai Bullion Company Limited ⁽⁴⁾	Hong Kong 12 September 1972	HKD 210,000,000	100%	100%	Bullion trading and investment holding	EY HKFRS	KPMG HKFRS
Sun Hung Kai Commodities Limited ⁽⁴⁾	Hong Kong 4 August 1976	HKD 133,300,000	100%	100%	Commodities broking	EY HKFRS	KPMG HKFRS
Sun Hung Kai Insurance Consultants Limited ⁽⁴⁾	Hong Kong 5 July 1988	HKD 21,000,000	100%	100%	Insurance broking and consultancy services	EY HKFRS	KPMG HKFRS
Sun Hung Kai International Commodities Limited ⁽⁴⁾	Hong Kong 24 March 1972	HKD 25,000,000	100%	100%	Inactive	EY HKFRS	KPMG HKFRS
Sun Hung Kai International Limited ⁽⁴⁾	Hong Kong 3 May 1974	HKD 22,000,000	100%	100%	Corporate finance services	EY HKFRS	KPMG HKFRS

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Sun Hung Kai Investment Services (Macau) Limited ⁽⁴⁾	Macau 5 February 1991	MOP 48,900,000	100%	100%	Inactive Investment holding securities broking and margin financing	EY Macau FRS	KPMG Macau FRS
Sun Hung Kai Investment Services Limited ⁽⁴⁾	Hong Kong 4 August 1972	HKD 2,430,000,000	100%	100%	margin financing	EY HKFRS	KPMG HKFRS
Everbright Sun Hung Kai Structured Solutions Limited ⁽⁴⁾	Hong Kong 21 March 1980	HKD2	100%	100%	Inactive Investment advisory services, financial planning and wealth management	EY HKFRS	KPMG HKFRS
Sun Hung Kai Wealth Management Limited ⁽⁴⁾	Hong Kong 21 December 1990	HKD5,000,000	100%	100%	management	EY HKFRS	KPMG HKFRS
Sun Tai Cheung Finance Company Limited ⁽⁴⁾	Hong Kong 24 December 1976	HKD 25,000,000	100%	100%	Financial services	EY HKFRS	KPMG HKFRS
Sun Yi Company Limited ⁽⁴⁾	Hong Kong 19 November 1982	HKD 15,000,000	100%	100%	Inactive Investment advisory and consultancy	EY HKFRS	KPMG HKFRS
Sun Hung Kai (Shanghai) Investment Consultancy Limited ^{*(4)} 新鴻基(上海)投資顧問有限公司	PRC 24 December 2009	HKD 22,300,000	100%	100%		Fangyuan PRC GAAP	Fangyuan PRC GAAP

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Sun Hung Kai Insurance Agency Limited ⁽⁴⁾	Hong Kong 30 October 2014	HKD2,000,001	100%	100%	Insurance Agency Fund	EY HKFRS	KPMG HKFRS
SWAT Management S.A.R.L ⁽⁴⁾	Luxembourg 8 May 2013	EUR12,500	100%	100%	Management Investment advisory services	N/A Deloitte Australia FRS	N/A Deloitte Australia FRS
Sun Hung Kai Financial Australia Pty Ltd ⁽⁴⁾	Australia 18 January 2010	AUD1,268,446	100%	100%			
Shun Loong Bullion Limited 順隆金業有限公司 ⁽⁴⁾	Hong Kong 7 September 1995	HKD6,000,000	100%	100%	Investment holding	EY HKFRS	KPMG HKFRS
Shun Loong Finance Limited 順隆財務有限公司 ⁽⁴⁾	Hong Kong 7 September 1995	HKD1,000,000	100%	100%	Inactive	EY HKFRS	KPMG HKFRS
Grand Securities Company Limited 大唐證券有限公司 ⁽⁴⁾	Hong Kong 20 January 1993	HKD 20,000,000	100%	100%	Inactive	EY HKFRS	KPMG HKFRS
Double Charm Limited 倍昌有限公司	British Virgin Islands 8 January 2015	USD1	100%	100%	Inactive	N/A	N/A
Planup Limited 圖升有限公司	British Virgin Islands 12 January 2015	USD1	100%	100%	Investment holding	N/A	N/A
High Harvest Investments Limited 崇豐投資有限公司	British Virgin Islands 21 May 2015	USD1	100%	100%	Investment holding	N/A	N/A
China Everbright Sun Hung Kai Financial Company Limited 中國光大新鴻基金融有限公司	Hong Kong 23 June 2015	HKD1	100%	100%	Investment holding	EY HKFRS	KPMG HKFRS

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Everbright Jinhui Investment Management (Shanghai) Co., Ltd.* 光大浸輝投資管理(上海)有限公司	PRC 4 May 2015	RMB2,050,000	100%	100%	Investment management	Deloitte PRC PRC GAAP	KPMG PRC PRC GAAP
Everbright Pramerica Assets Management Co., Ltd.* ⁽⁶⁾ 光大保德信資產管理有限公司	PRC 27 August 2015	RMB 50,000,000	100%	100%	Asset management	EY PRC PRC GAAP	PwC PRC PRC GAAP
Everbright Fortune Evertop Investment Management (Shanghai) Co., Ltd.* 光大富尊泰鋒投資管理(上海)有限公司	PRC 19 November 2015	RMB 3,000,000	85%	85%	Investment management	EY PRC PRC GAAP	KPMG PRC PRC GAAP
China Everbright Securities International Structured Finance Company Limited 中國光大證券國際結構融資有限公司	Hong Kong 11 April 2016	USD 2,570,000	100%	100%	Structured Finance	EY HKFRS	KPMG HKFRS
Everbright Capital Return Company Limited 光大資本回報有限公司	Cayman Islands 20 October 2016	USD1	100%	100%	Inactive	N/A	N/A
Everbright Capital Investment Management (Cayman) Limited 光大資本投資管理(開曼)有限公司	Cayman Islands 20 October 2016	USD1	100%	100%	Investment holding	N/A	N/A
China Everbright Securities Value Fund SPC 中國光大證券價值基金獨立投資組合公司	Cayman Islands 20 October 2016	USD1	100%	100%	Fund management	N/A	N/A

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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 ⁽²⁾ and GAAP	
			2017	2016		2017	2016
Everbright Fortune International Commercial Factoring Co., Ltd. 光大幸福國際商業保理有限公司	PRC 3 May 2017	RMB 200,000,000	100%	-	Trade Financing	EY PRC PRC GAAP	N/A
China Everbright Securities International Direct Investment Co., Ltd. 中國光大證券國際直接投資有限公司	Hong Kong 13 December 2017	HKD 10,000,000	100%	-	Investment company	EY HKFRS	N/A
China Everbright Securities B&R Fund GP Limited	British Virgin Islands 21 June 2017	USD1	100%	-	Investment holding	N/A	N/A
Everbright Securities Fund Management Limited	British Virgin Islands 28 March 2017	USD1	100%	-	Fund Management	N/A	N/A
EAS Corporate Secretarial Services Limited	Hong Kong 6 November 2017	HKD1	100%	-	Company secretary services	N/A	N/A
Sun Hung Kai Financial (UK) Limited (formerly known as "North Square Blue Oak Limited") ⁽⁴⁾	UK 16 December 2009	GBP 1,852,282	100%	-	Brokerage and research services	Kingston Smith LLP UK GAAP	N/A
北方藍橡瑞景投資諮詢（北京）有限公司 ⁽⁴⁾	PRC 2 September 2011	RMB 55,000	100%	-	Advisory	Beijing Zhong Sheng Jia Hua PRC GAAP	N/A

*The English translation of the names is for reference only. The official names of these entities are in Chinese.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. INVESTMENTS IN SUBSIDIARIES (continued)

The Group acted as principal of several structured entities during the reporting period, according to relevant accounting policies of the Group, and details of these structured entities are included in the financial statements. More detailed information of consolidated structured entities is disclosed in Note 23.

⁽¹⁾ These subsidiaries are directly held by the Company.

⁽²⁾ Auditors of the respective subsidiaries of the Group are as follows:

- EY PRC represents Ernst & Young Hua Ming LLP, a firm of certified public accountants registered in the PRC;
- EY represents EY in Hong Kong, a firm of certified public accountants registered in Hong Kong;
- 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;
- PRC GAAP represents the PRC Accounting Standards for Business Enterprises;
- HKFRS represents Hong Kong Financial Reporting Standards.

⁽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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

22. 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.

	31 December 2017	31 December 2016
NCI percentage	45%	45%
Assets	1,143,058	799,767
Liabilities	(293,534)	(111,830)
Net assets	849,524	687,937
Carrying amount of NCI	382,286	309,572
	2017	2016
Revenue	630,515	445,812
Net profit for the year	157,181	111,331
Other comprehensive income	4,405	(3,737)
Total comprehensive income	161,586	107,594
Total comprehensive income attributable to NCI	72,714	48,417
Dividend paid to NCI	-	48,887
Cash flows from/(used in) operating activities	68,714	(3,094)
Cash flows (used in)/from investing activities	(192,187)	20,673
Cash flows from/(used in) financing activities	120,782	(108,637)

Sun Hung Kai Financial Group Limited

	31 December 2017	31 December 2016
NCI percentage	30%	30%
Assets	19,279,322	21,413,209
Liabilities	(16,310,554)	(18,288,974)
Net assets	2,968,768	3,124,235
Carrying amount of NCI	890,630	937,271
	2017	2016
Revenue	1,166,886	858,854
Profit/(loss) for the year	102,499	(3,124)
Other comprehensive income	10,197	(266)
Total comprehensive income	112,696	(3,390)
Total comprehensive income attributable to NCI	33,809	(1,017)
Dividend paid to NCI	(16,861)	(22,088)
Cash flows used in operating activities	(3,109,695)	(1,773,679)
Cash flows from/(used in) investing activities	243,079	(274,700)
Cash flows from financing activities	3,758,897	275,322

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

23. INTERESTS IN STRUCTURED ENTITIES

(a) Interests in structured entities consolidated by the Group

The Group has consolidated certain structured entities, mainly investments in wealth management products. For those structured entities where the Group is involved as manager or as investor, the Group assesses whether the combination of investments it held together with its remuneration creates exposure to variability of returns from the activities of those structured entities that is of such significance that it indicates that the Group is a principal.

As at 31 December 2017 and 2016, the net assets of the consolidated wealth management products were RMB10,371,035 thousands and RMB7,880,337 thousands respectively, and the carrying amounts of interests held by the Group in the consolidated structured entities were RMB4,438,729 thousands and RMB5,044,618 thousands 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 statement of profit or loss, financial liabilities at fair value through profit or loss, and other payables and accruals of the consolidated statement 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.

(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 statement 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 below:

	As at 31 December 2017		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	-	10,248,547	10,248,547
Wealth management products	5,691,229	4,574,557	10,265,786
Total	5,691,229	14,823,104	20,514,333

	As at 31 December 2016		
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	4,422	5,454,388	5,458,810
Wealth management products	5,530,255	4,730,139	10,260,394
Total	5,534,677	10,184,527	15,719,204

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

23. 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 wealth 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 below:

As at 31 December 2017			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	276,892	-	276,892
Wealth management products	686,040	236,175	922,215
Total	962,932	236,175	1,199,107

As at 31 December 2016			
	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Total
Funds	229,581	1,300,000	1,529,581
Wealth management products	1,034,264	1,702,327	2,736,591
Total	1,263,845	3,002,327	4,266,172

As at 31 December 2017 and 2016, the assets size of these unconsolidated structured entities in which the Group acted as asset manager but did not have any interests amounted to RMB 301,066,876 thousands and RMB 360,262,904 thousands respectively.

During the years ended 31 December 2017 and 2016, the Group recognised the income from wealth management business of RMB1,252,461 thousands and RMB1,435,490 thousands respectively. As at 31 December 2017 and 2016, the corresponding remuneration receivables totalled RMB135,022 thousands and RMB131,531 thousands respectively.

24. INTEREST IN ASSOCIATES AND JOINT VENTURES

	31 December 2017	31 December 2016
Share of net assets	1,229,774	1,737,404

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. 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		Principal activities
			31 December 2017	31 December 2016	
Dacheng Fund Management Co., Ltd.* 大成基金管理有限公司	Shenzhen	RMB 200,000,000	25%	25%	Funds management
Everbright Yunfu Internet Co., Ltd.* 光大云付互联网股份有限公司	Shanghai	RMB 200,000,000	40%	40%	Financial data processing
Everbright Eascreate Internet Co., Ltd.* 光大易创网络科技有限公司	Shanghai	RMB 100,000,000	40%	40%	Financial data processing
Everbright Ivy Investment Management (Shanghai) Co., Ltd.* ⁽¹⁾ 光大常春藤投资管理(上海)有限公司	Shanghai	RMB 10,000,000	51%	51%	Investment management
Everbright LeadBank Assets Management (Shanghai) Co., Ltd.* ⁽¹⁾ 光大利得资产管理(上海)有限公司	Shanghai	RMB 2,000,000	51%	51%	Investment management
Everbright Ivy (Shanghai) Investment Center (limited partnership)* 光大常春藤一期(上海)股权投资基金合伙企业(有限合伙)	Shanghai	RMB 18,500,000,000	27.03%	27.03%	Funds management
Shanghai Everbright Sports & Culture Equity Fund (limited partnership)* 上海光大体育文化投资合伙企业(有限合伙)	Shanghai	RMB 201,922,000	24.76%	24.76%	Funds management
Sun Hung Kai Forex Limited ⁽¹⁾	Hong Kong	HKD 75,166,707	51%	51%	Foreign exchange dealing
Tribridge Capital Management (Cayman) Limited	Cayman Islands	USD 1,001	20.13%	20.13%	Funds management

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

Name of associates and joint ventures	Place of incorporation	Registered capital	Equity interest held		Principal activities
			31 December 2017	31 December 2016	
Jiaxing Everbright BoPu Investment LLP (Limited Partnership)*		RMB			
嘉兴光大礪璞投资合伙企业(有限合伙)	Jiaxing	100,000,000	24.90%	24.9%	Investment management
EBS Fund Management Co., Ltd.* ⁽¹⁾		RMB			
上海光大光证股权投资基金管理有限公司	Shanghai	20,000,000	-	51%	Investment management
Jiaxing Everbright Meiyin Investment Management Co., Ltd.* ⁽¹⁾		RMB			
嘉兴光大美银投资管理有限公司	Jiaxing	2,000,000	51%	51%	Investment management
Jiaxing Everbright Meiyin No. 1 Investment LLP*		RMB			
嘉兴光大美银壹号投资合伙企业	Jiaxing	500,000,000	25%	25%	Investment management
Shenzhen Qianhai Tunlan Investment Co., Ltd.* ⁽¹⁾		RMB			
深圳前海光大瞰澜投资管理有限公司	Shenzhen	5,000,000	51%	51%	Investment management
Hangzhou Everbright Tunlan Investment LLP*		RMB			
杭州光大瞰澜投资合伙企业(有限合伙)	Hangzhou	200,000,000	47.17%	47.17%	Investment management
Beijing Wenzhi Guangda Cultural and Creative Industries Investment Management Co., Ltd.* ⁽¹⁾		RMB			
北京文资光大文创产业投资管理有限公司	Beijing	5,000,000	51%	51%	Investment management
Shanghai Everbright Fortune Jingsheng Investment Center (Limited Partnership)* ⁽²⁾		RMB			
上海光大富尊璟晟投资中心(有限合伙)	Shanghai	63,700,000	16.89%	16.89%	Investment management
Shanghai Everbright Fortune Jingtian Investment Center (Limited Partnership)* ⁽²⁾		RMB			
上海光大富尊璟阆投资中心(有限合伙)	Shanghai	52,350,000	0.19%	0.19%	Investment management
CRECG & EB Private Equity Fund Management (Shanghai) Co. Limited*		RMB			
中铁光大股权投资基金管理(上海)有限公司	Shanghai	50,000,000	50%	50%	Investment management

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

Name of associates and joint ventures	Place of incorporation	Registered Capital	Equity interest held		Principal activities
			31 December 2017	31 December 2016	
Xinglu Dingtai Big Data Equity Investment Fund L.P. 星路鼎泰(桐乡)大数据产业股权投资基金合伙企业(有限合伙)	Jiaxing	RMB 200,000,000	32%	32%	Investment management
Beijing Everbright Wudaokou Investment Fund Management Co., Ltd ⁽¹⁾ 北京光大五道口投资基金管理有限公司	Beijing	RMB 10,000,000	51%	51%	Investment management
Beijing BCID-EBS Cultural & Innovation No.1 Investment Fund (Limited Partnership) ⁽¹⁾ 北京文资光大文创壹号产业投资基金(有限合伙)	Shanghai	RMB 500,100,000	-	99.98%	Funds management
Shanghai JinXin Investment Consultancy LLP (Limited Partnership) ⁽²⁾ 上海浸鑫投资咨询合伙企业(有限合伙)	Shanghai	RMB 5,203,000,000	1.15%	1.15%	Funds management
Beijing BCID-EBS Cultural & Innovation No.2 Investment Fund (Limited Partnership) ⁽¹⁾ 北京文资光大文创贰号投资基金管理中心(有限合伙)	Beijing	RMB 97,550,000	99.90%	99.90%	Funds management
Jingning She Autonomous Country-Everbright ECO Fund Management Co., Ltd ⁽¹⁾ 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 5,000,000	51%	51%	Investment management

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

Name of associates and joint ventures	Place of incorporation	Registered capital	Equity interest held		Principal activities
			31 December 2017	31 December 2016	
Jiaxing Zizhuo Private Equity Investment Fund L.P.* ⁽²⁾		RMB			
嘉兴资卓股权投资基金合伙企业(有限合伙)	Jiaxing	2,400,000,000	-	12.50%	Funds management
Beijing Gelin Xiangyun Investment Management Centre L.P.* ⁽²⁾		RMB			
北京格林翔云投资管理中心(有限合伙)	Beijing	109,000,000	-	15.14%	Funds management
Nanning Nantang Industry Merge & Acquisition Funds L.P.* ⁽²⁾		RMB			
南宁南糖产业并购基金(有限合伙)	Nanning	2,500,000,000	0.01%	0.01%	Funds management
Jingning-Everbright ECO Investment Fund L.P.* ⁽²⁾		RMB			
景宁光大生态壹号投资管理中心(有限合伙)	Lishui	55,500,000	9.01%	9.01%	Funds management
Yan'an Everybright City Development Investment Fund Management Co. LTD* ⁽¹⁾		RMB			
延安光大城市发展投资基金管理有限公司	Yan'an	30,000,000	70%	70%	Investment management
Jingning Everbright Zhetong No.1 Investment Fund L.P.* ⁽²⁾		RMB			
景宁光大浙通壹号投资管理合伙企业(有限合伙)	Lishui	65,600,000	15.24%	15.40%	Funds management
Gansu Duzhe Everbright Fund Management Co., Ltd.* ⁽¹⁾		RMB			
甘肃读者光大基金管理有限公司	Lanzhou	5,000,000	51%	-	Funds management

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

Name of associates and joint ventures	Place of incorporation	Registered capital 31 December 2017	Equity interest held		Principal activities
			31 December 2017	31 December 2016	
Rizhao Rui Xiang Flight Training Co., Ltd. 日照锐翔飞行培训有限公司	Rizhao	RMB 46,000,000	39.13%	-	Flight training
Tianjin Everbright Zhongli Investment Management Co., Ltd. 天津光证中丽投资管理有限公司	Tianjin	RMB 20,000,000	30%	-	Investment management
Hangzhou Jingxing Investment L.P. 杭州璟星投资合伙企业（有限合伙）	Hangzhou	RMB 10,000,000	40%	-	Investment management

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

* 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.

⁽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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

Summarised financial information of the Group's material associates and joint ventures, and reconciled to the carrying amounts in the financial report, is disclosed below:

Dacheng Fund Management Co., Ltd.

	31 December 2017	31 December 2016
Gross amounts of the associate:		
Assets	3,035,967	2,787,193
Liabilities	(902,655)	(789,021)
Net assets	<u>2,133,312</u>	<u>1,998,172</u>
	<u>2017</u>	<u>2016</u>
Revenue	1,011,099	742,772
Profit for the year	223,485	138,897
Other comprehensive income	(8,177)	(26,520)
Total comprehensive income	215,308	112,377
Dividend received from the associate	<u>-</u>	<u>-</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Reconciled to the Group's interest in the associate:		
Net assets	2,133,312	1,998,172
The Group's effective interest	25%	25%
The Group's share of net assets of the associate	533,328	499,543
Other adjustment	<u>(2,705)</u>	<u>(497)</u>
Carrying amount in the consolidated financial statements	<u><u>530,623</u></u>	<u><u>499,046</u></u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

Everbright Yunfu Internet Co., Ltd.

	31 December 2017	31 December 2016
Gross amounts of the associate:		
Assets	2,850,882	2,602,839
Liabilities	(2,634,803)	(2,396,472)
Net assets	216,079	206,367
	2017	2016
Revenue	453,994	188,808
Profit for the year	14,700	8,503
Other comprehensive income	-	-
Total comprehensive income	14,700	8,503
Dividend received from the associate	-	-
	31 December 2017	31 December 2016
Reconciled to the Group's interest in the associate:		
Total equity attributable to shareholders of the Company	216,079	201,356
The Group's effective interest	40%	40%
The Group's share of net assets of the associate	86,431	80,542
Other adjustment	34	6
Carrying amount in the consolidated financial statements	86,465	80,548

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

Everbright Eascreate Internet Co., Ltd.

	31 December 2017	31 December 2016
Gross amounts of the associate:		
Assets	230,094	135,730
Liabilities	(117,042)	(33,418)
Net assets	<u>113,052</u>	<u>102,312</u>
	<u>2017</u>	<u>2016</u>
Revenue	115,135	62,044
Profit for the year	10,740	2,225
Other comprehensive income	-	-
Total comprehensive income	10,740	2,225
Dividend received from the associate	<u>-</u>	<u>-</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Reconciled to the Group's interest in the associate:		
Net assets	113,052	102,312
The Group's effective interest	40%	40%
The Group's share of net assets of the associate	45,221	40,925
Other adjustment	<u>7</u>	<u>7</u>
Carrying amount in the consolidated financial statements	<u>45,228</u>	<u>40,932</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

24. INTEREST IN ASSOCIATES AND JOINT VENTURES (continued)

The following table illustrates the aggregate financial information of the Group's associates and joint ventures that are not individually material:

	<u>2017</u>	<u>2016</u>
Aggregate amounts of the Group's share of those associates and joint ventures' net profits	7,631	(392)
Other comprehensive income	<u>5,598</u>	<u>-</u>
Total comprehensive income	<u>13,229</u>	<u>(392)</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Aggregate carrying amount of individually immaterial associates and joint ventures in the consolidated financial statements	<u>567,827</u>	<u>611,201</u>

25. HELD-TO-MATURITY INVESTMENTS

	<u>31 December 2017</u>	<u>31 December 2016</u>
Listed outside Hong Kong:		
- Debt securities	<u>378,885</u>	<u>159,340</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2017	31 December 2016
Non-current		
Equity securities	4,584,819	3,634,871
Debt securities	40,000	360,792
Wealth management products and others	5,899,904	6,502,708
Less: Impairment losses	(88,860)	(88,962)
Total	10,435,863	10,409,409
Analysed as:		
Listed outside Hong Kong	1,036,971	902,532
Listed inside Hong Kong	477,365	175,779
Unlisted	8,921,527	9,331,098
Total	10,435,863	10,409,409
Current		
Equity securities	1,776,033	4,611,055
Debt securities	24,990,252	2,651,560
Fund	276,892	234,003
Wealth management products	477,365	64,927
Less: Impairment losses	(102)	(276,080)
Total	27,520,440	7,285,465
Analysed as:		
Listed outside Hong Kong	9,179,437	5,380,729
Unlisted	18,341,003	1,904,736
Total	27,520,440	7,285,465

As at 31 December 2017, the above wealth management products in non-current available-for-sale financial assets include funds contributed by the Company, together with various other PRC securities firms, to designated accounts established and managed by China Securities Finance Corporation Limited ("CSFC"). Under the relevant agreements with CSFC, the Company contributed a total of RMB5,856.8 million in July and September 2015. Risk and income arising from the investment shall be shared by all securities firms according to the proportions of their respective contribution. The investment is under unified operation and management by CSFC.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

26. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

As at 31 December 2017, the investment cost and fair value of the Company's contribution were RMB4,380.0 million and RMB4,859.9 million respectively, based on the investment account statement provided by CSFC.

As at 31 December 2017 and 2016, there were no fund investments with lock-up periods included in the available-for-sale financial assets held by the Group.

As at 31 December 2017 and 2016, the equity securities in the available-for-sale financial assets with lock-up periods held by the Group were RMB567,841 thousands and RMB810,929 thousands, 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

27. FINANCIAL ASSETS HELD UNDER RESALE AGREEMENTS

(a) Analysed by collateral type:

	31 December 2017	31 December 2016
Non-current		
Equity securities	5,530,800	4,208,468
Total	5,530,800	4,208,468
Current		
Debt securities	1,450,895	913,077
Equity securities	13,099,349	4,464,910
Total	14,550,244	5,377,987

(b) Analysed by market:

	31 December 2017	31 December 2016
Non-current		
Shenzhen Stock Exchange	3,273,390	3,673,459
Shanghai Stock Exchange	2,257,410	535,009
Total	5,530,800	4,208,468
Current		
Inter-bank market	1,109,694	675,277
Shenzhen Stock Exchange	11,495,400	3,145,943
Shanghai Stock Exchange	1,945,150	1,556,767
Total	14,550,244	5,377,987

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

28. REFUNDABLE DEPOSITS

	31 December 2017	31 December 2016
Deposits with stock exchanges and clearing house		
- China Securities Depository and Clearing Corporation Limited	476,355	294,669
- The Stock Exchange of Hong Kong Limited	19,210	14,426
- Hong Kong Securities Clearing Company Limited	2,543	5,844
	<u>498,108</u>	<u>314,939</u>
Deposits with futures and commodity exchanges		
- China Financial Futures Exchange	1,034,567	1,652,605
- Dalian Commodity Exchange	839,667	683,730
- Shanghai Futures Exchange	672,272	997,651
- Zhengzhou Commodity Exchange	494,366	459,693
- Hong Kong Futures Exchange	7,978	8,889
	<u>3,048,850</u>	<u>3,802,568</u>
Deposits with other institutions		
- CSFC	76,555	1,599,575
- Shanghai Clearing House	67,426	57,851
- Securities & Futures Commission of Hong Kong	1,672	1,789
- Shanghai Gold Exchange	2,820	-
- Other institutions	17,585	7,465
	<u>166,058</u>	<u>1,666,680</u>
Total	<u>3,713,016</u>	<u>5,784,187</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

29. INCOME TAX

(a) Current taxation

	31 December 2017	31 December 2016
Current tax liabilities	800,644	603,214
	2017	2016
At the beginning of the year	603,214	1,627,768
Provision for the year	924,759	1,309,034
Additions through business combinations	-	-
Tax paid	(727,329)	(2,333,588)
At the end of the year	800,644	603,214

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

29. 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:

Deferred tax arising from:	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 on acquisition	Others	Total
As at 1 January 2016	47,487	184,283	(332,628)	207,580	(477,997)	(109,499)	9,559	(471,215)
Recognized in profit or loss	83,551	146,567	308,235	(194,051)	-	18,245	31,719	394,266
Recognized 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
Recognized in profit or loss	(30,229)	(128,907)	103,663	(20,184)	-	29,716	20,042	(25,899)
Recognized in reserve	-	-	-	-	242,077	-	-	242,077
As at 31 December 2017	100,809	201,943	79,270	(6,655)	80,073	(61,538)	61,320	455,222

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

29. INCOME TAX (continued)

(c) Reconciliation to the statements of financial position

	31 December 2017	31 December 2016
Net deferred tax assets recognised in the consolidated statement of financial position	503,160	509,005
Net deferred tax liabilities recognised in the consolidated statement of financial position	(47,938)	(269,961)
Total	455,222	239,044

(d) Recognised in other comprehensive income

	2017		
	Before tax	Tax benefit	Net of tax
Available-for-sale financial assets			
- Net changes in fair value	55,226	(11,050)	44,176
- Reclassified to profit or loss	(1,012,509)	253,127	(759,382)
Share of other comprehensive income of associates	3,554	-	3,554
Exchange differences on translation of financial statements in foreign currencies	(111,028)	-	(111,028)
Total	(1,064,757)	242,077	(822,680)
	2016		
	Before tax	Tax benefit	Net of tax
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)

(e) Deferred tax assets not recognised

As at 31 December 2017 and 2016, the Group has not recognised deferred tax assets in respect of cumulative tax losses, provision for bad debts and impairment losses against margin with timing difference amounting to RMB427,356 thousands and RMB307,268 thousands 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

30. FINANCE LEASE RECEIVABLES

(a) Analysed by nature:

	31 December 2017	31 December 2016
Minimum lease payments to be received	6,351,228	4,566,017
Less: unrealised finance income	(587,005)	(437,023)
Balance of finance lease receivables	5,764,223	4,128,994
Allowance for impairment	(94,379)	(70,000)
Finance lease receivables, net	5,669,844	4,058,994
Analysis for presentation purpose:		
Current assets	577,613	1,318,855
Non-current assets	5,092,231	2,740,139
	5,669,844	4,058,994

Minimum lease payments to be received and the corresponding present value are as follows:

	As at 31 December 2017		As at 31 December 2016	
	Minimum leases	Present value	Minimum leases	Present value
Within 1 year	604,400	582,990	1,552,113	1,341,473
1–2 years	705,846	641,450	1,453,968	1,326,691
2–3 years	1,964,080	1,814,887	817,630	754,442
Over 3 years	3,076,902	2,724,896	742,306	706,388
Total	6,351,228	5,764,223	4,566,017	4,128,994
Unrealised finance income	(587,005)	-	(437,023)	-
Balance of finance lease receivables	5,764,223	5,764,223	4,128,994	4,128,994
Allowance for impairment	(94,379)	(94,379)	(70,000)	(70,000)
Finance lease receivables, net	5,669,844	5,669,844	4,058,994	4,058,994

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

30. FINANCE LEASE RECEIVABLES (continued)

(b) Analysis of the movement of provision for impairment losses:

	2017	2016
At the beginning of the year	70,000	31,759
Charge for the year	24,379	44,786
Reversal of impairment	-	(6,545)
At the end of the year	<u>94,379</u>	<u>70,000</u>

31. OTHER NON-CURRENT ASSETS

(a) Analysed by nature:

	31 December 2017	31 December 2016
Long-term deferred expenses ⁽¹⁾	101,817	100,689
Investments classified as receivables	317,542	789,632
Deposits	35,431	189,307
Other receivables	<u>43,825</u>	<u>5,676</u>
Total	<u>498,615</u>	<u>1,085,304</u>

(1) The movements of long-term deferred expenses are as follows:

	2017	2016
Balance at the beginning of the year	100,689	75,207
Additions	38,329	65,866
Transfer in from property and equipment	3,646	1,609
Amortisation	<u>(40,847)</u>	<u>(41,993)</u>
Balance at the end of the year	<u>101,817</u>	<u>100,689</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

32. ACCOUNTS RECEIVABLES

(a) Analysed by nature:

	31 December 2017	31 December 2016
Accounts receivable of		
- Brokers and dealers	1,718,021	1,643,073
- Settlement	890,056	592,481
- Fee and commission	386,145	236,417
- Investees	101,735	4,915
- Others	17,416	18,583
Less: Provision for impairment losses	-	(10,989)
Total	<u>3,113,373</u>	<u>2,484,480</u>

(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:

	31 December 2017	31 December 2016
Within 1 year	3,109,427	2,477,444
1 to 2 years	3,182	7,036
2 to 3 years	764	-
Total	<u>3,113,373</u>	<u>2,484,480</u>

(c) Analysis for the movement of provision for impairment losses:

	2017	2016
At the beginning of the year	10,989	26,522
Reversal of impairment	(4,915)	(15,994)
Others	(6,074)	461
At the end of the year	<u>-</u>	<u>10,989</u>

(d) Accounts receivable that were not impaired

Accounts receivable that were not impaired were not past due and related to a wide range of customers for whom there was no recent history of default.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

33. OTHER RECEIVABLES AND PREPAYMENTS

(a) Analysed by nature:

	31 December 2017	31 December 2016
Interest receivable	1,866,299	1,295,388
Other receivables ⁽¹⁾	1,521,980	617,558
Prepayment for investment	-	124,165
Investments classified as receivables	-	81,513
Dividend receivables	101,065	56,774
Prepayments ⁽¹⁾	5,265	46,422
Factoring receivables	596,206	-
Others	179,458	30,054
Less: Provision for impairment losses	(92,460)	(55,250)
Total	4,177,813	2,196,624

(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:

	2017	2016
At the beginning of the year	55,250	9,664
Charge for the year	40,101	45,751
Reversal of impairment	(1,689)	(41)
Others	(1,202)	(124)
At the end of the year	92,460	55,250

34. MARGIN ACCOUNTS RECEIVABLE

(a) Analysed by nature:

	31 December 2017	31 December 2016
Individuals	32,791,895	33,293,813
Institutions	5,180,146	4,271,579
Less: Provision for impairment losses	(263,684)	(137,648)
Total	37,708,357	37,427,744

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

34. MARGIN ACCOUNTS RECEIVABLE (continued)

(b) Analysis of the movement of provision for impairment losses:

	2017	2016
At the beginning of the year	137,648	139,963
Charge for the year	177,027	-
Reversal of impairment	(438)	(8,795)
Others	(50,553)	6,480
At the end of the year	<u>263,684</u>	<u>137,648</u>

(c) The fair value of collaterals for margin financing and securities lending business is analysed as follows:

	31 December 2017	31 December 2016
Fair value of collaterals:		
- Equity securities	109,929,095	117,845,208
- Cash	2,978,135	4,825,981
- Funds	1,954,675	985,614
- Debt securities	5,296,450	2,367,297
Total	<u>120,158,355</u>	<u>126,024,100</u>

35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Analysed by type:

	31 December 2017	31 December 2016
Held for trading:		
- Debt securities	19,160,757	9,500,594
- Equity securities	2,700,224	1,940,619
- Funds	10,048,991	6,754,388
- Wealth management products	2,303,954	4,268,601
- Others	7,463	22,046
Designated at fair value through profit or loss:		
- Debt securities	192,101	-
- Funds	199,556	-
- Wealth management products	2,069,536	2,163,865
- Others	763,929	-
Total	<u>37,446,511</u>	<u>24,650,113</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

35. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(b) Analysed as:

	31 December 2017	31 December 2016
Held for trading:		
- Listed outside Hong Kong	3,456,213	5,073,070
- Listed inside Hong Kong	61,907	662,293
- Unlisted	30,703,269	16,750,885
Designated at fair value through profit or loss:		
- Unlisted	3,225,122	2,163,865
Total	37,446,511	24,650,113

As at 31 December 2017 and 2016, 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 526,026 thousands and RMB 589,219 thousands to external clients, respectively. These have not resulted in the derecognition of the financial assets in accordance with the accounting policy. The fair value of collaterals for the securities lending business is analysed in Note 34(c) together with the fair value of collaterals of margin financing business.

36. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2017		
	Notional amount	Fair Value	
		Assets	Liabilities
Interest rate derivatives			
- Interest rate swaps	31,635,000	2,633	(42,184)
- Treasury bond futures	563,075	2,081	-
Equity derivatives			
- Stock index futures	644,877	263	(6,429)
- Equity return swaps	471,626	58	(2,571)
- Stock option	802,634	7,704	(6,257)
- OTC stock index options	4,381,114	184,385	(130,000)
- Embedded option instruments	21,963	-	(63)
Others			
- Commodity futures	148,823	50	(121)
- Gold futures	2,918	73	-
- Currency forward contracts	411,981	-	(10,380)
- Commodity option	133,694	2,093	(2,249)
Total	39,217,705	199,340	(200,254)
Less: Cash (received)/paid as settlement		(2,466)	43,974
Net position		196,874	(156,280)

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

36. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Notional amount	As at 31 December 2016	
		Fair Value	
		Assets	Liabilities
Interest rate derivatives			
- Interest rate swaps	31,981,000	15,741	(98,981)
- Treasury bond futures	1,098,331	145	(5,881)
Equity derivatives			
- 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)
Others			
- Embedded option instruments	1,050,533	739	(2,487)
- Precious metal derivatives	831	-	(38)
- Currency forward contracts	633,001	39,715	-
Total	<u>37,421,280</u>	<u>97,878</u>	<u>(154,346)</u>
Less: Cash (received)/paid as settlement		<u>(561)</u>	<u>72,723</u>
Net position		<u>97,317</u>	<u>(81,623)</u>

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".

37. CLEARING SETTLEMENT FUNDS

	31 December 2017	31 December 2016
Deposits with		
- China Securities Depository and Clearing Corporation Limited	172,005	132,123
- Others	<u>566,421</u>	<u>18,310</u>
Total	<u>738,426</u>	<u>150,433</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

38. 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.

39. CASH AND BANK BALANCES

	31 December 2017	31 December 2016
Cash on hand	398	262
Bank balances	9,758,499	15,312,653
Total	9,758,897	15,312,915

Bank balances comprise time and demand deposits which bear interest at the prevailing market rates.

40. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016
Cash on hand	398	262
Bank balances	9,758,499	15,312,653
Clearing settlement funds	738,426	150,433
Bond investments with original maturity within 3 months	197,629	-
Less: restricted bank deposits	(4,536,886)	(6,525,956)
Total	6,158,066	8,937,392

The restricted bank deposits include bank deposits with original maturity of more than three months held by the Group and risk reserve deposits.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Cash flows denominated in foreign currencies and cash flows of overseas subsidiaries are translated using the average exchange rates for the year. The impact on cash caused by the fluctuation of exchange rates is presented as a separate line item in the statement of cash flows.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

41. LOANS AND BORROWINGS

Current

As at 31 December 2017

	Currency	Nominal Interest Rate	Year of Maturity	Carrying Amount
Unsecured Bank Loans	HKD	2.00%-3.79%	2018	3,454,357
Secured Bank Loans	HKD	1.40%-2.80%	2018	2,541,732
Unsecured Bank Loans	RMB	4.133%	2018	316,760
Secured Bank Loans	RMB	4.22%- 4.79%	2018	413,029
Unsecured Bank Loans	USD	1.15%	2018	411,982
Total				<u>7,137,860</u>

As at 31 December 2016

	Currency	Nominal Interest Rate	Year of Maturity	Carrying Amount
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
Total				<u>7,345,161</u>

Non-current

As at 31 December 2017

	Currency	Nominal Interest Rate	Year of Maturity	Carrying Amount
Unsecured Bank Loans	HKD	Hibor+1.38%	2020	3,709,690
Unsecured Bank Loans	RMB	4.275%-5.5%	2021	875,136
Secured Bank Loans	RMB	4.275%-6.41%	2021	741,280
Total				<u>5,326,106</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

41. LOANS AND BORROWINGS (continued)

As at 31 December 2016

	Currency	Nominal Interest Rate	Year of Maturity	Carrying Amount
		Hibor+1.5%-		
Unsecured Bank Loans	HKD	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>

For the year ended 31 December 2017, the Group's cash flow arising from financing activities included proceeds from bank and other loans with the amount of RMB24,297,982 thousand and Bank and other loans repaid with the amount of RMB20,285,090 thousand in the consolidated statement of cash flows (for the year ended 31 December 2016: RMB7,994,056 thousand and RMB3,278,941 thousand).

42. SHORT-TERM DEBT INSTRUMENTS

	Nominal Interest rate	Book value as at 1 January 2017	Issuance	Redemption	Book value as at 31 December 2017
Structured notes and short-term bonds	4.35%-7.00%	5,929,702	25,891,035	(13,329,005)	18,491,732
	Nominal Interest rate	Book value as at 1 January 2016	Issuance	Redemption	Book value as at 31 December 2016
Structured notes	0.00%-5.00%	2,100,000	8,378,205	(4,548,503)	5,929,702

During the year ended 31 December 2017, the Group issued 311 tranches of structured notes, and repaid 210 tranches of structured notes during the year. The balance bears fixed interest rate ranging from 4.35% to 7.00% per annum plus floating rate, repayable within 1 year.

In 2016, the Group issued 156 tranches of structured notes, and repaid 93 tranches of structured note during the year. The balance bears fixed interest rate ranging from 0.00% to 5.00% per annum plus floating rate, repayable within 1 year.

For the year ended 31 December 2017, the Group's cash flow arising from financing activities included proceeds from issuance of short-term debt instruments with the amount of RMB25,891,035 thousand and short-term debt instruments repaid with the amount of RMB13,329,005 thousand in the consolidated statement of cash flows (for the year ended 31 December 2016: RMB8,378,205 thousand and RMB4,548,503 thousand).

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

43. PLACEMENT FROM OTHER FINANCIAL INSTITUTIONS

	Note	31 December 2017	31 December 2016
Placements from CSFC		-	7,500,000
Interbank lending	(1)	2,993,700	1,607,560
Total		<u>2,993,700</u>	<u>9,107,560</u>

(1) As at 31 December 2017, the interbank lending is unsecured and bears interest rate ranging from 2.02% to 15.00% per annum, with maturity ranging from 5 day to 38 days. As at 31 December 2016, the interbank lending was unsecured and bore interest rate ranging from 1.50% to 3.85% per annum, with maturity ranging from 5 days to 38 days.

44. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2017	31 December 2016
Held for trading		
- Debt securities	241,493	394,866
Designated at fair value through profit or loss		
- Structured entities	215,448	202,034
Total	<u>456,941</u>	<u>596,900</u>

The financial liabilities designated at fair value through profit or loss resulted from the 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.

45. ACCOUNTS PAYABLE TO BROKERAGE CLIENTS

	31 December 2017	31 December 2016
Clients' deposits for margin financing and securities lending	7,117,704	9,948,989
Clients' deposits for other brokerage business	33,942,639	45,394,338
Total	<u>41,060,343</u>	<u>55,343,327</u>

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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

46. EMPLOYEE BENEFITS PAYABLE

Current	2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	2,212,179	2,725,197	(2,963,809)	1,973,567
Contribution to pension schemes	5,505	212,400	(213,338)	4,567
Other social welfare	51,197	261,585	(259,863)	52,919
Sub-total	<u>2,268,881</u>	<u>3,199,182</u>	<u>(3,437,010)</u>	<u>2,031,053</u>
Non-current	2017			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
Salaries, bonuses and allowance	-	2,051	-	2,051
Sub-total	<u>-</u>	<u>2,051</u>	<u>-</u>	<u>2,051</u>
Total	<u>2,268,881</u>	<u>3,201,233</u>	<u>(3,437,010)</u>	<u>2,033,104</u>
Current	2016			
	As at 1 January	Accrued for the year	Payments made	As at 31 December
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	<u>2,642,761</u>	<u>3,037,902</u>	<u>(3,411,782)</u>	<u>2,268,881</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

47. OTHER PAYABLES AND ACCRUALS

	31 December 2017	31 December 2016
Interest payable	1,454,503	856,893
Temporary receipts	46,952	25,288
Payables to interest holders of consolidated structured entities	5,695,767	2,633,685
Payables to interest holders of ABS	231,779	-
Payable for derivative business	379,125	78,307
Distribution expenses payable	272,665	204,714
Other tax payable	171,207	474,771
Accrued expenses	123,413	65,717
Risk reserve for futures brokerage business	87,114	75,006
Equity swap settlement	75,073	-
Option prepayment	62,305	-
Commission payables	56,792	40,614
Payable on behalf of staff	40,644	52,768
Deferred revenue	39,269	50,577
Payable to the securities and futures investor protection fund	34,799	32,810
Settlement payables	534,898	600,156
Payable to custodian	27,770	29,635
H share IPO expenses payable	22,443	141,619
Account executive commission payable	8,647	12,719
Payable for construction project	4,355	-
Payable to underwriters for International Offering commission	-	42,092
Others ⁽¹⁾	128,950	65,065
Total	9,498,470	5,482,436

(1) The balance of others mainly represents sundry payables arising from the normal course of business.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

48. FINANCIAL ASSETS SOLD UNDER REPURCHASE AGREEMENTS

(a) Analysed by collateral type:

Current

	31 December 2017	31 December 2016
Debt securities	22,988,382	6,156,951
Margin loans receivable backed repurchase agreements	62,900	2,350,728
Others	264,213	9,222
Total	<u>23,315,495</u>	<u>8,516,901</u>

(b) Analysed by market:

Current

	31 December 2017	31 December 2016
Inter-bank market	18,499,313	5,693,486
Stock exchanges	2,022,481	463,465
OTC market	2,793,701	2,359,950
Total	<u>23,315,495</u>	<u>8,516,901</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS

As at 31 December 2017

Name	Par value Original currency	Issue date	Maturity date	Issue Original currency	Coupon rate
15 EVERBRIGHT 01 ⁽²⁾	4,000,000	29/01/2015	29/01/2018	3,976,000	5.85%
15 EVERBRIGHT 04 ⁽⁴⁾	6,000,000	27/04/2015	27/04/2020	5,982,000	5.70%
15 EVERBRIGHT 06 ⁽⁶⁾	6,000,000	26/05/2015	26/05/2018	5,978,000	5.30%
EVBSF Corp ⁽⁷⁾	USD450,000	27/08/2015	27/08/2018	USD 446,191	2.88%
16 EVERBRIGHT 02 ⁽⁹⁾	2,500,000	27/04/2016	27/10/2018	2,496,875	3.66%
16 EVERBRIGHT 04 ⁽¹¹⁾	3,000,000	26/05/2016	26/11/2018	2,997,500	3.59%
16 EVERBRIGHT 05 ⁽¹²⁾	1,000,000	24/10/2016	24/10/2018	998,750	3.13%
16 EVERBRIGHT 06 ⁽¹³⁾	3,000,000	24/10/2016	24/10/2019	2,996,250	3.20%
Dingfu No.9 Structured Notes ⁽¹⁴⁾	50,000	09/09/2016	09/09/2018	50,000	3.70%
17 EVERBRIGHT Xingfu PPN002 ⁽¹⁵⁾	200,000	27/04/2017	26/04/2020	200,000	5.50%
17 EVERBRIGHT Xingfu PPN001 ⁽¹⁶⁾	600,000	29/03/2017	28/03/2020	600,000	5.00%
17 EVERBRIGHT01 ⁽¹⁷⁾	2,000,000	11/01/2017	11/07/2018	1,999,688	4.00%
17 EVERBRIGHT02 ⁽¹⁸⁾	2,000,000	11/01/2017	11/07/2018	1,999,063	4.10%
17 EVERBRIGHT03 ⁽¹⁹⁾	2,000,000	14/02/2017	14/02/2019	1,998,750	4.30%
17 EVERBRIGHT04 ⁽²⁰⁾	2,000,000	14/02/2017	14/02/2020	1,998,125	4.45%
17 EVERBRIGHT05 ⁽²¹⁾	3,000,000	26/04/2017	26/04/2019	2,998,125	4.95%
17 EVERBRIGHT06 ⁽²²⁾	4,000,000	26/04/2017	26/04/2020	3,996,250	5.00%

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS (continued)

As at 31 December 2017

Name	Par value Original currency	Issue date	Maturity date	Issue Original currency	Coupon rate
17 EVERBRIGHTG1 ⁽²³⁾	3,000,000	04/07/2017	05/07/2020	2,985,000	4.58%
17 EVERBRIGHTG2 ⁽²⁴⁾	1,500,000	04/07/2017	05/07/2022	1,492,500	4.70%
17 EVERBRIGHTG3 ⁽²⁵⁾	4,100,000	13/10/2017	15/10/2020	4,087,700	4.80%
17 EVERBRIGHTG4 ⁽²⁶⁾	1,600,000	13/10/2017	15/10/2020	1,595,200	4.90%

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS (continued)

Name	Book value as at 1 January 2017	Increase	Amount of amortisation	Decrease	Foreign exchange impact	Book value as at 31 December 2017
15 EVERBRIGHT 01 ⁽²⁾	3,990,925	-	8,439	-	-	3,999,364
15 EVERBRIGHT 04 ⁽⁴⁾	5,991,727	-	6,229	-	-	5,997,956
15 EVERBRIGHT 06 ⁽⁶⁾	5,995,482	-	4,518	(6,000,000)	-	-
EVBSF Corp ⁽⁷⁾	3,106,467	-	8,837	-	(180,689)	2,934,615
16 EVERBRIGHT 02 ⁽⁹⁾	2,498,274	-	1,726	(2,500,000)	-	-
16 EVERBRIGHT 04 ⁽¹¹⁾	2,998,487	-	1,513	(3,000,000)	-	-
16 EVERBRIGHT 05 ⁽¹²⁾	998,868	-	625	-	-	999,493
16 EVERBRIGHT 06 ⁽¹³⁾	2,996,500	-	1,250	-	-	2,997,750
Dingfu No.9 Structured Notes ⁽¹⁴⁾	50,000	-	-	-	-	50,000
17 EVERBRIGHT Xingfu PPN002 ⁽¹⁵⁾	-	594,840	3,592	-	-	598,432
17 EVERBRIGHT Xingfu PPN001 ⁽¹⁶⁾	-	199,280	394	-	-	199,674
17 EVERBRIGHT01 ⁽¹⁷⁾	-	1,997,625	2,375	(2,000,000)	-	-
17 EVERBRIGHT02 ⁽¹⁸⁾	-	1,992,875	4,618	-	-	1,997,493
17 EVERBRIGHT03 ⁽¹⁹⁾	-	1,996,200	1,662	-	-	1,997,862
17 EVERBRIGHT04 ⁽²⁰⁾	-	1,994,300	1,662	-	-	1,995,962
17 EVERBRIGHT05 ⁽²¹⁾	-	2,991,000	3,063	-	-	2,994,063
17 EVERBRIGHT06 ⁽²²⁾	-	3,988,000	2,722	-	-	3,990,722

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS (continued)

Name	Book value as at 1 January 2017	Increase	Amount of amortisation	Decrease	Foreign exchange impact	Book value as at 31 December 2017
17 EVERBRIGHTG1 ⁽²³⁾	-	2,985,000	2,151	-	-	2,987,151
17 EVERBRIGHTG2 ⁽²⁴⁾	-	1,492,500	645	-	-	1,493,145
17 EVERBRIGHTG3 ⁽²⁶⁾	-	4,087,700	849	-	-	4,088,549
17 EVERBRIGHTG4 ⁽²⁶⁾	-	1,595,200	199	-	-	1,595,399
Total	<u>28,626,730</u>	<u>25,914,520</u>	<u>57,069</u>	<u>(13,500,000)</u>	<u>(180,689)</u>	<u>40,917,630</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS (continued)

As at 31 December 2016

Name	Par value Original currency	Issue date	Maturity date	Issue Original currency	Coupon rate
15 EVERBRIGHT 01 ⁽²⁾	4,000,000	29/01/2015	29/01/2018	3,976,000	5.85%
15 EVERBRIGHT 04 ⁽⁴⁾	6,000,000	27/04/2015	27/04/2020	5,982,000	5.70%
15 EVERBRIGHT 06 ⁽⁶⁾	6,000,000	26/05/2015	26/05/2018	5,978,000	5.30%
EVBSF Corp ⁽⁷⁾	USD450,000	27/08/2015	27/08/2018	USD 446,191	2.88%
16 EVERBRIGHT 02 ⁽⁹⁾	2,500,000	27/04/2016	27/10/2018	2,496,875	3.66%
16 EVERBRIGHT 04 ⁽¹¹⁾	3,000,000	26/05/2016	26/11/2018	2,997,500	3.59%
16 EVERBRIGHT 05 ⁽¹²⁾	1,000,000	24/10/2016	24/10/2018	998,750	3.13%
16 EVERBRIGHT 06 ⁽¹³⁾	3,000,000	24/10/2016	24/10/2019	2,996,250	3.20%
Dingfu No.9 Structured Notes ⁽¹⁴⁾	50,000	09/09/2016	09/09/2018	50,000	3.70%

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS (continued)

Name	Book value as at 1 January 2016	Increase	Amount of amortisation	Decrease	Foreign exchange impact	Book value as at 31 December 2016
14 EVERBRIGHT 01 ⁽¹⁾	6,993,510	-	6,490	(7,000,000)	-	-
15 EVERBRIGHT 01 ⁽²⁾	3,982,968	-	7,956	-	-	3,990,924
15 EVERBRIGHT 03 ⁽³⁾	5,997,067	-	2,933	(6,000,000)	-	-
15 EVERBRIGHT 04 ⁽⁴⁾	5,985,839	-	5,888	-	-	5,991,727
15 EVERBRIGHT 05 ⁽⁵⁾	5,995,600	-	4,400	(6,000,000)	-	-
15 EVERBRIGHT 06 ⁽⁶⁾	5,984,424	-	11,059	-	-	5,995,483
EVBSF Corp ⁽⁷⁾	2,900,124	-	9,475	-	196,868	3,106,467
16 EVERBRIGHT 01 ⁽⁸⁾	-	1,498,125	1,875	(1,500,000)	-	-
16 EVERBRIGHT 02 ⁽⁹⁾	-	2,496,875	1,399	-	-	2,498,274
16 EVERBRIGHT 03 ⁽¹⁰⁾	-	2,997,500	2,500	(3,000,000)	-	-
16 EVERBRIGHT 04 ⁽¹¹⁾	-	2,997,500	987	-	-	2,998,487
16 EVERBRIGHT 05 ⁽¹²⁾	-	998,750	118	-	-	998,868
16 EVERBRIGHT 06 ⁽¹³⁾	-	2,996,250	250	-	-	2,996,500
Dingfu No.9 Structured Notes ⁽¹⁴⁾	-	50,000	-	-	-	50,000
Total	37,839,532	14,035,000	55,330	(23,500,000)	196,868	28,626,730

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS (continued)

	31 December 2017	31 December 2016
Long-term bonds due within one year	15,978,921	11,492,244
Long-term bonds due after one year	24,938,709	17,134,486
Total	40,917,630	28,626,730

For the year ended 31 December 2017, the Group's cash flow arising from financing activities included proceeds from issuance of long-term bonds with the amount of RMB25,914,520 thousand and long-term bonds repaid with the amount of RMB13,500,000 thousand in the consolidated statement of cash flows (for the year ended 31 December 2016: RMB14,035,000 thousand and RMB2,350,000 thousand).

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) 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.
- (4) 5-year subordinated bond amounting to RMB6 billion on 27 April 2015 with early redemption right on 27 April 2018. If the Group does not execute the redemption right, the coupon rate will increase by 300 basis points.
- (5) 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.
- (6) 3-year subordinated bond amounting to RMB6 billion on 26 May 2015 with early redemption right on 26 May 2017. 15 EVERBRIGHT 06 was early redeemed on 26 May 2017.
- (7) 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.
- (8) 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.
- (9) 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 does not execute the redemption right, the coupon rate will increase by 300 basis points.
- (10) 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.
- (11) 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 does not execute the redemption right, the coupon rate will increase by 300 basis points.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

49. LONG-TERM BONDS (continued)

- (12) 2-year corporate bond amounting to RMB1 billion on 24 October 2016.
- (13) 3-year corporate bond amounting to RMB3 billion on 24 October 2016.
- (14) 2-year structured note amounting to RMB50 million on 9 September 2016.
- (15) 3- year corporate bond amounting to RMB200 million on 27 April 2017.
- (16) 3- year corporate bond amounting to RMB600 million on 29 March 2017.
- (17) 18-month corporate bond amounting to RMB2 billion on 11 January 2017 with early redemption right on 11 July 2017. 17 EVERBRIGHT 01 was early redeemed on 11 July 2017.
- (18) 18-month corporate bond amounting to RMB2 billion on 11 January 2017.
- (19) 2-year corporate bond amounting to RMB2 billion on 14 February 2017.
- (20) 3-year corporate bond amounting to RMB2 billion on 14 February 2017.
- (21) 2-year corporate bond amounting to RMB3 billion on 26 April 2017.
- (22) 3-year corporate bond amounting to RMB4 billion on 26 April 2017.
- (23) 3-year corporate bond amounting to RMB3 billion on 4 July 2017.
- (24) 5-year corporate bond amounting to RMB150 million on 4 July 2017.
- (25) 3-year corporate bond amounting to RMB410 million on 13 October 2017.
- (26) 5-year corporate bond amounting to RMB160 million on 13 October 2017.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

50. OTHER NON-CURRENT LIABILITIES

	31 December 2017	31 December 2016
Deposits for finance lease	333,785	216,131
Club membership and trading payable	15,724	16,827
Put right liabilities arising from business combination ⁽¹⁾	1,850,705	1,886,522
Deferred revenue	63,141	46,851
Payables to interest holders of ABS	1,308,764	-
Payables to interest holders of consolidated structured entities	21,091	-
Others	12,244	15,412
Total	<u>3,605,454</u>	<u>2,181,743</u>

(1) It is related to the acquisition of Sun Hung Kai Financial Group Limited in June 2015.

51. 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:

	31 December 2017	31 December 2016
Number of shares registered, issued and fully paid (at RMB1 per share)	<u>4,610,788</u>	<u>4,610,788</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

52. 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% of 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 2017 and 2016, the consolidated retained profits attributable to the Company included an appropriation of RMB359 million and RMB329 million to surplus reserve made by the subsidiaries respectively.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

52. RESERVES AND RETAINED PROFITS (continued)

(g) Other comprehensive income for the year in reserves, net of tax

	As at 31 December 2017				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
Available-for-sale financial assets					
- Net changes in fair value	43,532	-	43,532	644	44,176
- Reclassified to profit or loss	(760,720)	-	(760,720)	1,338	(759,382)
Share of other comprehensive income of associates	3,554	-	3,554	-	3,554
Exchange differences on translation of financial statements in foreign currencies	-	(52,214)	(52,214)	(58,814)	(111,028)
Total	<u>(713,634)</u>	<u>(52,214)</u>	<u>(765,848)</u>	<u>(56,832)</u>	<u>(822,680)</u>
	As at 31 December 2016				
	Fair value reserve	Translation reserve	Sub-total	NCI	Total
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)
Total	<u>(953,559)</u>	<u>(87,829)</u>	<u>(1,041,388)</u>	<u>74,771</u>	<u>(966,617)</u>

53. 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

53. TRANSFERRED FINANCIAL ASSETS (continued)

(a) Repurchase agreements (continued)

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, they are 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 such assets.

	As at 31 December			
	2017		2016	
	Carrying amount of transferred assets	Carrying amount of related liabilities	Carrying amount of transferred assets	Carrying amount of related liabilities
Repurchase agreements	13,386,703	(12,599,833)	4,018,587	(3,676,870)
Securities lending	526,026	-	589,219	-

54. COMMITMENTS

(a) Capital commitments

	31 December 2017	31 December 2016
Contracted, but not provided for	326,922	437,855

The Group's capital commitments were mainly for proposed investments in unlisted equity.

(b) Operating lease commitments

As at 31 December 2017 and 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2017	31 December 2016
Within 1 year (inclusive)	258,819	229,235
1-2 years (inclusive)	211,513	163,402
2-3 years (inclusive)	143,503	123,319
After 3 years	68,231	95,758
	<u>682,066</u>	<u>611,714</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

55. 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 RMB68,729 thousands. As at 31 December 2017, 495 lawsuits were closed with total compensation amounting to RMB41,528 thousands. Remaining 7 lawsuits with total claimed amount of RMB0.78 million were pending for court judgment.

On December 26, 2017, O:TU Investments Limited (“O:TU”) (as the plaintiff) filed an action against Shanghai International Wine Exchange Co., Ltd. (上海国际酒业交易中心股份有限公司) (“SIWE”) and Everbright Fortune Investment Co., Ltd. (“Everbright Fortune”, as the defendants), with Bank of China Limited Shanghai Branch as the third party. In November 2014, to carry out the distribution and investment business for O:TU wine products, Everbright Fortune signed a memorandum, an underwriting agreement and a supplemental agreement with O:TU and SIWE to set out the key elements of the wine products to be launched, ways of distribution, investment returns, repurchase undertaking and other terms. In December 2017, O:TU alleged that the aforesaid contract was invalid and claimed for a compensation of loss of approximately RMB12.95 million from SIWE and Everbright Fortune. In January 2018, Everbright Fortune received a notice of appearance issued by the Shanghai No. 2 Intermediate People’s Court. As at the date of this report, the case is undergoing the evidence producing process and yet to be scheduled for trial.

Except for the aforementioned case, as at 31 December 2017, 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.

56. 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:

	31 December 2017	31 December 2016
China Everbright Group Company	25.15%	25.15%
China Everbright Limited	23.30%	24.71%

(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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

56. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

(b) Related parties transactions and balances

(i) Transactions between the Group and major shareholders:

	31 December 2017	31 December 2016
Balances at the end of the year:		
Accounts receivable	418	447
Other payables and accruals	252	44
	<u>2017</u>	<u>2016</u>
Transactions during the year:		
Purchase of a subsidiary from non-controlling interests	-	794,843
Fee and commission income	41,981	62,557
Other income and gains	-	2,739
Fee and commission expense	116	260
Other operating expenses	102	-

(ii) Transactions between the Group with associates, joint ventures and other related parties:

	31 December 2017	31 December 2016
Balances at the end of the year:		
Cash and bank balances	4,510,971	7,055,502
Other non-current liabilities	1,850,705	1,886,522
Loans and borrowings	920,532	915,669
Other payables and accruals	154,395	148,499
Other receivables and prepayments	82,224	65,969
Financial assets sold under repurchase agreements	-	9,221
Available-for-sale financial assets	165,000	-
Margin accounts receivable	22,835	-
Accounts receivable	<u>7,365</u>	<u>4,666</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

56. 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:
(continued)

	2017	2016
Transactions during the year:		
Transaction amount for financial assets sold under repurchase agreement	32,135,459	22,179,130
Loans borrowed	824,532	915,669
Interest income	206,042	214,943
Fee and commission income	95,607	118,524
Other operating expenses	140,601	74,136
Fee and commission expenses	9,437	62,149
Net investment gains	806	26,089
Disposal of financial assets at fair value through profit or loss	-	17,919
Interest expenses	26,547	9,841
Inter-bank funds borrowed	300,000	-
Other income and gains	14,610	9,521

(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 16, is as follows:

	2017	2016
Short-term employee benefits and post-employment benefits	40,735	36,203

Total remuneration is included in "staff costs" (see Note 11).

(d) Government related entities

Other than those disclosed above, the Group also entered into transactions with other government related entities. These transactions are entered into under normal commercial terms and conditions. None of them were individually significant. Management considers that transactions with government related entities are activities conducted in the ordinary course of business, and that the dealings of the Group have not been significantly or unduly affected by the fact that both the Group and those entities are government related. The Group has also established pricing policies for products and services and such pricing policies do not depend on whether or not the customers are government related entities.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

57. SEGMENT REPORTING

The Management commenced to allocate resources and assess the segment performance based on the grouping of operating segments. Accordingly, the reporting period's 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

57. SEGMENT REPORTING (continued)

(a) Business segments

For the year ended 31 December 2017

	Brokerage and wealth management	Credit business	Institutional client services	Investment management	Overseas business	Others	Segment total
Fee and commission income							
- External	2,587,999	131,599	1,517,804	1,634,970	839,435	3,109	6,714,916
- Inter-segment	28,170	-	-	-	-	-	28,170
Interest income							
- External	826,678	3,242,208	25,034	173,968	523,382	337,613	5,128,883
- Inter-segment	(94,218)	-	-	5,272	-	300,822	211,876
Net investment gains/(losses)							
- External	5,965	(27,697)	1,547,490	566,279	78,433	324,169	2,494,639
- Inter-segment	-	-	-	10,333	17,560	(28,935)	(1,042)
Total Revenue							
- External	3,420,642	3,346,110	3,090,328	2,375,217	1,441,250	664,891	14,338,438
- Inter-segment	(66,048)	-	-	15,605	17,560	271,887	239,004
Other income and gains							
- External	24,117	45,442	416	29,193	110,943	212,686	422,797
- Inter-segment	-	-	-	-	15,358	1,265	16,623
Segment revenue and other income							
- External	3,444,759	3,391,552	3,090,744	2,404,410	1,552,193	877,577	14,761,235
- Inter-segment	(66,048)	-	-	15,605	32,918	273,152	255,627
Segment expenses							
- External	(2,407,290)	(1,719,457)	(1,719,649)	(1,232,956)	(1,818,572)	(1,868,942)	(10,766,866)
- Inter-segment	-	(10,559)	-	(187,962)	(14,740)	(42,366)	(255,627)
Segment operating profit/(loss)							
- External	1,037,469	1,672,095	1,371,095	1,171,454	(266,379)	(991,365)	3,994,369
- Inter-segment	(66,048)	(10,559)	-	(172,357)	18,178	230,786	-
Share of profit of associates and joint ventures							
- External	-	(1,039)	-	78,849	5,478	-	83,288
- Inter-segment	-	-	-	-	-	-	-
Profit/(loss) before income tax							
- External	1,037,469	1,671,056	1,371,095	1,250,303	(260,901)	(991,365)	4,077,657
- Inter-segment	(66,048)	(10,559)	-	(172,357)	18,178	230,786	-
Interest income	826,678	3,242,208	25,034	173,968	523,382	337,613	5,128,883
Interest expenses	(101,262)	(1,463,743)	(831,466)	(348,477)	(307,796)	(830,639)	(3,883,383)
Reversal of/(provision for) impairment losses	48	(133,564)	-	4,915	(296,117)	(26,564)	(451,282)

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

57. SEGMENT REPORTING (continued)

(a) Business segments (continued)

For the year ended 31 December 2016

	Brokerage and wealth management	Credit business	Institutional client services	Investment management	Overseas business	Others	Segment total
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)

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

57. 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 and joint ventures.

Segment Revenue:

	Year ended 31 December 2017			Year ended 31 December 2016		
	Mainland China	Outside Mainland China	Total	Mainland China	Outside Mainland China	Total
Revenue from external customers	12,897,188	1,441,250	14,338,438	12,116,928	1,081,190	13,198,118
Other income and gains	311,854	110,943	422,797	586,535	83,876	670,411
Total	<u>13,209,042</u>	<u>1,552,193</u>	<u>14,761,235</u>	<u>12,703,463</u>	<u>1,165,066</u>	<u>13,868,529</u>

Specified non-current assets:

	As at 31 December 2017			As at 31 December 2016		
	Mainland China	Outside Mainland China	Total	Mainland China	Outside Mainland China	Total
Property and equipment	799,454	30,825	830,279	827,859	32,368	860,227
Goodwill	9,380	1,190,295	1,199,675	9,380	1,497,366	1,506,746
Other intangible assets	78,856	478,847	557,703	72,745	689,115	761,860
Interest in associates and joint ventures	1,192,430	37,344	1,229,774	1,699,259	38,145	1,737,404
Refundable deposits	<u>3,650,208</u>	<u>62,808</u>	<u>3,713,016</u>	<u>5,749,849</u>	<u>34,338</u>	<u>5,784,187</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. 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:

	31 December 2017	31 December 2016
Held-to-maturity investments	378,885	159,340
Refundable deposits	3,713,016	5,784,187
Accounts receivable	3,113,373	2,484,480
Other receivables and prepayments	4,160,502	2,019,856
Finance lease receivables	5,669,844	4,058,994
Other non-current assets	352,973	978,939
Margin accounts receivable	37,708,357	37,427,744
Available-for-sale financial assets	25,278,413	3,231,878
Financial assets held under resale agreements	20,081,044	9,586,455
Financial assets at fair value through profit or loss	28,250,496	16,073,171
Derivative financial assets	196,874	97,317
Clearing settlement funds	738,426	150,433
Cash held on behalf of brokerage clients	40,105,816	51,573,237
Bank balances	9,758,499	15,312,653
Total maximum credit risk exposure	179,506,518	148,938,684

(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:

31 December 2017	By geographical area		
	Mainland China	Outside Mainland China	Total
Held-to-maturity investments	-	378,885	378,885
Refundable deposits	3,650,208	62,808	3,713,016
Accounts receivable	1,867,994	1,245,379	3,113,373
Other receivables and prepayments	4,074,871	85,631	4,160,502
Finance lease receivables	5,669,844	-	5,669,844
Other non-current assets	352,973	-	352,973
Margin accounts receivable	29,436,243	8,272,114	37,708,357
Available-for-sale financial assets	25,278,413	-	25,278,413
Financial assets held under resale agreements	20,081,044	-	20,081,044
Financial assets at fair value through profit or loss	27,993,549	256,947	28,250,496
Derivative financial assets	196,874	-	196,874
Clearing settlement funds	738,426	-	738,426
Cash held on behalf of brokerage clients	40,105,816	-	40,105,816
Bank balances	9,758,499	-	9,758,499
Total maximum credit risk exposure	169,204,754	10,301,764	179,506,518

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(ii) Risk concentrations (continued)

31 December 2016	By geographical area		
	Mainland China	Outside Mainland China	Total
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 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 assets	2,961,086	270,792	3,231,878
Financial assets held under resale agreements	9,586,455	-	9,586,455
Financial assets at fair value 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 brokerage clients	51,573,237	-	51,573,237
Bank balances	15,312,653	-	15,312,653
Total maximum credit risk exposure	137,889,418	11,049,266	148,938,684

(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:

	31 December 2017	31 December 2016
Rating		
Long-term bonds		
- AAA	10,997,635	2,285,787
- From A to AA+	12,284,358	4,746,316
- From B- to BBB+	277,836	826,301
- CCC+	21,932	7,084
- Non-rated ⁽¹⁾	11,447,812	1,354,411
Sub-total	35,029,573	9,219,899
Short-term bonds		
- A-1	1,632,591	1,064,561
- AAA	129,895	150,000
- Non-rated ⁽¹⁾	7,969,937	2,237,826
Sub-total	9,732,423	3,452,387
Total	44,761,996	12,672,286

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(a) Credit risk (continued)

(iii) Credit rating analysis of financial assets (continued)

(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:

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Financial Liabilities	31 December 2017						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	12,463,966	-	5,551,513	679,366	971,554	5,767,391	12,969,824
Short-term debt instruments issued	18,491,732	-	4,632,925	2,841,131	11,465,831	-	18,939,887
Placements from other financial institutions	2,993,700	-	210,687	20,540	2,835,754	-	3,066,981
Accounts payable to brokerage clients	41,060,343	41,060,343	-	-	-	-	41,060,343
Other payables and accruals	7,872,759	1,137,381	883,853	30,946	5,765,241	-	7,817,421
Financial liabilities at fair value through profit or loss	456,941	215,448	250,202	-	-	-	465,650
Financial assets sold under repurchase agreements	23,315,495	-	23,331,460	19,245	5,577	-	23,356,282
Derivative financial liabilities	156,280	63,330	11,276	60,396	21,278	-	156,280
Long-term bonds	40,917,630	-	4,275,000	247,268	13,389,258	27,254,500	45,166,026
Other non-current liabilities	3,605,454	-	-	-	-	3,574,259	3,574,259
Total	<u>151,334,300</u>	<u>42,476,502</u>	<u>39,146,916</u>	<u>3,898,892</u>	<u>34,454,493</u>	<u>36,596,150</u>	<u>156,572,953</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

Financial Liabilities	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	4,150,772	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
Total	<u>124,526,876</u>	<u>56,612,655</u>	<u>16,291,635</u>	<u>10,585,013</u>	<u>20,731,034</u>	<u>23,051,520</u>	<u>127,271,857</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. 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:

	31 December 2017						Total
	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	More than 5 years	No interest- bearing	
Financial assets							
Held-to-maturity investments	-	-	-	378,885	-	-	378,885
Available-for-sale financial assets	2,327,428	7,519,294	50,747	126,057	14,916,726	13,016,051	37,956,303
Financial assets held under resale agreements	2,167,866	939,007	11,443,371	5,530,800	-	-	20,081,044
Refundable deposits	628,294	-	-	-	-	3,084,722	3,713,016
Accounts receivable	-	-	-	-	-	3,113,373	3,113,373
Finance lease receivables	-	-	577,612	5,092,232	-	-	5,669,844
Other receivables and prepayments	-	86,990	584,234	-	-	1,975,953	2,647,177
Margin accounts receivable	11,969,789	4,349,371	21,389,197	-	-	-	37,708,357
Financial assets at fair value through profit or loss	7,637,279	824,534	2,071,642	8,048,433	578,868	18,285,755	37,446,511
Derivative financial assets	1,445	1,189	-	-	-	194,240	196,874
Clearing settlement funds	738,426	-	-	-	-	-	738,426
Cash held on behalf of brokerage clients	34,177,069	3,699,733	2,025,000	30,000	-	174,014	40,105,816
Cash and bank balances	9,758,897	-	-	-	-	-	9,758,897
Total	69,406,493	17,420,118	38,141,803	19,206,407	15,495,594	39,844,108	199,514,523

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	31 December 2017						
Financial liabilities	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	More than 5 years	No interest- bearing	Total
Loans and borrowings	(5,538,721)	(673,512)	(925,627)	(5,326,106)	-	-	(12,463,966)
Short-term debt instruments issued	(4,608,012)	(2,743,688)	(11,140,032)	-	-	-	(18,491,732)
Placements from other financial institutions	(200,000)	-	(2,793,700)	-	-	-	(2,993,700)
Accounts payable to brokerage clients	(33,645,723)	-	-	-	-	(7,414,620)	(41,060,343)
Other payables and accruals	-	-	(231,780)	-	-	(7,493,094)	(7,724,874)
Financial liabilities at fair value through profit or loss	(241,493)	-	-	-	-	(215,448)	(456,941)
Financial assets sold under repurchase agreements	(23,290,929)	(19,030)	(5,536)	-	-	-	(23,315,495)
Derivative financial liabilities	(3,439)	(1,320)	-	-	-	(151,521)	(156,280)
Long-term bonds	(3,999,364)	-	(11,979,556)	(24,938,710)	-	-	(40,917,630)
Other non-current liabilities	-	-	-	(808,763)	-	(2,734,309)	(3,543,072)
Total	(71,527,681)	(3,437,550)	(27,076,231)	(31,073,579)	-	(18,008,992)	(151,124,033)
Net interest rate risk exposure	(2,121,188)	13,982,568	11,065,572	(11,867,172)	15,495,594	21,835,116	48,390,490

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

	31 December 2016						
Financial assets	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	More than 5 years	No interest- bearing	Total
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
Total	77,194,306	11,708,653	34,598,565	15,956,085	414,747	30,811,139	170,683,495

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Interest rate risk (continued)

31 December 2016							
Financial liabilities	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	More than 5 years	No interest- bearing	Total
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)
Total	(62,638,643)	(10,081,281)	(16,930,432)	(19,780,942)	-	(14,998,723)	(124,430,021)
Net interest rate risk exposure	14,555,663	1,627,372	17,668,133	(3,824,857)	414,747	15,812,416	46,253,474

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. 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:

	Sensitivity of profit after tax	
	2017	2016
Move in yield curve		
– Up 25 basis points	(25,062)	(13,875)
– Down 25 basis points	25,637	13,476
	Sensitivity of equity	
	2017	2016
Move in yield curve		
– Up 25 basis points	(235,732)	(26,999)
– Down 25 basis points	239,630	28,084

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.

(ii) Currency risk

	Sensitivity of profit after tax	
	2017	2016
USD	(11,909)	59,390
HKD	141,543	(352,169)
EUR	(1,813)	(7,685)
	Sensitivity of equity	
	2017	2016
USD	(11,909)	59,390
HKD	141,514	(374,811)
EUR	(1,813)	(7,685)

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 that may arise with this.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(c) Market risk (continued)

(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.

	Sensitivity of profit after tax	
	2017	2016
Increase by 10%	646,918	425,357
Decrease by 10%	(646,918)	(425,357)

	Sensitivity of equity	
	2017	2016
Increase by 10%	1,596,999	1,510,084
Decrease by 10%	(1,596,999)	(1,510,084)

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 2017 and 2016.

(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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

58. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(d) Capital management (continued)

In accordance with 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 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 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%;
- (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%;
- (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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. 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) Accounts 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.

(b) Fair value of other financial instruments (carried at other than fair value)

The carrying amounts of the group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

Carrying amount:

	31 December 2017	31 December 2016
Financial liabilities		
– Long-term bonds	40,917,630	28,626,730

Fair value:

As at 31 December 2017				
	Level I	Level II	Level III	Total
Financial liabilities				
– Long-term bonds	-	43,461,245	-	43,461,245

As at 31 December 2016				
	Level I	Level II	Level III	Total
Financial liabilities				
– Long-term bonds	-	28,612,254	-	28,612,254

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. FAIR VALUE INFORMATION (continued)

(b) Fair value of other financial instruments (carried at other than fair value) (continued)

The fair values of the financial liabilities included in the level II above have been determined in accordance with generally accepted pricing models including discounted cash flow etc.

Except for the above, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's statements of financial position approximate their fair values.

(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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. 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.

	As at 31 December 2017			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	1,193,542	17,967,215	-	19,160,757
– Equity securities	2,006,238	291,169	402,817	2,700,224
– Funds	9,605,427	443,564	-	10,048,991
– Wealth management products	-	1,432,654	871,300	2,303,954
– Others	-	7,463	-	7,463
Designated as at fair value through profit or loss				
– Debt securities	-	192,101	-	192,101
– Equity securities	-	-	326,686	326,686
– Funds	-	-	199,556	199,556
– Wealth management products	-	352,419	1,717,117	2,069,536
– Others	-	-	437,243	437,243
Available-for-sale financial assets				
– Debt securities	843,104	24,097,148	90,000	25,030,252
– Equity securities	2,268,604	324,675	3,678,612	6,271,891
– Funds	276,892	-	-	276,892
– Wealth management products and others	-	6,227,268	150,000	6,377,268
Derivative financial assets	7,704	189,170	-	196,874
Total	16,201,511	51,524,846	7,873,331	75,599,688
Liabilities				
Financial liabilities at fair value through profit or loss				
Held for trading				
– Debt securities	-	(241,493)	-	(241,493)
Designated as at fair value through profit or loss				
– Structured entities	-	-	(215,448)	(215,448)
Derivative financial liabilities	(6,257)	(150,023)	-	(156,280)
Total	(6,257)	(391,516)	(215,448)	(613,221)

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. FAIR VALUE INFORMATION (continued)

(c) Fair value hierarchy (continued)

	As at 31 December 2016			
	Level I	Level II	Level III	Total
Assets				
Financial assets at fair value through profit or loss				
Held for trading				
– Debt securities	343,612	9,156,982	-	9,500,594
– Equity securities	1,171,470	769,149	-	1,940,619
– Funds	6,696,658	57,730	-	6,754,388
– Wealth management products	-	2,702,801	1,565,800	4,268,601
– Others	-	22,046	-	22,046
Designated as 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
Total	12,468,265	23,356,032	6,618,007	42,442,304
Liabilities				
Financial liabilities at fair value through profit or loss				
Held for trading				
– Debt securities	-	(394,866)	-	(394,866)
Designated as at fair value through profit or loss				
– Structured entities	-	-	(202,034)	(202,034)
Derivative financial liabilities	(11,700)	(69,923)	-	(81,623)
Total	(11,700)	(464,789)	(202,034)	(678,523)

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 several previously unlisted equity investments being 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. 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.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. 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:

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Total
As at 1 January 2017	3,250,896	3,367,111	(202,034)	6,415,973
Transfer in	513,751	46,160	-	559,911
Gains for the year	180,236	184	-	180,420
Changes in fair value recognised in other comprehensive income	-	(193,199)	-	(193,199)
Purchases	3,176,475	2,163,965	(16,055)	5,324,385
Sales and settlements	(3,166,639)	(1,465,608)	2,640	(4,629,607)
As at 31 December 2017	<u>3,954,719</u>	<u>3,918,613</u>	<u>(215,449)</u>	<u>7,657,883</u>
Total gains for the year reclassified from other comprehensive income on disposal	180,236	184	-	180,420
Total losses for the year included in profit or loss for assets held at the end of the reporting period	<u>-</u>	<u>(102)</u>	<u>-</u>	<u>(102)</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. FAIR VALUE INFORMATION (continued)

(c) Fair value hierarchy (continued)

(iv) Financial instruments in Level III (continued)

	Financial assets at fair value through profit or loss	Available-for-sale financial assets	Financial liabilities at fair value through profit or loss	Total
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 recognised in other comprehensive income	-	(111,411)	-	(111,411)
Purchases	3,093,096	2,295,636	(202,034)	5,186,698
Sales and settlements	(23,090)	(26,008)	-	(49,098)
As at 31 December 2016	<u>3,250,896</u>	<u>3,367,111</u>	<u>(202,034)</u>	<u>6,415,973</u>
Total gains for the year reclassified from other comprehensive income on disposal	-	14,341	-	14,341
Total losses for the year included in profit or loss for assets held at the end of the reporting period	<u>-</u>	<u>(50)</u>	<u>-</u>	<u>(50)</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

59. 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.

Financial assets / liabilities	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Stock with disposal restriction within a specific period	Level III	Option pricing model	Volatility	The higher the volatility, the lower the fair value
Stock ,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

60. Guarantees

During the Reporting Period, guarantees provided by the Company mainly included the provision of net capital guarantee for Everbright Asset Management, a wholly-owned subsidiary of the Company, and the provision of a counter guarantee to the guarantor of the first tranche of offshore bonds issued by Double Charm Limited, an indirect wholly-owned subsidiary of the Company. As at December 31, 2017, the balance of the above guarantees amounted to RMB5.472 billion.

During the Reporting Period, guarantees provided by controlling subsidiaries of the Company mainly included the loan guarantees and financing guarantees provided by EBSHK, a wholly-owned subsidiary of the Company, and its subsidiaries to their subsidiaries for the business development of such companies. As at December 31, 2017, the balance of the above guarantees amounted to RMB8.178 billion.

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

61. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION

	<u>31 December 2017</u>	<u>31 December 2016</u>
Non-current assets		
Property and equipment	769,862	801,182
Other intangible assets	65,468	61,267
Investment in subsidiaries	10,545,063	6,676,933
Interest in associates and joint ventures	662,316	620,525
Available-for-sale financial assets	6,270,785	7,055,941
Financial assets held under resale agreements	5,530,801	4,208,468
Refundable deposits	746,761	2,548,954
Deferred tax assets	335,054	425,239
Other non-current assets	118,084	83,145
Total non-current assets	<u>25,044,194</u>	<u>22,481,654</u>
Current assets		
Accounts receivable	668,025	198,582
Other receivables and prepayments	3,033,096	5,369,719
Margin accounts receivable	29,436,243	29,604,272
Available-for-sale financial assets	27,243,549	6,313,909
Financial assets held under resale agreements	14,443,836	5,100,186
Financial assets at fair value through profit or loss	28,096,602	18,129,481
Derivative financial assets	207,314	106,914
Clearing settlement funds	704,364	1,162,077
Cash held on behalf of brokerage clients	24,201,862	36,946,647
Cash and bank balances	5,314,401	10,433,163
Total current assets	<u>133,349,292</u>	<u>113,364,950</u>
Total assets	<u><u>158,393,486</u></u>	<u><u>135,846,604</u></u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

61. COMPANY LEVEL STATEMENT OF FINANCIAL POSITION (continued)

	<u>31 December 2017</u>	<u>31 December 2016</u>
Current liabilities		
Short-term debt instruments issued	18,491,732	5,929,702
Placements from other financial institutions	2,993,700	9,107,560
Financial liabilities at fair value through profit or loss	241,493	394,866
Accounts payable to brokerage clients	22,747,998	35,654,778
Employee benefits payable	1,548,557	1,751,226
Other payables and accruals	2,551,682	2,060,712
Current tax liabilities	539,642	408,086
Financial assets sold under repurchase agreements	23,004,246	8,277,679
Derivative financial liabilities	167,386	81,548
Long-term bonds due within one year	13,044,307	11,492,244
Total current liabilities	<u>85,330,743</u>	<u>75,158,401</u>
Net current assets	<u>48,018,549</u>	<u>38,206,549</u>
Total assets less current liabilities	73,062,743	60,688,203
Non-current liabilities		
Long-term bonds	24,140,603	14,028,019
Deferred tax liabilities	-	-
Financial assets sold under repurchase agreements	-	-
Other non-current liabilities	500,000	-
Total non-current liabilities	<u>24,640,603</u>	<u>14,028,019</u>
Net assets	<u>48,422,140</u>	<u>46,660,184</u>
	<u>31 December 2017</u>	<u>31 December 2016</u>
Equity		
Share capital	4,610,788	4,610,788
Reserves	33,428,119	32,647,227
Retained profits	10,383,233	9,402,169
Total equity	<u>48,422,140</u>	<u>46,660,184</u>

EVERBRIGHT SECURITIES COMPANY LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2017

(All amounts expressed in RMB thousands unless otherwise specified)

62. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) Profit distribution plan after accounting period

On 26 March 2018, based on the total number of 4,610,787,639 ordinary shares of the Company, the Board proposed to distribute cash dividends of RMB 2 (tax inclusive) per 10 ordinary shares to all the shareholders, with total cash dividend amounting to RMB922,158 thousand (2016: RMB922,158 thousand).

The proposal is subject to the approval by the shareholders at the next general meeting. The cash dividends are not recognized as a liability as at 31 December 2017.

(b) Capital injection to joint ventures

On 27 December 2017, Everbright Capital Investment Co., Ltd. injected RMB1.9 million to Everbright Capital Management(Shanghai)Co.,Ltd pursuant to the Board of Director resolutions. After the capital injection, the equity interest in the investment increased from 51% to 95%. By the end of 2017, registration of the change in equity interest had not been completed.

(c) Issuance of corporate bonds after reporting period

On 18 January 2018, the Company issued two tranches of corporate bonds with an aggregate principal amount of RMB 4 billion through non-public offering. Tranche one with aggregate principal amount of RMB 2 billion has a term of 12 months and bears an interest rate of 5.45%. Tranche two with an aggregate principal amount of RMB 2 billion has a term of 24 months and bears an interest rate of 5.55%.

On 19 March 2018, the Company issued short-term corporate bond with an aggregate principal amount of RMB 0.8 billion through non-public offering, which has a term of 1 year and bears an interest rate of 5.22%.

63. APPROVAL OF THE CONSOLIDATED FINANCIAL INFORMATION

The financial information was approved and authorised for issue by the Board of Directors on 26 March 2018.

APPENDIX

I. Business Qualifications of the Company

Approving Authority	Business Qualification
People's Bank of China	Qualification for proprietary trading business (Reply on the Establishment of Everbright Securities Limited, Yin Fu [1996] No. 81)
	Investment consultancy and financial advisory businesses (Reply on the Establishment of Everbright Securities Limited, Yin Fu [1996] No. 81)
	Underwriting of commercial papers (Notice of the People's Bank of China on Engaging in Underwriting of Commercial Papers by Everbright Securities Limited and Haitong Securities Co., Ltd., Yin Fa [2005] No. 173)
	Proprietary trading and leasing of gold (Notice on Delivery of Filing Materials, Yin Shi Huang Jin Bei [2015] No. 31)
	Member of the national inter-bank market (inter-bank lending and trading of bonds, spot bonds transactions and bond repurchase businesses) (Notice on Approving the Admission of Some Securities Companies into the National Inter-bank Market, Yin Ban Fa [1999] No. 147)
	Qualification for agency sales of financial products (Hu Zheng Jian Ji Gou Zi [2012] No. 547)
CSRC and its branch offices	Qualification for agency sales of open-ended securities investment funds (Zheng Jian Ji Jin Zi [2004] No. 49)
	Qualification for intermediary introduction for futures (Hu Zheng Jian Ji Gou Zi [2010] No. 121)
	Integrated custody for private funds (pilot) (Letter of No Objection on Carrying Out Integrated Custody for Private Funds (Pilot) by Everbright Securities Company Limited, CSRC Ji Gou Bu Bu Han [2013] No. 21)

APPENDIX

Approving Authority	Business Qualification
Securities Association of China	Merger and acquisition businesses
	Agency for spot precious metal (such as gold) contracts and proprietary trading of spot gold contracts (Letter of No Objection on Carrying Out the Businesses of Agency for Precious Metals (including Gold) Spot Contract and Proprietary Trading of Spot Gold Contract by Everbright Securities Company Limited, Ji Gou Bu Bu Han [2015] No. 280)
	Qualification for equity securities returns swap business (Letter of No Objection on Engaging in Equity Securities Returns Swap Business by Everbright Securities Company Limited, Ji Gou Bu Bu Han [2013] No. 30)
	Market making for options (Reply on Approving the Qualification of Everbright Securities Company Limited in Market Making for Stock Options, Zheng Jian Xu Ke [2015] No. 164)
	Qualification for margin financing and securities lending businesses (Zheng Jian Xu Ke [2010] No. 314)
	Securities transactions under repurchase agreements (pilot), Ji Gou Bu Bu Han [2012] No. 459)
	Qualification for entrusted investment management (Reply on Approving the Qualification of Everbright Securities Limited in Entrusted Investment Management, Zheng Jian Ji Gou Zi [2002] No. 127)
	Carrying out of direct investment business (pilot) (Letter of No Objection on Carrying Out Direct Investment Business by Everbright Securities Company Limited, Ji Gou Bu Bu Han [2008] No. 446)
	Market maker business for inter-institution private equity products quotation and service systems (Market Maker Business for Inter-institution Private Equity Products Quotation and Service Systems, Zhong Zheng Bao Jia Han [2016] No. 170)
	Carrying out of market making business in quotation systems (pilot) (Reply on Carrying Out of Market Making Business in Quotation Systems (Pilot) by Everbright Securities, Zhong Zheng Bao Jia Han [2016] No. 22)
	Market making for options (Qualification for Lead Market Maker of SSE 50ETF Options, Shang Zheng Han [2016] No. 152)
	Qualification for nominated advisers and brokers engaged in agency share transfer business (Notice on Granting Qualification for Nominated Advisers and Brokers Engaged in Agency Share Transfer Business, Zhong Zheng Xie Fa [2003] No. 94)
	Qualification for stock quotation and transfer business (Letter on Granting Qualification for Quotation and Transfer Business to Everbright Securities Company Limited, Zhong Zheng Xie Han [2006] No. 3)
	Underwriting of SME private placement bonds (Zhong Zheng Xie Han [2012] No. 374)

APPENDIX

Approving Authority	Business Qualification
SSE	<p>Qualification for participant of stock options transactions of Shanghai Stock Exchange (stock options brokerage, transaction authority for proprietary trading business) (Notice on Everbright Securities Company Limited Becoming a Participant of Stock Options Transactions of Shanghai Stock Exchange, Shang Zheng Han [2015] No. 63)</p> <p>Qualifications for A-share trading unit transactions under Southbound Trading (Shang Zheng Han [2014] No. 650)</p> <p>Authority for securities transactions under repurchase agreements (Shang Zheng Hui Zi [2012] No. 176)</p> <p>Authority for collateralized stock repurchase transactions (Shang Zheng Hui Zi [2013] No. 67)</p>
SZSE	<p>Authority for securities transactions under repurchase agreements (Shen Zheng Hui [2013] No. 15)</p> <p>Authority for collateralized stock repurchase transactions (Shen Zheng Hui [2013] No. 58)</p> <p>Financing for exercise of options under share options incentive schemes of listed companies (pilot) (Shen Zheng Han [2014] No. 320)</p> <p>Authority for transactions under Southbound Trading of Shenzhen Connect (Shen Zheng Hui [2016] No. 330)</p>
Other Institutions	<p>Market making for National Equities Exchange and Quotations (Gu Zhuan Xi Tong Han [2014] No. 772)</p> <p>Filing as outsourcing services institution for private funds (Asset Management Association of China [Filing Number: A00037])</p> <p>Qualification for commercial paper transactions of Shanghai Commercial Paper Exchange (Piao Jiao Suo [2017] No. 9)</p> <p>Attempts for market making in the inter-bank bond market (Notice on Business Rules of Attempts for Market Making in the Inter-bank Bond Market and Related Matters, Zhong Hui Jiao Fa [2014] No. 132)</p> <p>Qualification for underwriting of book-entry government bonds (2015-2017) (Announcement of the Ministry of Finance of the People's Republic of China, 2014 No. 93)</p> <p>Qualification for underwriting of book-entry government bonds (2018-2020) (Announcement of the Ministry of Finance of the People's Republic of China, 2017 No. 167)</p> <p>Qualification for interbank gold bilateral transactions (Reply on Approving the Carrying Out of Interbank Gold Bilateral Transactions by Everbright Securities Company Limited, Shang Jin Jiao Fa [2017] No. 68)</p> <p>Interest rate swaps</p>

APPENDIX

Approving Authority	Business Qualification
China Securities Registration and Settlement Co., Ltd.	Settlement of options (Reply on Matters Relating to the Qualification for Settlement of Options, Zhong Guo Jie Suan Han Zi [2015] No. 28)
	Pooled settlement of and quotation for credit default swaps (Notice on Approval of Becoming a Member of the Group for Pooled Settlement of and Quotation for Credit Default Swaps)
	Margin refinancing (pilot) (Zhong Zheng Jin Han [2012] No. 124)
	Refinancing (pilot) (Zhong Zheng Jin Han [2012] No. 115)
	Securities lending refinancing (pilot) (Zhong Zheng Jin Han [2013] No. 45)
	Adjusting the credit limit of refinancing (Zhong Zheng Jin Han [2014] No. 278)
	Licence for operating foreign exchange operation for securities business (foreign currency negotiable securities underwriting, foreign currency negotiable securities brokerage and foreign currency lending) (Reply on Approving the Change of Company Name of Everbright Securities Company Limited on the Licence for Operating Foreign Exchange Operation for Securities Business, Shang Hai Hui Fu [2005] No. 72)
	Lead Underwriter for Debt Financing Instruments of Non-financial Enterprises (Announcement of National Association of Financial Market Institutional Investors, [2012] No. 19)
	Qualification for account opening agency
	Qualification for class A clearing participant (Zhong Guo Jie Suan Han Zi [2008] No. 12)
	Qualification for participation in multilateral net amount guarantee settlement (Zhong Guo Jie Suan Fa Zi [2014] No. 28)
	Qualification for digital certificate service agency
	Qualification for securities pledge registration agency
	Qualification for settlement of options (Zhong Guo Jie Suan Han Zi [2015] No. 28)
	Qualification for remote account opening for special institutions and products
Interbank Market Clearing House Co., Ltd.	Qualification for net settlement of bond transactions of Shanghai Clearing House (Qing Suan Suo Hui Yuan Pi Zi [2015] No. 115)
	Qualification for remote account opening for special institutions and products

APPENDIX

II. Business Qualifications of Subsidiaries

Name of Subsidiary	Business Qualification
Everbright Asset Management	Licence for carrying out securities futures business (securities asset management) in the People's Republic of China (approved by the CSRC, approval document number: 913100005904194418)
Everbright Futures and its subsidiaries	Commodity futures brokerage (CSRC) Financial futures brokerage (CSRC Zheng Jian Qi Huo Zi [2017] No. 297) Qualification for IB business (CSRC Shanghai Bureau, Hu Zheng Jian Qi Huo Zi [2010] No. 74) Futures investment consultancy (CSRC Zheng Jian Xu Ke [2011] No. 1770) Asset management (CSRC Zheng Jian Xu Ke [2012] No. 1499) Public offering of securities and sales of investment funds (CSRC Shanghai Bureau, Hu Zheng Jian Xu Ke [2017] No. 10) Qualification for general clearing member of China Financial Futures Exchange (Notice on Approval of qualification for membership, Zhong Jin Suo Hui Zhun Zi [2007] No. 042) Stock options (Shanghai Stock Exchange Shang Zheng Han [2015] No. 168)
Everbright Capital	Direct investment business (pilot) (Letter of No Objection on Carrying Out Direct Investment Business (Pilot), CSRC Ji Gou Bu Bu Han [2008] No. 446) Private funds (Public notice of Securities Association of China on the List of Regulatory Platforms Including Securities Companies and Their Private Funds Subsidiaries (4 th Batch))
Everbright Development	Private funds (Public notice of Securities Association of China on the List of Regulatory Platforms Including Securities Companies and Their Private Funds Subsidiaries (4 th Batch))
Everbright Fortune	Member of alternative investment subsidiaries (4 th Batch of Private Investment Funds Subsidiaries and Member of Alternative Investment Subsidiaries of Securities Association of China) Derivatives, commodities, NEEQ listed companies and other investments approved by securities regulatory authorities (Reply of Securities Association of China on Matters Relating to Rectification and Regulation of Subsidiaries of Securities Companies, Zhong Zheng Xie Fa [2017] No. 230) Qualification for private investment funds administrator (Asset Management Association of China Registration Number: P1004160) Underwriting member of Shanghai International Wine Trading Centre (Shanghai International Wine Trading Centre membership number: 810) General member of Sichuan United Wine Exchange (Sichuan United Wine Exchange membership number: Z33)

APPENDIX

Name of Subsidiary		Business Qualification
Everbright Pramerica		Underwriting member of Shanghai Gongmei Art Trading Centre (Shanghai Gongmei Art Trading Centre membership number: 810)
		Underwriting member of Shanghai Cultural Property Exchange (Shanghai Cultural Property Exchange membership number: 10616612)
		Licence for carrying out securities futures business in the People's Republic of China (serial number: 000000000332)
EBSHK	Sun Hung Kai Investment Services Limited	Type 1 regulated activity (SFC AAC153) – Dealing in securities Type 4 regulated activity – Advising on securities Money lender's licence (Registrar of Money Lenders and Commissioner of Police 2132)
	Sun Hung Kai Commodities Limited	Type 2 regulated activity – Dealing in futures contracts (SFC AAF237)
	Sun Hung Kai Forex Limited	Type 3 regulated activity – Leveraged foreign exchange trading (SFC ACI995)
	SHK Online (Securities) Limited	Type 1 regulated activity – Dealing in securities (SFC AAC483)
	Sun Hung Kai International Commodities Limited	Type 1 regulated activity – Dealing in securities (SFC AAI430)
		Type 6 regulated activity – Advising on corporate finance
	SHK Fund Management Limited	Type 1 regulated activity – Dealing in securities (SFC AAI432)
		Type 4 regulated activity – Advising on securities
		Type 9 regulated activity – Asset management
	China Everbright Securities (HK) Limited	Type 1 regulated activity – Dealing in securities (SFC AAW536)
		Type 4 regulated activity – Advising on securities
		Type 6 regulated activity – Advising on corporate finance
	China Everbright Forex & Futures (HK) Limited	Type 9 regulated activity – Asset management
		Type 2 regulated activity – Dealing in futures contracts (SFC AEX690)
		Type 3 regulated activity – Leveraged foreign exchange trading
		Type 5 regulated activity – Advising on futures contracts
		Type 9 regulated activity – Asset management

APPENDIX

Name of Subsidiary		Business Qualification	
EBSHK	China Everbright Research Limited	Type 4 regulated activity – Advising on securities	(SFC AEH589)
	China Everbright Capital Limited	Type 1 regulated activity – Dealing in securities	(SFC ACE409)
		Type 4 regulated activity – Advising on securities	
		Type 6 regulated activity – Advising on corporate finance	
	China Everbright Securities Asset Management Limited	Type 1 regulated activity – Dealing in securities	(SFC AYE648)
		Type 4 regulated activity – Advising on securities	
		Type 9 regulated activity – Asset management	
	Sun Hung Kai Wealth Management Limited	General insurance, long-term (including long-term insurance) insurance Mandatory Provident Fund Intermediaries	(The Hong Kong Confederation of Insurance Brokers 320) (Mandatory Provident Fund Schemes Authority IC000854)
	Sun Hung Kai Insurance Consultants Limited	General insurance, long-term (including long-term insurance) insurance	(The Hong Kong Confederation of Insurance Brokers 34)
	China Everbright Wealth Management Limited	General insurance, long-term (including long-term insurance) insurance	(The Hong Kong Confederation of Insurance Brokers 359)
	Sun Hung Kai Insurance Agency Limited	General insurance, long-term (excluding long-term insurance) insurance	(The Hong Kong Federation of Insurers 15975167)
	Sun Tai Cheung Finance Company Limited	Money lender's licence	(Registrar of Money Lenders and Commissioner of Police 2132)
	China Everbright Securities Finance Limited	Money lender's licence	(Registrar of Money Lenders and Commissioner of Police 3482)
	China Everbright Property Agency Ltd	Estate agents Licence	(Estate Agents Authority C-058024)