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CHINA EVERBRIGHT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 165)

ANNOUNCEMENT

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

INTERIM RESULTS

The Board of Directors of China Everbright Limited (the “Company”) presents the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2019. The interim financial report is unaudited, but has been reviewed by Ernst & Young (the auditor of the Company) in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, whose review report will be included in the interim report to be sent to shareholders. The interim financial report has also been reviewed by the Company’s Audit and Risk Management Committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

	<i>Note</i>	1 January to 30 June 2019 HK\$'000	1 January to 30 June 2018 HK\$'000
Continuing operations			
Turnover	3	<u>5,517,296</u>	<u>6,094,067</u>
Operating income	3	1,347,209	1,138,790
Other net income	3	628,900	1,531,477
Staff costs		(260,003)	(254,139)
Depreciation and amortisation expenses		(52,999)	(10,020)
Impairment losses		(66,245)	–
Other operating expenses		<u>(199,813)</u>	<u>(175,120)</u>
Profit from operations		1,397,049	2,230,988
Finance costs		(516,533)	(468,892)
Share of profits less losses of associates	9	711,497	407,719
Share of profits less losses of joint ventures	10	<u>72,023</u>	<u>101,390</u>
Profit before taxation		1,664,036	2,271,205
Income tax	4	<u>(341,814)</u>	<u>(232,523)</u>
Profit from continuing operations		1,322,222	2,038,682
Discontinued operations			
Profit from disposal group held for sale	5	<u>–</u>	<u>6,775</u>
Profit for the period		<u>1,322,222</u>	<u>2,045,457</u>

	1 January to 30 June 2019	1 January to 30 June 2018
<i>Note</i>	HK\$'000	HK\$'000
Profit attributable to equity shareholders of the Company		
Continuing operations	1,279,079	1,932,725
Discontinued operations	–	6,775
	<u>1,279,079</u>	<u>1,939,500</u>
Non-controlling interests	43,143	105,957
	<u>43,143</u>	<u>105,957</u>
Profit for the period	1,322,222	2,045,457
	<u>1,322,222</u>	<u>2,045,457</u>
Basic and diluted earnings per share	8	
Continuing operations	HK\$0.759	HK\$1.147
Discontinued operations	–	HK\$0.004
	<u>HK\$0.759</u>	<u>HK\$1.151</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	1 January to 30 June 2019	1 January to 30 June 2018
<i>Note</i>	HK\$'000	HK\$'000
Profit for the period	1,322,222	2,045,457
Other comprehensive income for the period:		
Items that will not be reclassified subsequently to profit or loss		
– Net movement in investment revaluation reserve of equity investments designated at fair value through other comprehensive income	7 250,087	(663,448)
Items that may be reclassified subsequently to profit or loss		
– Share of other comprehensive income and effect of foreign currency translation of associates	(74,261)	(12,961)
– Share of other comprehensive income and effect of foreign currency translation of joint ventures	5,376	–
– Other net movement in exchange reserve	127,684	5,237
	308,886	(671,172)
Total comprehensive income for the period	1,631,108	1,374,285
Attributable to:		
Equity shareholders of the Company	1,572,204	1,275,491
Non-controlling interests	58,904	98,794
Total comprehensive income for the period	1,631,108	1,374,285

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 HK\$'000	31 December 2018 HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		442,571	448,433
Investment properties		450,353	446,306
Right-of-use assets		590,907	–
Investments in associates	9(a)	18,311,657	17,886,726
Investments in joint ventures	10(a)	1,101,581	1,167,987
Equity investments designated at fair value through other comprehensive income	11	6,811,846	6,561,759
Financial assets at fair value through profit or loss	12	31,860,854	36,190,718
Advances to customers	13	1,005,008	1,211,908
Other assets		647,066	578,293
Finance lease receivables		56,840	–
		61,278,683	64,492,130
Current assets			
Financial assets at fair value through profit or loss	12	2,981,010	1,371,003
Advances to customers	13	604,937	986,904
Debtors, deposits and prepayments	14	1,456,474	1,234,888
Trading securities	15	2,376,842	1,573,693
Cash and cash equivalents		7,692,198	6,863,902
		15,111,461	12,030,390
Assets classified as held for sale	5	8,451,777	738,244
		23,563,238	12,768,634

		30 June 2019	31 December 2018
	<i>Note</i>	HK\$'000	HK\$'000
Current liabilities			
Lease liabilities		(92,188)	–
Trading securities	15	(296,552)	(136,312)
Bank loans	16	(6,400,435)	(3,501,739)
Creditors, deposits received and accrued charges	17	(2,472,563)	(3,314,280)
Bonds payable	18	(2,390,690)	(3,382,860)
Other financial liabilities	19	(389,992)	(241,019)
Notes payable		(27,000)	(27,000)
Provision for taxation		(407,327)	(336,563)
		<u>(12,476,747)</u>	<u>(10,939,773)</u>
Liabilities classified as held for sale	5	<u>(5,212,644)</u>	–
		<u>(17,689,391)</u>	<u>(10,939,773)</u>
Net current assets		<u>5,873,847</u>	<u>1,828,861</u>
Total assets less current liabilities		<u>67,152,530</u>	<u>66,320,991</u>
Non-current liabilities			
Lease liabilities		(522,015)	–
Bank loans	16	(8,296,067)	(10,684,234)
Bonds payable	18	(9,545,710)	(8,457,150)
Other financial liabilities	19	(4,249,778)	(4,353,828)
Notes payable		(30,000)	(30,000)
Deferred tax liabilities		(1,548,865)	(1,415,582)
		<u>(24,192,435)</u>	<u>(24,940,794)</u>
NET ASSETS		<u>42,960,095</u>	<u>41,380,197</u>
CAPITAL AND RESERVES			
Share capital	21	9,618,097	9,618,097
Reserves		<u>31,135,600</u>	<u>30,240,565</u>
Total equity attributable to equity shareholders of the Company		<u>40,753,697</u>	<u>39,858,662</u>
Non-controlling interests		<u>2,206,398</u>	<u>1,521,535</u>
TOTAL EQUITY		<u>42,960,095</u>	<u>41,380,197</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to equity shareholders of the Company											
	Share capital	Option premium reserve	Investment revaluation reserve	Goodwill reserve	Capital reserve	Other reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2019		9,618,097	1,242	5,154,570	(668,499)	(621,278)	-	(285,248)	26,659,778	39,858,662	1,521,535	41,380,197
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	-	-	625,959	625,959
Dividend paid	6(b)	-	-	-	-	-	-	(674,101)	(674,101)	(674,101)	-	(674,101)
Transaction between non-controlling shareholders		-	-	-	-	(4,548)	-	-	(4,548)	(4,548)	-	(4,548)
Share of capital reserve of associates		-	-	-	-	1,480	-	-	1,480	1,480	-	1,480
Profit for the period		-	-	-	-	-	-	1,279,079	1,279,079	1,279,079	43,143	1,322,222
Other comprehensive income for the period		-	-	250,087	-	-	(44,560)	87,598	-	293,125	15,761	308,886
As at 30 June 2019		<u>9,618,097</u>	<u>1,242</u>	<u>5,404,657</u>	<u>(668,499)</u>	<u>(624,346)</u>	<u>(44,560)</u>	<u>(197,650)</u>	<u>27,264,756</u>	<u>40,753,697</u>	<u>2,206,398</u>	<u>42,960,095</u>
As at 1 January 2018		9,618,097	1,242	6,105,289	(668,499)	(490,190)	-	1,099,293	25,005,179	40,670,411	1,674,584	42,344,995
Net investment by non-controlling shareholders		-	-	-	-	-	-	-	-	-	(106,565)	(106,565)
Dividend paid	6(b)	-	-	-	-	-	-	(1,011,152)	(1,011,152)	(1,011,152)	-	(1,011,152)
Transaction between non-controlling shareholders		-	-	-	-	(20,252)	-	-	(20,252)	(20,252)	(43,136)	(63,388)
Share of capital reserve of an associate		-	-	-	-	(4,946)	-	-	(4,946)	(4,946)	-	(4,946)
Profit for the period		-	-	-	-	-	-	1,939,500	1,939,500	1,939,500	105,957	2,045,457
Other comprehensive income for the period		-	-	(663,448)	-	-	-	(561)	-	(664,009)	(7,163)	(671,172)
As at 30 June 2018		<u>9,618,097</u>	<u>1,242</u>	<u>5,441,841</u>	<u>(668,499)</u>	<u>(515,388)</u>	<u>-</u>	<u>1,098,732</u>	<u>25,933,527</u>	<u>40,909,552</u>	<u>1,623,677</u>	<u>42,533,229</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	1 January to 30 June 2019 HK\$'000	1 January to 30 June 2018 HK\$'000
Operating activities		
Cash (used in)/generated from operations	(1,491,115)	1,544,658
Tax paid	(149,689)	(306,918)
Net cash (used in)/generated from operating activities	(1,640,804)	1,237,740
Investing activities		
Purchase of financial assets at fair value through profit or loss	(2,333,009)	(7,653,458)
Proceeds from disposal of financial assets at fair value through profit or loss	4,753,557	2,988,640
Increase/(decrease) in other financial liabilities	34,540	(283,291)
Divestment/(investment) in associates and a joint venture	26,483	(203,383)
Proceeds from disposal of an associate	–	1,230,400
Purchase of a disposal group held for sale	(877,829)	(993,869)
Net cash from losing control of a subsidiary	4,425	–
Other cash flows arising from investing activities	974,432	554,970
Net cash generated from/ (used in) investing activities	2,582,599	(4,359,991)
Financing activities		
Net proceeds from bank loans	488,028	3,660,641
Repayments of lease liabilities	(37,553)	–
Dividend paid	(674,101)	(1,011,152)
Dividend paid to non-controlling shareholders	(1,776)	(94,271)
Other cash flows arising from financing activities	(22,837)	51,622
Net cash (used in)/generated from financing activities	(248,239)	2,606,840
Net increase/(decrease) in cash and cash equivalents	693,556	(515,411)
Cash and cash equivalents		
Beginning of the period	6,863,902	5,178,356
Exchange rate adjustments	134,740	(29,596)
End of the period	7,692,198	4,633,349

LOSING CONTROL OF A SUBSIDIARY

During the period, the Group lost control of a subsidiary. The fair values of the assets and liabilities disposed of were as follows:

	1 January to 30 June 2019
	HK\$'000
Proceeds from losing control of a subsidiary	8,800
Less: Cash of a subsidiary	<u>(4,375)</u>
Net cash inflow from losing control of a subsidiary and gain on losing control of a subsidiary	<u>4,425</u>

NOTES TO THE FINANCIAL REPORT

1. BASIS OF PRESENTATION

The unaudited interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim Financial Reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised by the Board for issuance on 29 August 2019.

The financial information relating to the year ended 31 December 2018 that is included in the unaudited interim financial information as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.
- The Company’s auditor, Ernst & Young, has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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

The comparative information of the above has been restated to conform to the current period’s presentation.

The unaudited interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for those described in note 2.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) effective as of 1 January 2019.

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

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates and Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases-Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

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

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

New definition of a lease

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two

elective exemptions for leases of low value assets and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets; and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

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

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

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

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use assets at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

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

	Increase/ (decrease) HK\$'000
Assets	
Right-of-use assets	634,299
Debtors, deposits and prepayment	<u>(2,583)</u>
	<u>631,716</u>
Liabilities	
Lease liabilities	<u>631,716</u>

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

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

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

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

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

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movements during the period are as follow:

	Right-of-use assets HK\$'000	Lease liabilities HK\$'000
As at 1 January 2019	634,299	631,716
Depreciation expense	(43,337)	–
Interest expense	–	20,101
Payments	–	(37,553)
Exchange difference	(55)	(61)
As at 30 June 2019	<u>590,907</u>	<u>614,203</u>

Amendments to HKAS 28

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

HK(IFRIC)-Int 23

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

3. TURNOVER, OPERATING INCOME AND OTHER NET INCOME

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

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

	1 January to 30 June 2019	1 January to 30 June 2018
	HK\$'000	HK\$'000
Operating income		
Revenue from contracts with customers, recognised over time		
Consultancy and management fee income	228,959	269,616
Revenue from other sources		
Interest income on financial assets not at fair value through profit or loss		
– bank deposits	66,653	16,129
– advances to customers	104,375	206,440
– unlisted debt securities	32,927	16,666
Dividend income		
– listed investments	307,992	354,219
– unlisted investments	379,686	352,240
Net realised gain/(loss) on trading securities		
– equity securities	134,066	17,484
– debt securities	19,575	4,525
– derivatives	899	14,298
Net unrealised gain/(loss) on trading securities		
– equity securities	15,044	(68,337)
– debt securities	56,633	(34,143)
– derivatives	(3,413)	(11,620)
Rental income from investment properties	821	1,007
Rental income from finance lease	2,992	266
	<u>1,347,209</u>	<u>1,138,790</u>
Other net income		
Net realised gain on disposal of financial assets at fair value through profit or loss	796,924	642,228
Changes in unrealised profit or loss on financial assets at fair value through profit or loss	(173,242)	823,135
Reversal of impairment loss on debtors, deposits and prepayments	–	3,670
Realised gain on disposal of an associate	–	88,631
Realised gain on disposal of a subsidiary	4,425	–
Gain on disposal of property, plant and equipment	–	220
Gain on disposal of investment properties	–	600
Net exchange loss	(16,731)	(56,446)
Others	17,524	29,439
	<u>628,900</u>	<u>1,531,477</u>

4. INCOME TAX

The provision for Hong Kong profits tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the six months ended 30 June 2019. Taxation for overseas subsidiaries is calculated at the appropriate current rates of taxation in the relevant jurisdictions.

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

	1 January to 30 June 2019	1 January to 30 June 2018
	HK\$'000	HK\$'000
Continuing operations		
Current taxation		
– Hong Kong profits tax	2,710	–
– Overseas taxation	217,198	99,670
– Over provision in prior years	(112)	(1,170)
Deferred taxation		
– Deferred taxation relating to the reversal and origination of temporary differences	122,018	134,023
	341,814	232,523
Income tax	341,814	232,523

5. DISCONTINUED OPERATIONS

On 5 May 2018, the Group acquired an associate with 22.4% equity interests with a view to hold it for resale within one year. The Group has disposed a part of the equity interests during the period ended 30 June 2019. The remaining equity interests was classified as financial assets at fair value through profit or loss. The aforesaid investee is a developer, manufacturer and marketer of medical devices.

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

Ying Li is a company incorporated in Singapore whose shares are listed on the Mainboard of the Singapore Exchange Securities Trading Limited. It is principally engaged in the development, sale, rental, management and long-term ownership of high quality commercial, residential and bespoke properties in the prime locations of Chongqing, the PRC.

As at 30 June 2019, the Group classified the above investment as a disposal group held for sale. The above equity interest meets the criteria to be classified as held for sale on acquisition in accordance with HKFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. The adjusted aggregate balances of its assets and liabilities have been presented in the Group’s condensed consolidated statement of financial position as assets classified as held for sale and liabilities classified as held for sale respectively.

As of the date of announcement, Ying Li has not yet announced its unaudited financial statements for the second quarter ended 30 June 2019. The assets and liabilities of Ying Li classified as held for sale reflect the assets and liabilities of Ying Li at fair value (after taking into account the purchase price allocation performed by the Group), and also the adjustments needed to carry the Group’s equity interest in Ying Li at the fair value less costs to sell. The fair value less costs to sell was measured with reference to the listed share price of Ying Li as of 30 June 2019, and it does not represent the net asset value of Ying Li.

6. DIVIDENDS

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

	1 January to 30 June 2019 HK\$'000	1 January to 30 June 2018 HK\$'000
– Interim dividend declared after the end of the reporting period of HK\$0.25 (2018: HK\$0.26) per share	<u>421,313</u>	<u>438,166</u>

Subsequent to the period end, the Board of Directors declared an interim dividend of HK\$0.25 per share (2018: HK\$0.26 per share) for the six months period ended 30 June 2019. The declared dividend is not reflected as dividend payable in the financial statements.

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

	1 January to 30 June 2019 HK\$'000	1 January to 30 June 2018 HK\$'000
– Final dividend in respect of the previous financial year, approved and paid during the period of HK\$0.4 (2018: HK\$0.6) per share	<u>674,101</u>	<u>1,011,152</u>

7. OTHER COMPREHENSIVE INCOME

	1 January to 30 June 2019 HK\$'000	1 January to 30 June 2018 HK\$'000
Equity investments designated at fair value through other comprehensive income: Change in fair value recognised during the period	<u>250,087</u>	<u>(663,448)</u>

8. EARNINGS PER SHARE

Basic and diluted earnings per share

The calculation of basic and diluted earnings per share for the six months period ended 30 June 2019 is based on the profit attributable to equity shareholders of the Company for continuing and discontinued operations of HK\$1,279,079,000 and HK\$nil respectively (six months ended 30 June 2018: for continuing operations and discontinued operations of HK\$1,932,725,000 and HK\$6,775,000 respectively) and the weighted average number of 1,685,253,712 shares (six months ended 30 June 2018: 1,685,253,712 shares) in issue during the period.

9. INVESTMENTS IN ASSOCIATES

(a) Investments in associates

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Share of net assets	16,745,699	16,320,768
Goodwill	1,565,958	1,565,958
	<u>18,311,657</u>	<u>17,886,726</u>
Market value of shares listed in mainland China	15,206,898	11,864,929
Market value of shares listed in Hong Kong	<u>1,962,167</u>	<u>1,821,704</u>

(b) As at 30 June 2019, particulars of principal associates of the Group are as follows:

Name of associate	Place of incorporation/ operation	Principal activities	Percentage of equity interest held by the Company
Everbright Securities Company Limited [#] (“Everbright Securities”)	The PRC	Securities operations (<i>note 1</i>)	21.30%
China Aircraft Leasing Group Holdings Limited ^{##} (“CALGH”)	Cayman Islands	Investment holding (<i>note 2</i>)	35.12%*
Everbright Jiabao Co., Ltd. ^{###} (“Jiabao Group”)	The PRC	Real estate development/real estate assets management (<i>note 3</i>)	29.17%*

[#] Market value of the shares listed in mainland China as at 30 June 2019 was equivalent to HK\$12,785,320,000 (31 December 2018: HK\$9,713,694,000).

^{##} Market value of the shares listed in Hong Kong as at 30 June 2019 was HK\$1,962,167,000 (31 December 2018: HK\$1,821,704,000).

^{###} Market value of the shares listed in mainland China as at 30 June 2019 was equivalent to HK\$2,421,578,000 (31 December 2018: HK\$2,151,235,000).

* Held indirectly

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

Note 2: CALGH is a strategic industry platform investment of the Group to capture multiple opportunities along the aircraft value chain arising from the rapid growth of aviation industry. CALGH's lease offerings are complemented by fleet planning consultation, structured leasing, aircraft trading and re-marketing and aircraft disassembly. During the period ended 30 June 2019, the Group's equity interest in CALGH was increased from 34.05% to 35.12% due to the acquisition of CALGH's equity.

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

For the six months ended 30 June 2019, Everbright Securities has recorded an after tax profit of RMB1,682 million (six months ended 30 June 2018: RMB1,041 million) and the Group's share of profit under equity accounting method, amounted to HK\$396 million (six months ended 30 June 2018: HK\$271 million).

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

10. INVESTMENTS IN JOINT VENTURES

(a) Investments in joint ventures

	30 June 2019	31 December 2018
	HK\$'000	HK\$'000
Carrying value, net	<u>1,101,581</u>	<u>1,167,987</u>

(b) As at 30 June 2019, details of the Group's principal investments in joint ventures are mainly as follows:

Name of joint venture	Place of incorporation/ operation	Principal activities	Percentage of equity interest held by the Company
Everbright Guolian Capital Company Limited	The PRC	Venture capital and investment advisory services (<i>note 1</i>)	50.0%*
山東高速光控產業投資基金管理有限公司	The PRC	Fund management services (<i>note 2</i>)	48.0%*
CEL Capital Prestige Asset Management Co., Ltd.	The PRC	Assets management service (<i>note 3</i>)	49.0%*

* Held indirectly

Note 1: Everbright Guolian Capital Company Limited is a joint venture of the Group to provide investment advisory services to a joint venture fund in mainland China.

Note 2: 山東高速光控產業投資基金管理有限公司 is a joint venture of the Group to provide fund management service to an industrial sector investment fund in mainland China.

Note 3: CEL Capital Prestige Asset Management Co., Ltd. is a joint venture of the Group to provide assets management service to an industrial sector investment fund in mainland China.

All of the above joint ventures are unlisted corporate entities whose quoted market prices were not available as at 30 June 2019. They are accounted for using the equity method in the condensed consolidated financial statements.

11. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
At fair value:		
Listed equity securities		
– outside Hong Kong	<u>6,811,846</u>	<u>6,561,759</u>

At 1 January 2018, the Group designated the investment in China Everbright Bank Company Limited (“China Everbright Bank”) as financial assets at fair value through other comprehensive income because the Group intends to hold for the long-term strategic purposes.

No strategic investment was disposed of during the six months period ended 30 June 2019, and there were no transfers of any cumulative gain or loss within equity relating to this investment.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Non-current assets		
At fair value:		
Listed equity securities		
– in Hong Kong	–	954,610
– outside Hong Kong	–	1,871,311
Unlisted equity securities/collective investment schemes		
– outside Hong Kong	26,411,625	28,224,626
Unlisted convertible preference shares		
– outside Hong Kong	4,630,037	4,628,940
Unlisted debt securities		
– outside Hong Kong	819,192	511,231
	<u>31,860,854</u>	<u>36,190,718</u>
Current assets		
At fair value:		
Listed equity securities		
– in Hong Kong	1,142,487	–
– outside Hong Kong	1,637,833	–
Unlisted equity securities/collective investment securities		
– outside Hong Kong	200,690	648,053
Unlisted debt securities		
– outside Hong Kong	–	722,950
	<u>2,981,010</u>	<u>1,371,003</u>

As at 30 June 2019, fair value of the Group's listed and unlisted equity securities amounted to HK\$24,030,614,000 (31 December 2018: HK\$23,793,377,000) were investments in associates and joint ventures. The Group was exempted from applying the equity method to these investments and they were recognised as financial assets designated at fair value through profit or loss.

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

	2019	2018
	HK\$'000	HK\$'000
As at 1 January	673,189	912,390
Additions during the period/year	–	25,902
Released during the period/year	(431,272)	(237,129)
Exchange adjustment	7,475	(27,974)
	<u>249,392</u>	<u>673,189</u>
As at 30 June 2019/31 December 2018	249,392	673,189

13. ADVANCES TO CUSTOMERS

	30 June	31 December
	2019	2018
	HK\$'000	HK\$'000
Non-current assets		
Term loans to customers		
– secured	918,680	1,190,984
– unsecured	86,328	20,924
	<u>1,005,008</u>	<u>1,211,908</u>
Current assets		
Term loans to customers		
– secured	703,347	968,180
Less: impairment allowance	(127,251)	(77,251)
	<u>576,096</u>	<u>890,929</u>
– unsecured	28,841	95,975
	<u>604,937</u>	<u>986,904</u>

Certain term loans to customers are secured by unlisted securities with third party guarantees.

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

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
As at 1 January	77,251	80,921
Impairment loss, net	<u>50,000</u>	<u>(3,670)</u>
As at 30 June 2019/31 December 2018	<u>127,251</u>	<u>77,251</u>

Except for the above impairment allowance of HK\$127,251,000 (2018: HK\$77,251,000), there were no other significant receivables, that were aged, requiring significant impairment provision as of 30 June 2019 and 31 December 2018.

14. DEBTORS, DEPOSITS AND PREPAYMENTS

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Accounts receivable, net	625,244	412,684
Deposits, prepayments, interest and other receivables	<u>915,953</u>	<u>890,682</u>
	1,541,197	1,303,366
Less: impairment allowance	<u>(84,723)</u>	<u>(68,478)</u>
	<u>1,456,474</u>	<u>1,234,888</u>

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

The carrying amount of debtors, deposits and prepayments approximated to their fair value as at 30 June 2019 and 31 December 2018.

Their recoverability was assessed with reference to the credit status of the debtors, and impairment allowance of HK\$84,723,000 (2018: HK\$68,478,000) was provided as at 30 June 2019.

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

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
As at 1 January	68,478	44,774
Impairment loss, net	16,245	23,704
	<hr/>	<hr/>
As at 30 June 2019/31 December 2018	84,723	68,478
	<hr/>	<hr/>

15. TRADING SECURITIES

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Current assets		
At fair value:		
Listed equity securities		
– in Hong Kong	292,857	226,131
– outside Hong Kong	263,344	182,115
Listed debt securities		
– in Hong Kong	584,797	120,156
– outside Hong Kong	1,081,075	940,963
Unlisted debt securities	143,588	88,964
Derivatives		
– listed	779	–
– unlisted	10,402	15,364
	<hr/>	<hr/>
	2,376,842	1,573,693
	<hr/>	<hr/>
Current liabilities		
At fair value:		
Listed equity securities		
– in Hong Kong	(135,073)	(20,881)
– outside Hong Kong	(113,314)	(91,663)
Listed debt securities		
– outside Hong Kong	(17,449)	(8,691)
Derivatives		
– listed	(1,637)	(1,681)
– unlisted	(29,079)	(13,396)
	<hr/>	<hr/>
	(296,552)	(136,312)
	<hr/>	<hr/>

16. BANK LOANS

As at 30 June 2019 and 31 December 2018, the bank loans were unsecured.

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Repayable details as follows:		
Within 1 year	6,400,435	3,501,739
After 1 year but within 5 years	8,296,067	10,684,234
	<u>14,696,502</u>	<u>14,185,973</u>

17. CREDITORS, DEPOSITS RECEIVED AND ACCRUED CHARGES

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Creditors, deposits received and accrued charges	<u>2,472,563</u>	<u>3,314,280</u>

As at 30 June 2019 and 31 December 2018, creditors, deposits received and accrued charges included bonus payable to staff.

18. BONDS PAYABLE

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
As at 1 January	11,840,010	12,414,675
Exchange rate adjustments	<u>96,390</u>	<u>(574,665)</u>
As at 30 June 2019/31 December 2018	<u>11,936,400</u>	<u>11,840,010</u>
Current liabilities	2,390,690	3,382,860
Non-current liabilities	<u>9,545,710</u>	<u>8,457,150</u>
	<u>11,936,400</u>	<u>11,840,010</u>

19. OTHER FINANCIAL LIABILITIES

	<i>Note</i>	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Current:			
Financial liabilities to third party investors	(a)	<u>389,992</u>	<u>241,019</u>
Non-current:			
Financial liabilities to third party investors	(a)	<u>4,249,778</u>	<u>4,353,828</u>

- (a) Included in the above are mainly balances arising from part of the Group's normal course of business. The Group set up investment funds that issue redeemable units to third party investors. The third party investors can redeem the invested units for cash after the end of the commitment period. The redeemable units held by third party investors were classified as other financial liabilities in the condensed consolidated statement of financial position.

20. MATURITY PROFILE

The maturity profile of the Group's certain financial instruments as at the end of the reporting period, based on the contractual discounted payments, is as follows:

As at 30 June 2019

	Indefinite HK\$'000	On demand HK\$'000	Less than 3 months HK\$'000	3 to less than 12 months HK\$'000	1 to 5 years HK\$'000	Over 5 years HK\$'000	Total HK\$'000
Assets							
- Advances to customers	-	177,737	398,359	28,841	1,005,008	-	1,609,945
- Trading securities	567,382	-	1,809,460	-	-	-	2,376,842
- Equity investments designated at fair value through other comprehensive income	6,811,846	-	-	-	-	-	6,811,846
- Financial assets at fair value through profit or loss	33,854,724	-	200,690	-	786,450	-	34,841,864
- Cash and cash equivalents	-	6,618,472	1,073,726	-	-	-	7,692,198
	<u>41,233,952</u>	<u>6,796,209</u>	<u>3,482,235</u>	<u>28,841</u>	<u>1,791,458</u>	<u>-</u>	<u>53,332,695</u>
Liabilities							
- Bank loans	-	-	(1,580,417)	(4,820,018)	(8,296,067)	-	(14,696,502)
- Other financial liabilities	-	(196,997)	-	(192,995)	(1,118,356)	(3,131,422)	(4,639,770)
- Trading securities	(279,103)	-	(17,449)	-	-	-	(296,552)
- Lease liabilities	-	-	-	(92,188)	(250,551)	(271,464)	(614,203)
- Bonds payable	-	-	(117,090)	(2,273,600)	(9,545,710)	-	(11,936,400)
- Notes payable	-	(27,000)	-	-	(30,000)	-	(57,000)
	<u>(279,103)</u>	<u>(223,997)</u>	<u>(1,714,956)</u>	<u>(7,378,801)</u>	<u>(19,240,684)</u>	<u>(3,402,886)</u>	<u>(32,240,427)</u>

As at 31 December 2018

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

21. SHARE CAPITAL

	30 June 2019		31 December 2018	
	No. of shares ('000)	HK\$'000	No. of shares ('000)	HK\$'000
Ordinary shares issued and fully paid:				
End of period/year	<u>1,685,254</u>	<u>9,618,097</u>	<u>1,685,254</u>	<u>9,618,097</u>

22. MATERIAL RELATED PARTY TRANSACTIONS

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

	1 January to 30 June 2019 HK\$'000	1 January to 30 June 2018 HK\$'000
Management fee income from:		
– a joint venture	482	785
– associates exempted from applying the equity method and was recognised as a financial asset at fair value through profit or loss	72,021	170,814
Bank interest income from a fellow subsidiary/a related party bank	57,071	6,263
Consultancy and other service income from an associate	878	7,291
Dividend income from:		
– associates exempted from applying the equity method and was recognised as a financial asset at fair value through profit or loss	303,287	225,343
– a fellow subsidiary/a related party bank	295,173	348,197
Bank loan interest expense to a fellow subsidiary/a related party bank	13,980	12,230
Consultancy fee to		
– an associate	12,073	12,807
– a shareholder	–	5,913

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

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Amounts due from associates (included in debtors, deposits and prepayments)	15,984	14,854
Bank deposits with a fellow subsidiary/a related party bank (include bank deposits in trust accounts)	4,462,541	5,504,761
Bank loans from a fellow subsidiary/a related party bank	(780,000)	–
Interests in collective investment schemes issued by an associate (included in financial assets at fair value through profit or loss)	3,126,890	2,837,261

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

Loans to associates exempted from applying the equity method and are recognised as a financial asset at fair value through profit or loss are secured, interest-bearing and have fixed repayment terms.

(c) **Transactions with other PRC state-owned entities**

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (“State-owned Entities”). Transactions with other State-owned Entities include but are not limited to: lending and deposit taking; insurance and redemption of bonds issued by other State-owned Entities; purchase, sale and leases of properties and other assets; and rendering and receiving of utilities and other services.

The Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

- (d) Certain related party transactions above constitute connected transaction or continuing connected transaction as defined in chapter 14A of the Listing Rules.

23. CONTINGENT LIABILITIES

Corporate guarantee

		30 June	31 December
		2019	2018
	<i>Note</i>	HK\$'000	HK\$'000
Guarantee given by the Company to financial institutions in respect of banking facilities granted to subsidiaries	<i>i</i>	<u>7,701,051</u>	<u>8,222,000</u>

Note:

- i. The Group's subsidiaries have utilised these banking facilities of HK\$7,193,038,000 as at 30 June 2019 (31 December 2018: HK\$6,217,871,000).

24. COMMITMENTS

(a) Capital commitments

As at 30 June 2019, the Group had capital commitments as follows:

	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Contracted but not provided for:		
– consolidated structured entities	2,789,390	2,506,990
– unlisted equity investments	–	358,862
– unconsolidated structured entities	4,883,994	5,995,328
	<u>7,673,384</u>	<u>8,861,180</u>

(b) Operating lease commitments

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

	31 December 2018 HK\$'000
Within 1 year	22,598
After 1 year but within 5 years	<u>17,881</u>
	<u>40,479</u>

(c) Off-balance sheet exposure

The fair values and the contractual or notional amounts of the Group's trading equity derivatives outstanding at 30 June 2019 are detailed as follows:

	Fair value assets/ (liabilities)		Contractual/ notional amounts	
	30 June 2019 HK\$'000	31 December 2018 HK\$'000	30 June 2019 HK\$'000	31 December 2018 HK\$'000
Asset derivative contracts	11,181	15,364	1,837,597	249,964
Liability derivative contracts	(30,716)	(15,077)	1,012,789	1,319,876
	<u>(19,535)</u>	<u>(15,077)</u>	<u>824,808</u>	<u>1,569,840</u>

The financial instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices of the underlying instruments relative to their terms.

Notional amounts of these financial instruments provide a basis for comparison with instruments recognised in the condensed consolidated statement of financial position but do not necessarily indicate the amount of future cash flows involved or the current fair value of the instruments and, therefore, are not a representation of the Group's exposure to the credit or price risks.

25. FINANCIAL INSTRUMENTS

Risk management is of fundamental importance to the business operation of the Group. The major types of risk inherent in the Group's business are credit risk, liquidity risk, interest rate risk, currency risk and equity price risk. The Group's risk management objective is to maximise shareholders' value and to reduce volatility in earnings while maintaining risk exposures within acceptable limits.

The Group's work in the area of risk management is led by the Chief Risk Officer and is executed by the Risk Management Department. This functional structure can assess, identify and document the Group's risk profile and to ensure that the business units focus, control and systematically avoid potential risks in various business areas. The following is a brief description of the Group's approach in managing these risks.

(a) Credit risk

The Group's credit risk is primarily attributable to advances to customers, trade and other receivables, debt investments and unlisted derivative financial instruments.

For advances to customers, the Group requires collateral from customers before advances are granted. The amount of advances permitted depends on the quality and value of collateral provided by the customer. Any subsequent change in value as well as quality of collateral is closely monitored in order to determine whether any corrective action is required.

Trade and other receivables mainly arise from the Group's investment activities. Receivables from brokers and counterparties are normally repayable on demand. The Group has established procedures in the selection of brokers/counterparties with sound credit ratings and/or reputation.

Investments in debt instruments and unlisted derivative financial instruments are also governed by whether the issuers and the trade counterparties respectively have sound credit ratings.

The Group has well defined policies in place on the setting and approval of trading, credit and investment position limits in order to manage its credit risk exposure and concentration. As at the end of the reporting period, the Group did not have a significant concentration of credit risk.

The maximum exposure to credit risk without taking into account any collateral held is represented by the carrying amount of each financial asset, including derivative financial instruments, at the end of the reporting period, deducting any impairment allowance.

(b) Liquidity risk

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

For subsidiaries with statutory liquidity requirements, the Group closely monitors their liquidity positions. To ensure strict compliance, the Group maintains adequate cash reserves to prepare for immediate fund injection if required. If there is a medium to long-term operational need, management would also consider adjusting those subsidiaries' capital structure. Subsidiaries with external equity stakeholders are generally responsible for their own liquidity management.

(c) Interest rate risk

The Group monitors its interest rate exposure regularly to ensure that the underlying risk is monitored within an acceptable range.

The Group's interest rate positions arise from treasury and operating activities. Interest rate risk arises from treasury management, customer financing and investment portfolios. Interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. Interest rate risk is managed by the Finance and Accounting Department under the delegated authority of the Board of Directors and is monitored by the Risk Management Department. The instruments used to manage interest rate risk include time deposits and interest rate linked derivatives, if necessary.

The Group is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. In respect of the Group's interest-bearing financial instruments, the Group's policy is to mainly transact in financial instruments that mature or reprice in the short to medium term. Accordingly, the Group would be subject to limited exposure to fair value or cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates.

(d) Currency risk

The Group's exposure to currency risk primarily stems from holdings of monetary assets and liabilities denominated in foreign currencies, other than Hong Kong dollars and net investment in foreign operations. As most of the Group's monetary assets and liabilities and net investment in foreign operations are denominated in Hong Kong dollars, Renminbi, United States dollars and Singapore dollars, management is aware of the likely increase in volatility in these currencies and takes a balanced view when considering the management of currency risk.

Overall, the Group monitors its currency exposure closely and would consider hedging significant currency exposure should the need arise.

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 15), equity investments designated at fair value through other comprehensive income (see note 11) and financial assets at fair value through profit or loss (see note 12). Other than unlisted securities held for medium to long-term strategic purposes, most of these investments are listed.

The Group's investments in listed equity instruments are mainly listed on the Stock Exchange of Hong Kong, the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Decisions to buy or sell trading securities rest with assigned investment team professionals and each investment portfolio is governed by specific investment and risk management guidelines. Independent daily monitoring of each portfolio against the corresponding guidelines is carried out by the Risk Management Department. Listed equity investments held in the equity investments designated at fair value through other comprehensive income and financial assets at fair value through profit or loss portfolio have been chosen based on their medium to long-term growth potential and are monitored regularly for performance against expectations.

The performance of the Group's investments in unquoted equity instruments is assessed periodically, based on the information available to the Group.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair Value Measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

The Group uses professional independent valuers to perform valuations of certain financial instruments, including financial assets at fair value through profit or loss which are categorised into Level 3 of the fair value hierarchy. The professional valuer reports directly to the Chief Financial Officer, Chief Risk Officer and the Audit and Risk Management Committee. Valuation reports with analysis of changes in fair value measurement are prepared by the professional valuers at each interim and annual reporting date, and are reviewed and approved by the Chief Financial Officer, Chief Risk Officer and the Audit and Risk Management Committee. Discussion of the valuation process and results with the Chief Financial Officer and the Audit and Risk Management Committee is held twice a year to coincide with the reporting dates.

In addition to the above valuer, the Group also takes reference to the valuation reports performed by other professional valuers to ascertain the fair values of certain investments with underlying interests in real estate investments and some other private equity investments.

As at 30 June 2019

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Recurring fair value measurement				
Assets				
Equity investments designated at fair value through other comprehensive income:				
– Listed equity securities	6,811,846	–	–	6,811,846
Financial assets at fair value through profit or loss:				
– Listed equity securities	1,932,214	–	848,106	2,780,320
– Unlisted equity securities/collective investment schemes	–	–	26,612,315	26,612,315
– Unlisted convertible preference shares	–	–	4,630,037	4,630,037
– Unlisted debt securities	–	–	819,192	819,192
	<u>1,932,214</u>	<u>–</u>	<u>32,909,650</u>	<u>34,841,864</u>
Trading securities:				
– Listed equity securities	556,201	–	–	556,201
– Listed debt securities	1,665,872	–	–	1,665,872
– Unlisted debt securities	–	143,588	–	143,588
– Listed derivatives	–	779	–	779
– Unlisted derivatives	–	10,402	–	10,402
	<u>2,222,073</u>	<u>154,769</u>	<u>–</u>	<u>2,376,842</u>
	<u>10,966,133</u>	<u>154,769</u>	<u>32,909,650</u>	<u>44,030,552</u>
Liabilities				
Trading securities:				
– Listed equity securities	(248,387)	–	–	(248,387)
– Listed debt securities	(17,449)	–	–	(17,449)
– Listed derivatives	–	(1,637)	–	(1,637)
– Unlisted derivatives	–	(29,079)	–	(29,079)
	<u>(265,836)</u>	<u>(30,716)</u>	<u>–</u>	<u>(296,552)</u>

As at 31 December 2018

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

During the period ended 30 June 2019, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets.

As at 31 December 2018, five of the financial assets at fair value through profit or loss with fair values of HK\$121,318,000, HK\$75,988,000, HK\$348,814,000, HK\$758,505,000 and HK\$184,279,000 were previously determined to be Level 3 under the fair value hierarchy using a valuation technique that used significant unobservable inputs. As unadjusted quoted prices are available in the active market, the fair value measurement of these equity securities were accordingly transferred from Level 3 to Level 1 of the fair value hierarchy.

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

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of listed and unlisted debt securities and derivatives in Level 2 is determined using broker quotes. The fair value of an unlisted investment fund in Level 2 is determined by the net asset value of the investment fund.

Information about Level 3 fair value measurements

As at 30 June 2019

Valuation techniques	Significant unobservable inputs	Range	Increase/(decrease) in unobservable inputs	Favourable/ (unfavourable) impact on profit or loss HK\$'000
Market comparable companies	Discount for lack of marketability	20% to 30%	5% (5%)	(25,933) 25,933
	Market multiples	1.1 to 25.3	5% (5%)	75,073 (75,073)
Binomial model and equity allocation model	Discount rate	12.69% to 13.40%	5% (5%)	(3,755) 3,813
	Volatility	26.25% to 61.21%	5% (5%)	(5,275) 4,099
Put option model	Discount for lack of marketability for restricted shares	9.81% to 11.67%	5% (5%)	(5,166) 5,166

As at 31 December 2018

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

Other than using the recent transaction approach as the valuation technique in determining the fair value of level 3 financial instruments, the valuation techniques in estimating the fair value of other financial instruments are described as follows:

The fair value of unquoted equity investments is estimated using an appropriate combination of:

- (1) making reference to capital statements, management information and valuation reports provided by third parties,
- (2) deducing from prices recently paid for similar assets, quoted market prices in active markets and the financial indicators of the transacted assets such as net book value and net operating profit; and
- (3) applying, if possible, price to earnings (“P/E”) ratios, price to book (“P/B”) ratios, enterprise value to earnings before interest, taxes, depreciation and amortisation (“EV/EBITDA”) ratios and enterprise value to sales (“EV/Sales”) ratios for similar listed companies adjusted to reflect the specific circumstances of the investments.

The Group has certain shares listed on the Shanghai Stock Exchange and Shenzhen Stock Exchange, which are subject to restriction on sales for defined periods. The fair value measurement reflected the effect of such restriction with an adjustment to the quoted price of otherwise similar but unrestricted securities and the adjustment was referenced to put option models.

The fair value of preference shares and debt securities are estimated using the equity allocation model and discounted future cash flows respectively. Future cash flows are estimated based on management's best estimate of the amount it would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions. The discount rate used is a market rate for a similar instrument at the end of the reporting period. The fair value of an option contract is determined by applying an option valuation model such as the Black-Scholes valuation model. Inputs are based on market related data at the end of the reporting period.

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

	Financial assets at fair value through profit or loss				
	Listed equity securities HK\$'000	Unlisted equity securities/ collective investment schemes HK\$'000	Unlisted convertible preference shares HK\$'000	Unlisted debt securities HK\$'000	Total HK\$'000
As at 1 January 2018	1,304,625	22,785,371	2,008,098	1,867,744	27,965,838
Purchased	378,808	7,868,266	1,362,525	1,209,368	10,818,967
Net realised and unrealised gain/(loss) recognised in profit or loss	518,308	2,431,140	1,265,111	(683,339)	3,531,220
Conversion	–	232,422	236,470	(468,892)	–
Sold	(634,782)	(3,999,506)	(79,787)	(854,177)	(5,568,252)
Reclassification	(1,156,452)	(445,014)	(163,477)	163,477	(1,601,466)
As at 31 December 2018 and 1 January 2019	410,507	28,872,679	4,628,940	1,234,181	35,146,307
Purchased	–	817,601	1,240,728	274,680	2,333,009
Net realised and unrealised gain/(loss) recognised in profit or loss	96,783	(141,400)	251,223	(224,576)	(17,970)
Sold	–	(2,495,800)	(324,755)	(470,858)	(3,291,413)
Reclassification	340,816	(440,765)	(1,166,099)	5,765	(1,260,283)
At 30 June 2019	848,106	26,612,315	4,630,037	819,192	32,909,650

27. SEGMENT INFORMATION

The Group manages and conducts the majority of its business activities by business units. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments:

Fund Management Business

Fund management business refers that the Group raises funds from external investors and deploys the Group's seed capital into specific clients, applies its professional knowledge and experience to make investment decisions on the capital according to laws, regulations and the fund's prospectus, while seeking to maximise gains for investors. The fund management business is comprised of primary market investment, secondary market investment, Fund of Funds ("FoF") and Wealth Management.

- Primary market investment includes:
 - Private equity funds – investment in unlisted equity securities and/or equity derivatives with meaningful equity position for participating in the ongoing management of these companies, and with an ultimate objective of capital gain on investee's equity listing or through other exit channels;
 - Venture capital funds – invest primarily in companies at the start-up and development stage, or companies which are still in the business planning stage. The investment goal is to achieve a higher return assuming manageable and higher risk by providing investee companies with assistance in investment, financing, management and listing in order to enhance the development of such companies;
 - Sector focus funds – focus specifically on long-term equity investment in specific industries or merger and acquisition opportunities. The investment areas include real estate, infrastructure, medical and healthcare, resources assets (including low carbon and new energy industries), manufacturing, technology, media and telecom ("TMT") as well as merger and acquisition opportunities;
 - Mezzanine funds – focus on private equity investment, pre-IPO financing and structured financing for listed companies and major shareholders of listed companies. It uses foreign currencies and/or renminbi flexibly to fulfill the onshore and offshore financial needs of its target companies. The investment team follows clear, uncomplicated investment philosophies by adopting a conservative, diversified and flexible investment approach that aims for above-market returns on investment with below-average levels of business risk; and
 - Overseas investment funds – The Group's overseas investment funds leverage on the Group's business resources and networks, and expect to provide value-added support for investee companies outside China. In particular, the overseas investment funds plan to introduce its portfolio companies' products and technologies to the enormous Chinese market so as to create and enhance the value of the portfolio companies, and ultimately create investment returns to investors.

- Secondary market investment – provides a diversified range of financial services, including asset management, investment management and investment advisory activities. Products include absolute return funds, bond funds and equity funds.
- Fund of Funds investment or “FoF” – FoF invested in both funds initiated and managed by the Group as well as external funds with proven track records of performance and governance. FoF can provide one-stop solution that offers liquidity and potential returns for mega-size institutions.
- Wealth Management – Everbright Prestige has become an important carrier and business platform for the Group’s asset management business in mainland China. It engages in asset management for specific clients and other business activities authorised by the China Securities Regulatory Commission. The business can provide advisory services directly to specific customers including Qualified Foreign Institutional Investors (“QFII”), onshore insurance companies and other institutions which are set up and operate according to the law. Everbright Prestige demonstrate its value in four areas including assets under management contribution, product creation and design, distribution channels and client consolidation, and the creation of more “Everbright” synergy.

Principal Investments Business

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

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

Business segments

For the six months period ended 30 June 2019:

	Continuing operations							Discontinued	Total	
	Fund Management Business				Principal Investments Business			operations		
	Primary Market HK\$'000	Secondary Market HK\$'000	Fund of Funds HK\$'000	Wealth Management HK\$'000	Strategic Industry		Reportable segments total HK\$'000	HK\$'000		
					Platform Investments HK\$'000	Financial Investments HK\$'000				Cornerstone Investments HK\$'000
INCOME										
Operating income from external customers	433,438	393,696	65,452	-	-	159,450	295,173	1,347,209	-	1,347,209
Other net income from external customers	39,915	(4,630)	25,958	-	97,493	470,164	-	628,900	-	628,900
Total operating income and other net income	473,353	389,066	91,410	-	97,493	629,614	295,173	1,976,109	-	1,976,109
RESULTS AND RECONCILIATION OF SEGMENT RESULTS										
Segment results before non-controlling interests	302,278	332,326	76,870	(410)	69,602	551,204	295,173	1,627,043	-	1,627,043
Unallocated head office and corporate expenses										(746,527)
Share of profits less losses of associates	195,689	-	-	-	110,345	9,345	396,118	711,497	-	711,497
Share of profits less losses of joint ventures	40,512	-	-	31,511	-	-	-	72,023	-	72,023
Profit before taxation										<u>1,664,036</u>
Less: Non-controlling interests	(13,042)	(60,081)	-	-	-	29,980	-	(43,143)	-	
Segment results	<u>525,437</u>	<u>272,245</u>	<u>76,870</u>	<u>31,101</u>	<u>179,947</u>	<u>590,529</u>	<u>691,291</u>	<u>2,367,420</u>	-	

For the six months period ended 30 June 2018 (Restated):

	Continuing operations								Discontinued operations	Total	
	Fund Management Business				Principal Investments Business				Reportable segments total		HKS'000
	Primary Market	Secondary Market	Fund of Funds	Wealth Management	Strategic Industry Platform Investments	Financial Investments	Cornerstone Investments	HKS'000			
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
INCOME											
Operating income from external customers	457,432	23,618	5,488	-	-	304,055	348,197	1,138,790	-	1,138,790	
Other net income from external customers	1,191,115	(97,264)	37,775	-	(14,576)	325,796	88,631	1,531,477	-	1,531,477	
Total operating income and other net income	1,648,547	(73,646)	43,263	-	(14,576)	629,851	436,828	2,670,267	-	2,670,267	
RESULTS AND RECONCILIATION OF SEGMENT RESULTS											
Segment results before non-controlling interests	1,539,366	(142,146)	36,865	-	(14,576)	581,577	436,828	2,437,914	6,775	2,444,689	
Unallocated head office and corporate expenses										(675,818)	
Share of profits less losses of associates	28,859	-	-	-	100,679	7,201	270,980	407,719	-	407,719	
Share of profits less losses of joint ventures	57,263	-	-	44,127	-	-	-	101,390	-	101,390	
Profit before taxation										2,277,980	
Less: Non-controlling interests	(102,333)	(279)	-	-	-	(3,345)	-	(105,957)	-		
Segment results	1,523,155	(142,425)	36,865	44,127	86,103	585,433	707,808	2,841,066	6,775		

Other information

As at 30 June 2019:

	Continuing operations								Discontinued operations	Total
	Fund Management Business				Principal Investments Business					
	Primary Market	Secondary Market	Fund of Funds	Wealth Management	Strategic Industry			Reportable segments total		
					Platform Investments	Financial Investments	Cornerstone Investments			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment assets	22,321,263	4,723,312	5,087,615	-	2,982,620	14,572,824	6,811,846	56,499,480	8,451,777	64,951,257
Investments in associates	3,864,878	-	-	-	1,401,435	1,287,017	11,758,327	18,311,657	-	18,311,657
Investments in joint ventures	308,005	-	-	793,576	-	-	-	1,101,581	-	1,101,581
Finance lease receivables	-	-	-	-	-	56,840	-	56,840	-	56,840
Unallocated head office and corporate assets										420,586
Total assets										<u>84,841,921</u>
Segment liabilities	2,807,947	1,021,290	2,242,523	-	614,037	808,743	-	7,494,540	5,212,644	12,707,184
Unallocated head office and corporate liabilities										27,218,450
Provision for taxation										407,327
Deferred tax liabilities										1,548,865
Total liabilities										<u>41,881,826</u>

As at 31 December 2018 (Restated):

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

Geographical segments

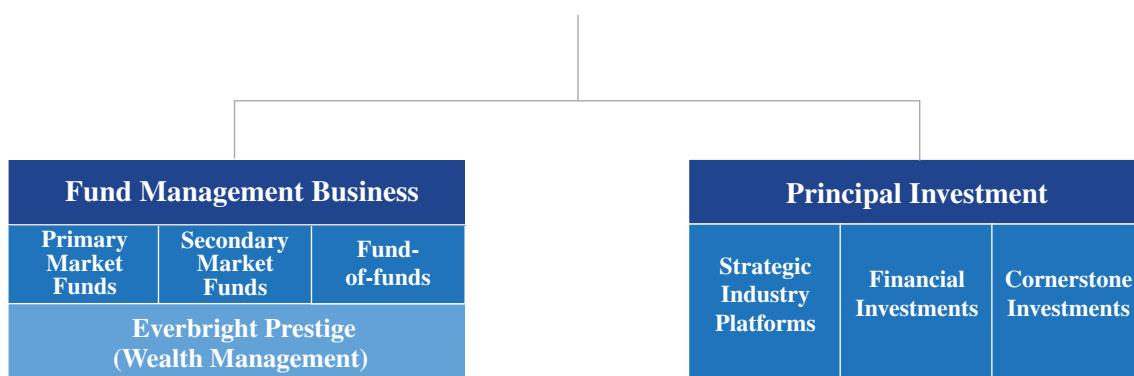
The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, investment properties and right-of-use assets, interests in associates and joint ventures ("Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided. The geographical location of the Specified non-current assets is based on the physical locations of the assets. For interests in associates and joint ventures, the geographical location is based on the locations of operations.

	For the six months period ended			For the six months period ended		
	30 June 2019			30 June 2018		
	Hong Kong and others HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong and others HK\$'000	Mainland China HK\$'000	Total HK\$'000
Segment income						
Operating income	711,825	635,384	1,347,209	559,482	579,308	1,138,790
Other net income	(73,938)	702,838	628,900	136,806	1,394,671	1,531,477
	<u>637,887</u>	<u>1,338,222</u>	<u>1,976,109</u>	<u>696,288</u>	<u>1,973,979</u>	<u>2,670,267</u>
	30 June 2019			31 December 2018		
	Hong Kong and others HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong and others HK\$'000	Mainland China HK\$'000	Total HK\$'000
Specified non-current assets	<u>3,018,120</u>	<u>17,878,949</u>	<u>20,897,069</u>	<u>3,020,213</u>	<u>16,929,239</u>	<u>19,949,452</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

China Everbright Limited (“CEL”, or “the Group”) is China’s leading cross-border asset management and investment company with over 20 years’ experience. As at 30 June 2019, the Group managed 64 funds with assets under management of HK\$145.4 billion. The Group’s products include primary market funds, secondary market funds, Fund-of-funds (“FoFs”) and wealth management products, among others, to make use of capital to foster economic and corporate development, creating ample global investment opportunities for both Chinese and overseas investors. Meanwhile, CEL utilises the strength of its capital to invest in and cultivate multiple strategic industry platforms, make financial investments and cornerstone investments, in order to foster the further growth of its fund management business.



- Fund products include primary market funds (including real estate industry platform), secondary market funds, FoFs, wealth management products and so on
- Both USD and RMB-denominated products are available
- Invest in both China domestic and international markets

- Focus on aircraft leasing, artificial intelligence and the Internet of Things (AIoT) and the elderly care industry platforms
- Financial investments in equity, debts and structured products with principal investments
- Cornerstone investments in China Everbright Bank and Everbright Securities

Macro-economic and Industry Review

In the first half of 2019, the global economy kept experiencing weakness which began since June of last year. In particular, as the stimulative effect on consumer spending arising from the tax-cut diminishes, the once relatively outperforming US economy has shown a slowdown, showing its GDP growth rate falling to 2.1% in the second quarter, dropping manufacturing PMI over three consecutive months and the volatile US Consumer Confidence Index with a steep inverted yield curve. The rising risk of recession in the US, coupled with the intensifying US-China trade conflict, has heightened uncertainty in the global economic system, leading to a synchronised slowdown among the major global economies. Central banks around the world have begun adjusting interest rates in an attempt to proactively reduce the risks of recession since the beginning of the year. In January 2019, the US Federal Reserve (the “Fed”) was the first to signal an end to interest rate hikes. On 1 August, the Fed announced a 25-basis point cut in the federal funds rate and the end of balance sheet runoff in September. The Fed is also open to further rate cut. Considering the risk of economic recession, Hong Kong has also cut the base lending rate for the first time since the rate cut cycle, which began from the subprime crisis in 2008.

Economic growth in mainland China continued to face downward pressure in the first half of the year. In light of a combination of uncertainties brought about by the escalation of external tensions, the Chinese government has, on the one hand, implemented a sound and appropriately loose monetary policy with complementing fiscal measures and strengthened counter-cyclical adjustment, while on the other hand, continued to promote a new round of investment policies that welcome foreign investment and upgrade the economic structural reform by increasing investment in and support towards the domestic manufacturing industry. Despite downward pressure, economic growth in China remained stable by maintaining a year-on-year GDP growth rate within an appropriate range at 6.3%, which is 0.3% lower than that of 2018.

Against a toughening environment under the dual influences of macro-economic environment and industry policies, the fundraising environment in China’s private equity industry remains challenging. According to WIND, the total amount of private equity fundraising in China market from January to June 2019 was RMB101.4 billion, representing a decrease of 89% compared with the same period last year. Meanwhile, investment has also contracted as a result of cautious sentiment, with new investment of RMB310.9 billion recorded from January to June 2019, representing a decrease of 52% year-on-year. In the first half of the year, the private equity industry completed divestment of RMB156 billion, triple the amount of the same period last year. The industry’s overall preference for “divestment acceleration” is correlated to the current trend of tightening liquidity among investment institutions and enterprises, as well as the decline of investment projects’ valuations.

As China's leading cross-border asset management company, CEL continues to pay close attention to the value investing opportunities within China's shifting landscape and that of the global economy, as well as within the evolution in international division of labors among business sectors. Despite the tumultuous investment environment in the first half of the year, CEL has maintained a prudent approach, strictly adhering to its strategy of "examining the situation carefully and divesting in an orderly manner; investing with caution and acute judgement; and striving to create synergies and to enhance fundraising". Under the guidance of its parent company China Everbright Group Ltd. ("China Everbright Group"), CEL has increased its synergistic coordination, strengthened its management capabilities, and reinforced its investment footprint in strategic and emerging industries, maintaining the Group's overall steady and orderly trajectory of growth.

2019 Interim Business Highlights

In the first half of 2019, despite the private equity industry facing a macroeconomic downturn, a difficult fundraising environment and decreasing project valuation amongst other challenges, the Group analysed situations, made timely adjustments to its fundraising, investment and divestment strategies, maintained strict risk controls, and focused resources and business development on industries and platforms where the Group has a comparative advantage. Business highlights during the first half of the year were as follows:

First, the Group successfully adapted to market changes by adjusting its fundraising strategy with continued improvements in its fundraising abilities. During the first half of 2019, despite the backdrop of shrinking fundraising scale in the equity market, the Group's fundraising scale continued to grow. By the end of June 2019, the total assets under management (AUM) (Note 1) of CEL's funds was HK\$145.4 billion, increased by HK\$1.9 billion as compared to the end of 2018. The Group has made improvements to its ability to raise cross border funds from large international institutions, of which CEL New Economy USD Fund and Everbright Overseas Infrastructure Investment Fund successfully raised close to a total of US\$100 million from two world renowned financial institutions.

Note 1: Assets under management refers to the committed capital of fund investors (including CEL as an investor)

Second, the proportion of fund management fees and relating income increased, with income stability continuing to increase. As at the end of June 2019, the Group's AUM grew around 5% compared to the end of June 2018. Based on the Group's management perspective, in the first half of 2019, Earned Management Fee Income (Note 2) of HK\$486 million represented a rise of 26% compared with the HK\$385 million Earned Management Fee Income over the same period last year. Considering that the management fee income for private equity investment fund lags behind the growth of fund size, the rise in management and performance fees brought about by the rapid growth of fund size over the past few years has begun to emerge and increase the Group's income stability.

Third, in keeping with market trends, product innovation capabilities were constantly enhanced. In the face of a fast-changing market environment, CEL swiftly caught on to changes occurring in the market. EBA Investments successfully issued RMB10 billion worth of shelf-registered commercial REITs, representing the first tranche of "EBAM-EBA Investments Commercial Real Estate ABS for Phase I of Jing'an IMIX Park" products, the first such shelf-registered commercial REITs issued in mainland China. The size of the product issuance was RMB4.3 billion, attracting overwhelming subscriptions from various kinds of investors, including commercial banks, insurance institutions and securities companies.

Note 2: For the purpose of resource allocation and business performance evaluation, the management of the Group adopts "Earned Management Fee Income" as an additional financial measurement index. Earned Management Fee Income refers to the management fee income received from the funds by the Group as a fund manager in accordance with relevant fund management agreements. The Earned Management Fee Income calculated by the Group has major adjustment items compared to the figures calculated in accordance with the Hong Kong Financial Reporting Standards, which mainly include: (i) for some funds, the Group acts as the fund manager, and also invested as the fund's major limited partners, these fund managers and funds are consolidated in the Group's consolidated financial statements, the management fee expenses paid by the fund and management fee income received by the fund managers would be eliminated on consolidation; (ii) the Group acts as the joint fund manager through the establishment of a joint venture company with a third party, and the management fees collected by such joint venture company shall be calculated according to the Group's share of profits from the joint venture company; (iii) Everbright Jiabao, an associate of the Group, holds 51% interest of EBA Investments. The Group holds the remaining 49% interest of EBA Investments through another subsidiary and is recognised as financial assets. The management fee income of EBA Investments is reflected in share of profits of associates of the Group. Earned Management Fee Income is non-HKFRS measure used by management of the Group for monitoring business and financial performance. It may not be comparable to similar measure presented by other companies.

Fourth, investment projects were strictly selected and divestment was accelerated to secure investment returns for the best interests of shareholders and fund investors. In view of market uncertainty, CEL slowed down its pace of investment except for those made for strategic industry platforms in the first half of 2019. The amount invested by CEL during the period under review was about HK\$3.2 billion, decreased by 63% compared to the same period last year. At the same time, CEL's management assessed the overall environment in a timely manner and made acute judgement on accelerating divestments, CEL recorded about HK\$4.8 billion cash returns by divesting projects such as EBA Investment Shanghai Hutai Road Real Estate Project, multiple structure financing projects, Beijing Genomics Institute under Everbright Medical and Healthcare Fund I, e-commerce operator Wish under CEL New Economy USD Fund and semi-conductor manufacturer Aquantia under Walden CEL Global Fund I. In the first half of 2019, CEL recorded an income of HK\$797 million in realised gain on projects divestment, increased by 24% compared to the same period last year.

Fifth, making more sector-focused investments and diverting resources to the four key industry platforms. In the first half of 2019, CEL diverted more resources on the four key industry platforms, namely aircraft leasing, AIoT, elderly care and real estate (Note 3), to further optimise its business model to boost business development. During the period under review, the fleet size of China Aircraft Leasing Group Holdings Limited ("CALC", listed on Hong Kong Stock Exchange, stock code: 1848) continued to increase while making remarkable progress in the infrastructure of its post-aircraft-leasing and full value chain businesses. The AIoT platform Chongqing Terminus Technology Co., Ltd. ("Terminus"), incubated by CEL, experienced rapid growth and has become a benchmark company in the industry. CEL increased its investment in elderly care. In the first half of 2019, CEL completed the business restructuring process for its two elderly care brands, "Everbright Huichen" and "Everbright Enjoy Twilight Years", with a constant increase in the number of elderly care centres and bed numbers. CEL's associated company, Everbright Jiabao Co., Ltd. ("Everbright Jiabao", listed on Shanghai Stock Exchange, stock code: 600622) and its subsidiary EBA Investments continued to develop steadily. The real estate fund managed by EBA Investments has been ranking first place in the "Top 10 Funds in terms of Comprehensive Strength among China Real Estate Funds" for a fifth consecutive year, consolidating its leadership position in the market.

Sixth, stringent overall risk controls and project management. Since 2018, CEL has strictly controlled its gearing ratio, strengthened its risk controls on liquidity and maintained all of its risk related parameters at a steady level. CEL conducts systematic and constant risk monitoring on its existing funds and investment projects. In the first half of 2019, there were no major risk incidents, and the investment risk was in general under control.

Note 3: In which, EBA Investments is the real estate industry platform under the fund management business

FINANCIAL PERFORMANCE IN THE FIRST HALF OF 2019

1. Revenue

CEL's income is mainly derived from fees, such as management fees from the fund management business as well as performance and consultancy fees, and investment-related income such as interest and dividends from its investment projects, investment income from trading securities, capital gains from investment, and share of profits of associates/joint ventures.

During the reporting period, CEL's total income amounted to HK\$2.76 billion, representing a decrease of 13% or HK\$426 million compared with the same period last year. Fee-related income and interest and dividend income remained stable during the reporting period. The realised capital gains from divested projects increased by HK\$273 million compared with the same period last year. However, due to factors such as the basis of valuation, unrealised capital gains experienced a year-on-year drop of HK\$814 million compared with the same period last year, while share of profits from associates/joint ventures increased by HK\$275 million over the same period last year.

	2019 1H HK\$ million	2018 1H HK\$ million	Change
Key Income Items			
Total income (Note 4)	2,760	3,186	(13%)
Operating income, which mainly includes:	1,347	1,139	18%
– Management fee income	182	133	37%
– Performance & consultancy fee income	47	137	(66%)
– Interest income	204	239	(15%)
– Dividend income	688	706	(3%)
– Capital gains on trading securities (realised gain/loss)	154	36	>100%
– Capital gains on trading securities (unrealised gain/loss)	68	(114)	N/A
Other net income, which mainly includes:	629	1,531	(59%)
– Capital gains (realised gain/loss)	797	642	24%
– Capital gains (unrealised gain/loss)	(173)	823	N/A
Share of profits less losses of associates	712	408	75%
Share of profits less losses of joint ventures	72	101	(29%)
Profit from disposal group held for sale	–	7	N/A

Note 4: Total income is calculated as: Operating income + other net income + share of profits less losses of associates + share of profits less losses of joint ventures + profit from disposal group held for sale

- (1) The fund management business is one of the Group's core business segments. In recent years, the AUM of the Group's funds has continued to expand. In the first half of 2019, management fees income was HK\$182 million, increased by 37% compared with the same period last year. If based on the Group's management perspective, the Earned Management Fee Income of its funds reached HK\$486 million, representing an increase of 26% compared with the same period last year.

The details of Earned Management Fee Income are listed as follows:

	2019 1H	2018 1H	2017 1H	Change between the first half of 2019 and 2018	Change between the first half of 2018 and 2017
	HK\$ million	HK\$ million	HK\$ million		
Earned Management Fee Income	486	385	344	26%	12%
Divided by business segment:					
– Primary Market Funds	345	310	290	11%	7%
– Secondary Market Funds	50	68	48	(26%)	42%
– Fund of Funds	91	7	6	>100%	17%

- (2) Interest income and dividend income are income generated by the Group's investment in equity and debt. Interest income mainly includes interest income generated by structured financing business under the principal investment business segment while dividend income mainly includes the dividend contribution from China Everbright Bank and projects under EBA Investments. In the first half of 2019, interest income and dividend income totalled HK\$892 million, reflecting a decrease of HK\$53 million or 6% compared with the same period last year. The dividend income from China Everbright Bank decreased by HK\$53 million during the reporting period which was the main reason for the slight decline in this income.

- (3) The capital gains on trading securities mainly include capital gains realised by the Group's investment in secondary market stocks and bond exchanges through secondary market funds, and unrealised capital gains from marking to market prices. During the reporting period, the Group seized favorable market opportunities, and achieved a realised gain of HK\$154 million and unrealised gain of HK\$68 million, totalling HK\$222 million, compared with the net loss of HK\$78 million in the same period last year.
- (4) Other net income mainly comprises the Group's capital gain through primary market funds or the direct investment in other non-listed company equity and other financial assets, including net income from divested projects and the valuation movement of the non-divested projects. In the first half of 2019, the Group accelerated project divestment, realising net income of project divestment of HK\$797 million, up 24% compared with same period last year. On the other hand, due to the fierce volatility of the capital market, the primary market's new financing activities are less active. Moreover, the valuation parameters in general have retreated. These factors result in the decreasing trend of the Group's project valuation. In addition, considering the valuation impact accumulated before the divestment, the unrealised gain in prior years has been offset by the changes in unrealised gain/loss during the period upon project divestment. Therefore, in the first half of 2019, the increase in divested projects has resulted in corresponding increase in unrealised loss. Affected by the two factors shown above, the unrealised loss in the first half of 2019 was HK\$173 million, while the unrealised gain in the same period last year was HK\$823 million.

2. Profit

The interim profit attributed to shareholders of the Company in the first half of 2019 was HK\$1,279 million, representing a 34% decrease compared with the same period last year. The profit from fund management business decreased by 38% compared with the same period last year, mainly due to the lack of unrealised capital gains. The profit from the principal investment business rose slightly by 6%, mainly due to the increase in unrealised capital gains from strategic industry platform investments.

The Board of Directors declared an interim dividend of HK\$0.25 per share (HK\$0.26 per share for the same period last year). The dividend payout ratio was 33%, representing an increase of 10ppt compared to 23% in the first half of 2018.

	2019 1H	2018 1H	Change
	HK\$ million	HK\$ million	
Profit in Key Business Segments			
Profit attributable to equity shareholders of the Company	1,279	1,940	(34%)
Profit on Fund Management business	905	1,462	(38%)
Profit on Principal Investment business:	1,462	1,386	6%
– Strategic industry platform investments	180	86	>100%
– Financial investments	591	592	–
– Cornerstone investments	691	708	(2%)
Less: Unallocated corporate expenses and taxes	(1,088)	(908)	20%
	2019 1H	2018 1H	Change
	HK\$	HK\$	
	per share	per share	
Earning per share	0.76	1.15	(34%)
Interim dividend per share	0.25	0.26	(4%)
Dividend payout ratio	33%	23%	+10ppt

3. Other Key Financial Ratios

During the period under review, CEL's operating costs totalled HK\$513 million with an operating cost-to-income ratio of 18.6%, indicating a decrease of 0.7 ppt from the previous year. As of 30 June 2019, interest-bearing debt amounted to HK\$26.7 billion, with the gearing ratio dropping from 63.0% at the end of last year to 62.1%, maintaining at a healthy level. The current ratio increased by 16 ppt from 117% at the end of last year to 133%, showing improved liquidity.

	2019 1H	The end of 2018	Change ppt
Key financial ratios			
Operating cost-to-income ratio (Note 5)	18.6%	19.3%	(0.7)
Gearing ratio (Note 6)	62.1%	63.0%	(0.9)
Current ratio (Note 7)	133%	117%	16

Note 5: Operating cost-to-income ratio is calculated as (staff costs + depreciation and amortisation expenses + operating expenses)/total income

Note 6: The gearing ratio is calculated as interest-bearing debt/total equity

Note 7: The current ratio is calculated as current assets/current liabilities

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

BUSINESS PERFORMANCE IN THE FIRST HALF OF 2019

1. Fund Management Business

As at the end of June 2019, the total AUM under the funds managed by the Group was HK\$145.4 billion. The newly raised fund amount was HK\$1.9 billion compared to the end of 2018, mainly contributed by the primary market funds CEL New Economy USD Fund, Everbright Overseas Infrastructure Investment Fund, Mezzanine Fund, as well as the US fixed income funds under the secondary market funds. Part of the increase was offset by the depreciation of RMB and the redemption took place in the secondary market funds. Fund investors are mainly institutional investors, including commercial banks, insurance institutions, family offices and government institutions, etc. of which, external investors accounted for approximately 75.9% and seed capital from CEL accounted for approximately 24.1%, with a slight drop in seed capital ratio compared with the beginning of the year.

During the first half of 2019, total income from the Group's fund management business amounted to HK\$1,222 million, representing a 30% decrease compared with the same period last year. The drop was mainly due to the decrease in the valuation gains of the projects, the unrealised capital gains decreased from a net income of HK\$490 million in the same period last year to a net loss of HK\$204 million in the first half of 2019. The management fee income reached HK\$182 million in the first half of 2019, increased by 37% compared with the same period last year. The Earned Management Fee Income from management perspective was HK\$486 million, representing an increase of 26% compared with the same period last year. CEL's share of profit from Everbright Jiabao was HK\$196 million, representing a rise of over 100% compared with the same period last year. Share of profit from Everbright Prestige was HK\$32 million, decreased by 27% from HK\$44 million for the same period last year.

	2019 1H	2018 1H	Change
	HK\$ million	HK\$ million	
Key Income from Fund Management Business			
Total Income, mainly include the below items:	1,222	1,748	(30%)
– Management fee income	182	133	37%
– Performance and consultancy fee income	33	43	(23%)
– Interest income	93	86	8%
– Dividend income	363	302	20%
– Capital gain on securities trading (realised gain/loss)	154	36	>100%
– Capital gain on securities trading (unrealised gain/loss)	68	(114)	N/A
– Capital gain (realised gain/loss)	332	521	(36%)
– Capital gain (unrealised gain/loss)	(272)	604	N/A
– Share of profit from Everbright Jiabao (Investments in associates) (Note 8)	196	29	>100%
– Share of profit from Everbright Prestige (Investments in associates)	32	44	(27%)

Note 8: The Group became the largest shareholder of Everbright Jiabao through acquisition, and Everbright Jiabao is currently being accounted for as an associate of the Group. The performance of Everbright Jiabao has been adjusted according to the fair value of the net identifiable assets at the time of acquisition

1.1 Primary Market Funds

CEL's primary market funds focused on investing in unlisted equities and debts with growth potentials in mainland China and overseas. As at 30 June 2019, the AUM under primary market funds totalled HK\$107 billion, with 34 primary market funds and 167 post-investment projects under management.

With regard to fundraising, CEL continues to enhance its ability to raise fund from cross-border large overseas institutions. During the period under review, CEL New Economy USD Fund and Everbright Overseas Infrastructure Investment Fund introduced several well-known global investment institutions as limited partners in the funds.

In terms of investment, CEL took a cautious stance by slowing down fund investment in order to preserve cash. During the period under review, the total amount invested by primary market funds was HK\$1.83 billion, amounting to a decrease of 71% compared with the same period last year. Investment projects mainly focused on the applied technology and consumption sector. Invested companies include Fussen Technology, an R&D and manufacturer of stomatology imaging equipment; NREAL, a mixed reality technology company; Googut Wine & Spirits, a leading old wines operator and new wine retail operator; China Xinghan, a leading company in the field of smart cards and smart chips; and Tongdun Technology, a smart data analytics-as-a-service solution provider.

For post-investment management, due to market conditions, the fair value of projects retreated in the first half of the year. However, CEL maintains high standard risk management controls with regard to invested companies, with its front-office investment teams focusing on change in the market and project operations, as well as cooperating with the back offices on risk management, compliance and branding. The investment risk is in general under control.

In terms of divestment, CEL greatly accelerated its divestment activities during the period under review, including divesting from projects such as Wish, Aquantia, BGI Group and Xiuzheng Pharmaceuticals, realising cash backflow of approximately HK\$3 billion. CEL has a broad range of ways to divest, with share repurchase, onshore and offshore IPO, equity transfers and other methods accounting for 18%, 26%, 23% and 33% of the total divestments respectively during the period under review.

Real Estate Private Equity Fund Management Platform

Among all CEL's primary market funds, EBA Investments' Real Estate Fund has the largest AUM. As at 30 June 2019, EBA Real Estate Fund's AUM totalled RMB48.24 billion with 43 projects under management. At present, the Group owns 51% of EBA Investments through Everbright Jiabao (CEL owns 29.17% of Everbright Jiabao, being its largest shareholder), and owns the remaining 49% of EBA Investments through a subsidiary.

In terms of product innovation and fund management, EBA Investments partnered with Everbright Securities to successfully launch the first shelf-registered commercial REIT in China, the "EBAM-EBA Investments Commercial Real Estate 1-X-Jing'An IMIX Park REIT-like product". The total size is RMB4.3 billion with the interest rates of the grade A and grade B Senior units at 4.58% and 5.18% respectively. It has attracted active subscriptions from various investors including commercial banks, insurance institutions and securities companies.

In terms of business operations, EBA Investments continued to expand the product line "IMIX Park" as planned, it also accelerated its asset-light business model. As at 30 June 2019, there were 17 "IMIX Park" and "IMIX+" projects under management or construction, with a total construction area of 1.8 million sq.m.

1.2 Secondary Market Funds

As at 30 June 2019, CEL's secondary market team managed 26 funds and accounts with nearly HK\$20 billion in net asset value under management, of which fixed income investment accounted for 60%, equity investment accounted for 35% and PIPE investment accounted for 5%.

In terms of fundraising, highly defensive fixed income funds were popular among investors during the period under review. Everbright Convertible Opportunities Fund reached a fund size of US\$100 million for the first time. Together with Everbright Dynamic Bond Fund, the two signature fixed income funds successfully raised US\$88 million. Great progress was made in the expansion of distribution channels with the addition of five new distributors, bringing it up to a total of fifteen distributors in place now. Despite the success in fundraising, some investors chose to redeem to secure gains due to the fund's outstanding performance, leading to a drop in the AUM of secondary market funds.

In terms of investment performance, as at 30 June 2019, the flagship product within fixed income category under the Secondary Market Funds, Everbright Dynamic Bond Fund, an Asian USD-denominated bond, had reached a fund size of US\$551 million. It achieved net of fees USD return of 11.60%, outperforming the market bond index (the Asian High Yield Bond Index was 10.6% for the same period). Launched in December 2012, the fund has since delivered a net of fees USD return of 68.90%, with an annualised return of 8.3%, outperforming the market in the a long run (the return for the Asian High Yield Bond Index was 31.5% with an annualised return of 4.3% for the same period). Everbright Dynamic Bond Fund received numerous awards and recognitions within the industry, including “Best Off-shore RMB Bond (Five-Year)” award by a digital platform for investors “Insights & Mandates”, and its annualized return ranked second in EurekaHedge’s category of Asian bond funds, based on a track record of over five years.

As at 30 June 2019, Everbright China Focus Fund, a Greater China long-only absolute return fund and the flagship product within equity category under the Secondary Market Funds, had reached a fund size of US\$99 million. During the period under review, it achieved net of fees USD returns of 17% and outperformed the Hang Seng China Enterprises Index (10.66%) in the same period. Since the fund’s inception in January 2014, the fund has registered a total net return of 126.23% with an annualised return of 16.0%, greatly outperforming the Chinese stock market index (10.3%). Due to its stable and outstanding performance, Everbright China Focus Fund received multiple awards during the period under review, including “Best China Hedge Fund (Three-Year)” by Insights & Mandates. The fund was also ranked thirteenth by EurekaHedge in its category of similar funds.

	Everbright Dynamic Bond Fund	Everbright China Focus Fund
Product Type	Asian USD-denominated bond fund	Greater China long-only absolute return fund
AUM	US\$551 million	US\$99 million
Net of fees USD returns	11.6%	17.0%
Benchmark performance	Asian High Yield Bond Index 10.6%	Hang Seng China Enterprises Index 10.66%
Total net of return	68.90%	126.23%
Annualised return	8.3%	16.0%
Benchmark annualised return	<u>4.3%</u>	<u>10.3%</u>

1.3 Fund-of-Funds

CEL's FoFs focus on investing in sub-funds and equities. Through deploying its bulk asset allocation capabilities, CEL assists local governments, financial institutions and large state-owned enterprises in making diversified investments. CEL's FoF plays an important role for CEL by bringing in external capital and better leveraging-up of its AUM scale.

As at 30 June 2019, CEL's FoF team manages four FoFs product with a AUM of HK\$19.4 billion in total. Among the 28 sub-funds and projects invested in by these FoFs are CEL's sector focused funds, including CEL Global Investment Fund, Everbright Medical and Healthcare Fund and RMB Mezzanine Fund, as well as external funds such as Sequoia Capital, Matrix Partners China, Boyu Capital, Walden International, Carlyle Asia and Lilly Asia Ventures.

CEL continues to deepen its cooperation with government agencies. During the period under review, CEL signed a strategic cooperation agreement with the Jiangxi Provincial Industry and Information Technology Department to explore stronger cooperation in the area of sector-specific FoFs. CEL also signed a strategic cooperation framework agreement with a government agency in Yangtze river delta region, with plans to jointly establish an integrated Yangtze-river-delta-themed synergetic fund with an initial fund size of RMB1.5 billion.

1.4 Wealth Management

CEL Capital Prestige Asset Management Co., Ltd. ("Everbright Prestige"), a company jointly owned by China Post Fund and CEL, possesses an asset management license authorised by the China Securities Regulatory Commission to provide wealth management and asset allocation services for domestic high-net-worth clients in China. CEL currently holds a 49% share in Everbright Prestige. As at 30 June 2019, Everbright Prestige's operating income amounted to HK\$119 million, contributing HK\$32 million to CEL's profit.

By leveraging its proprietary funding channels and asset allocation capabilities, Everbright Prestige created complementary partnerships with several of CEL's funds to promote the development of the asset management business, Everbright Prestige further expanded its resources in key channel in 2019, and will continue to extend the range and scale of businesses it cooperates with CEL on the basis of complying with regulations and addressing to market needs.

2. Principal Investment Business

The Group has a strong advantage in principal investment supported by its substantial capital. Besides holding cornerstone investments in China Everbright Bank and Everbright Securities, the Group is also making the most of its own capital to incubate and support the development of its strategic industry platforms, including aircraft leasing, AIoT, and elderly care. In addition, the Group also pursues co-investment opportunities introduced by or for working out together with fund management business, principal investment business also makes financial investments into equity, debts and structured products in order to strike a good balance between long-term development and short-term gains.

	30 June 2019 HK\$ billion	31 December 2018 HK\$ billion
Principal Investment Business Scale:		
Strategic Industry Platforms	3.6	2.6
Financial Investments	16.4	15.9
Cornerstone Investments	18.6	18.0
Total	38.6	36.5

The main income of Principal Investment Business in the first half of 2019 were as follows:

	2019 1H HK\$ million	2018 1H HK\$ million	Change
Key Income from Principal Investment Business			
Total income, mainly include items below:	1,538	1,438	7%
– Interest income	111	153	(27%)
– Dividend income	30	56	(46%)
– Capital gain (realised gain)	465	121	>100%
– Capital gain (unrealised gain)	99	219	(55%)
– Share of CALC’s results as an associate	110	101	9%
– Share of profit from Everbright Securities	396	271	46%
– Dividend income contributed by China Everbright Bank	295	348	(15%)
– Profit from partial disposal of the shares of Everbright Securities	–	89	N/A

In the first half of 2019, the segment income of the principal investment business amounted to HK\$1,538 million during the period under review, up 7% compared to the same period of last year, mainly because CEL accelerated the divestments of its financial investment projects, bringing in an increased realised gain of HK\$465 million, up over 100% compared with the same period of last year. However, the unrealised gain has dropped 55% to HK\$99 million in the first half of 2019 from HK\$219 million in the same period last year, partially offset the income from the realised gain.

In the first half of this year, due to drop in both the average amount of loan outstanding and the lending interest rate in the structured finance industry, the interest income is HK\$111 million, representing a drop of 27% compared with the same period last year.

In terms of the cornerstone investments, the total amount from the share of profit from Everbright Securities and dividend income contributed by China Everbright Bank was HK\$691 million, which slightly increased compared with HK\$619 million for the same period last year. This part of income accounted for 45% of the total income of CEL's principal investment of HK\$1,538 million, which helps the Group to maintain a stable profit.

2.1 Strategic Industry Platforms

2.1.1 Aircraft Leasing Industry Platform

CALC is one of CEL's key strategic industry platform investments and an one-stop aircraft full life-cycle solutions provider for global airlines. CALC's scope of business includes regular operations such as aircraft operating leasing, purchase and leaseback, and structured financing, value-added services such as fleet planning, fleet upgrade, aircraft disassembling and parts sales as well as elevating aircraft asset value through flexible aircraft asset management. Riding on CALC's exceptional one-stop aircraft solutions, it was named "Aircraft Lessor of the Year" by Global Transport Finance for the fourth consecutive year. As at 30 June 2019, the Group increased its stake in CALC to 35.12%. The profit attributable to the Group increased to HK\$110 million in the first half of 2019, up 9% compared with the same period last year.

In the first half of 2019, CALC's total fleet size increased to 137 aircrafts, with 227 aircrafts in its orderbook. In addition, CALC launched funds to explore vigorously an asset-light aircraft leasing business model and made progressive realisation in its plan of implementing such a business model.

In order to support the ongoing further development of its business, CALC also signed a five-year unsecured revolving syndicated loan of US\$840 million in May 2019. This syndicated loan launched at US\$500 million and closed at US\$840 million due to overwhelming market response and became Asia’s largest aircraft Pre-Delivery Payments (“PDP”) financing to date with the participation of 17 banks in total. The proceeds raised will be used for the PDP for some of the newly ordered aircraft by CALC. In addition, CALC issued its first tranche of RMB corporate bonds in June 2019 with a nominal value of RMB1 billion, which attracted subscriptions from many mainstream financial institutions.

2.1.2 AIoT Industry Platform

“Terminus”, an Artificial Internet of Things (AIoT) company incubated and invested by CEL, has become one of the model and unicorn companies in the AIoT industry. Terminus is committed to promoting the widespread application of AI and AIoT through the establishment of a technological framework built for AIoT, providing solutions in smart city, public security, smart firefighting, building energy management and new infrastructure operational management for government agencies and numerous companies.

As at 30 June 2019, Terminus has provided solutions serving over 10 million people in more than 30 provinces and 84 cities. During the period under review, Terminus collaborated with Huawei to establish the first 5G smart community pilot project in Zhiqiang North Community in Haidian District, Beijing; combined with the 5G infrastructure built by China Mobile in the area, it has become of the first community-level application of 5G network in China. With CEL taking the lead, Terminus announced the completion of its series C1 financing which raised RMB2 billion on 12 August 2019.

2.1.3 Elderly Care Industry Platform

China Everbright Senior Healthcare Company Limited (“Everbright Senior Healthcare”) is committed to providing mid- to high-end senior healthcare services. With the foothold in Beijing and Wuxi, its affiliated two senior healthcare brands “Everbright Huichen” and “Everbright Enjoy Twilight Years”, radiate their business to the Beijing-Tianjin-Hebei and Yangtze River Delta regions, with 26 elderly centers and close to 10,000 beds under management.

During the period under review, CEL completed the restructuring of the two brands, by unifying management over the integrated brand of “Everbright Senior Healthcare” with the establishment of a clear management system, development strategy and product positioning. Also, the standardisation and precise setting of management system among senior healthcare institutions started to take shape, facilitating the construction of a centralised data and information centre, which in turn provide strong support for cross-region chain centre management. In addition, “Everbright Senior Healthcare” also intends to strengthen its application of big data, IoT and 5G technology, progressing towards smart senior care with the tech support from companies under the Group.

China Everbright Group puts a high priority on the health and elderly care among many strategic industries with a plan to consolidate its internal resources using this elderly care industry platform. During the period under review, “Everbright Senior Healthcare” has actively explored collaboration opportunities with other companies under China Everbright Group to seek robust and rapid business development.

2.2 *Financial Investments*

The Group’s financial investments were mainly divided into (1) co-investment opportunities in equity or debts of unlisted companies brought by fund management business (2) investments in fund reserve projects and bridging loans that aim to support the development of the fund business and (3) investment in structured financing products to achieve a balanced profitability and liquidity of CEL. As at 30 June 2019, CEL’s financial investment amounted to HK\$16.4 billion. The top 10 projects were Ying Li International, New Everbright Centre in Beijing, Everbright Centre Wan Chai, Zhuhai Hengqin Real Estate Complex, Arctic Green Energy, Shanghai Jiahui Health, Lifetech Scientific, Sequoia Capital RMB Fund IV, Qingdao Port International and the Dragon Fund Portfolio. Many of them were high-quality commercial real estate projects and listed company stocks with a fair value at nearly HK\$10 billion in total. These high-quality assets can provide stable cash flow, good liquidity and potential capital appreciation for the Group.

CEL completed a mandatory unconditional cash offer in respect of Ying Li International Real Estate Limited (“Ying Li International”), a Singapore-listed real estate company, in May this year, and held a 72% stake in Ying Li International. Ying Li International owned several high-quality properties in Chongqing, including Ying Li International Financial Center, Ying Li Future International and Ying Li International Plaza etc. After the completion of the acquisition, CEL is in the process of strengthening its management and control capabilities in an orderly manner by replacing directors, introducing some new management, business functions and financial personnel. CEL is also in preparation to unleash its value in multiple ways by utilising CEL team’s extensive experience in real estate management, and planned to introduce strategic investors within this year. On 13 August 2019, Ying Li International submitted an application to the Singapore Stock Exchange for an extension of time to announce its unaudited financial statements for the second quarter ended 30 June 2019. The application is currently under review.

2.3 Cornerstone Investments

As the cornerstone investments of the Group, China Everbright Bank and Everbright Securities provide fundamental support for the financial performance of CEL, while providing relative stable income and dividend inflow at the same time.

Everbright Securities

As at 30 June 2019, the Group held 982 million A-shares in Everbright Securities, representing approximately 21.30% of the total equity of Everbright Securities at a book value of HK\$11.8 billion, which is accounted for as investments in associates in CEL’s financial statements. The corresponding market value is HK\$12.8 billion as of 30 June 2019. During the reporting period, CEL’s share of profits from Everbright Securities increased by 46% to HK\$396 million compared with the same period last year.

China Everbright Bank

As at 30 June 2019, the Group held 1.57 billion A-shares in China Everbright Bank, measured at a fair value of HK\$6.8 billion and corresponding to approximately 3.00% of Everbright Bank’s total equity. During the reporting period, the Group received a pre-tax dividend payment of HK\$295 million from Everbright Bank, down 15% compared with the same period last year.

OUTLOOK

Looking ahead to the second half of the year, the global economy's downward pressure is increasing. Uncertainty in US – China relations have led to greater uncertainties within the global investment environment, which has shown increased propensity for risk aversion. Against the backdrop, the International Monetary Fund (IMF) adjusted its forecast of world economic growth in July, at 3.2% in 2019 and picking up to 3.5% in 2020, a 0.1 percentage point lower than in the IMF's April projections for both years. The falling pressure on China's economy has also increased further due to the changing external environment. China's economic statistics in July showed that industrial output, and investments on fixed assets by enterprise remained unsound, and the growth in consumption continued to drop. And aggregate financing to the real economy has shown signs of slow down since its recovery in the first half of the year. Subject to macro-economic control by the government which has instituted a new round of structural economic adjustments, there is relatively little room for policy to hedge further. Economic growth is expected to remain under pressure in the second half of the year.

Under such internal and external circumstances, **Chinese private equity industry continues to move forward on a path of “the strong get stronger”, ushering changes in spite of a challenging environment.** Difficulties in fundraising will persist in the short-term while shortage of quality assets will continue. With the macroeconomic slowdown and intensifying market volatility, the Chinese private equity industry will suffer from the pressure of declining profit margins. The industry is expected to go through waves of consolidation and integration, eliminating a large number of smaller companies with low operating competence and core competitiveness. At the same time, opportunities will arise as the industry undergoes profound changes. First of all, the rising flow of industry capital towards industry leaders is creating a strong-get-stronger and winner-takes-all scenario. In addition, economic reform will produce many new investment and merger and acquisition opportunities, enabling institutions with industry expertise, cross-border capabilities, cutting edge technology and post-investment management capability to take the lead. Overall, Chinese private equity industry will experience a mixture of opportunities and challenges.

A journey of a thousand miles begins with a single step. CEL will actively promote the following initiatives in the second half of the year.

Firstly, to integrate resources to foster business development and to strengthen internal management for transformation. Such initiatives include the integration of institutional sales resources, creating cross-selling and collaborative opportunities in-house to enhance fund-raising efficiency. With FoFs as the principal carrier, the Group will leverage its sector-focused team's excellent reputation and proven investment track record to meet the needs of local governments and other institutions in developing local industries and diversifying their asset allocation, securing large investors in spite of challenges and difficulties in a tough fund-raising environment.

Secondly, to actively promote synergistic initiatives across the board within China Everbright Group to formulate an Everbright alliance. Under the synergy building strategy advocated by China Everbright Group, CEL is seeking collaboration opportunities with China Everbright Bank, Everbright Securities, Sun Life Everbright Life Insurance, Everbright International and others to achieve complementary synergies. These initiatives include collectively acquiring strategic customers, making investments, building sales channels for fund products as well as integrating life insurance and medical sector operations.

Thirdly, to accelerate the growth of the four key strategic industries and incubate new sector specific fund products by leveraging the Group's industry expertise and capabilities. These initiatives will include providing support to CALC in expanding its fleet size, building its full-value-chain capability with an asset-light operating model, and setting up the "Air Silk Road Fund" with fund management expertise from CEL; supporting Terminus to realise its mass AIoT applications in property management, public safety management in key cities and regions such as Beijing, Shanghai, Chongqing and to extend upstream and downstream in its industry chain with the aid from fund establishment; assisting Everbright Senior Healthcare in attracting strategic investors, extending its presence into the Greater Bay Area as well as enlarging its market share while strengthening its use of big data, IoT and 5G technology to serve the elderly care sector with science and smart technologies, as well as enhancing its central-control capabilities which will reduce operating costs and contribute to the growth of the elderly care sector in general.; supporting EBA Investments in offering innovative products such as commercial REITs as a shelf-registration facility as well as collaborating with other strategic real estate partners for sustainable growth in AUM.

Fourthly, to continue to unleash its cross-border competitive advantages. After 20 years of development, CEL has amassed valuable cross-border experience in fundraising with US dollars, acquiring technology companies overseas, and helping global companies setting up businesses in mainland China. Rooting its headquarter in Hong Kong, CEL will take full advantage of its locale straddling both “domestic” and “overseas” markets. The Group will follow closely and act on China’s national policies of encouraging Chinese enterprises to “venture out” and “bringing in” overseas companies, as well as taking advantage of opportunities arising from the “Belt and Road” initiative, development of the three strategic regions of “Great Bay Area, Yangtze River Delta, Beijing-Tianjin-Hebei”, ultimately transforming its expertise in cross-border asset management into continuous AUM growth and better results.

FINANCIAL POSITION

As at 30 June 2019, the Group’s total assets amounted to HK\$84.8 billion with net assets amounted to HK\$43 billion. Equity attributable to equity shareholders of CEL per share was HK\$24.2, increased by 2.2% compared with the end of 2018. As at 30 June 2019, the Group’s interest-bearing debt ratio decreased to 62.1% (31 December 2018: 63.0%).

FINANCIAL RESOURCES

The Group adopts a prudent approach to cash and financial management to ensure proper risk control and low cost funds. It finances its operations primarily with internally generated cash flow and loan facilities from banks. As at 30 June 2019, the Group had cash and bank balances of HK\$7.7 billion, increased by HK\$0.8 billion compared with the end of 2018. Currently, most of the Group’s cash, representing 78.0%, is denominated in Hong Kong dollars and Renminbi.

BORROWING

The Group will review and ensure sufficient banking facilities to reserve resources to support its business development. As at 30 June 2019, the Group had banking facilities of HK\$23.12 billion, of which HK\$8.42 billion had not been utilised. The banking facilities were of one to five years terms. The Group had outstanding bank loan of HK\$14.7 billion, increased by 3.6% compared with the end of 2018. All the outstanding bank loans were unsecured as at 30 June 2019. The Group had issued corporated bonds with outstanding principal amount of RMB10.5 billion. The interest-bearing borrowings were mainly denominated in Renminbi, representing about 50% of the total, and the remaining were mainly denominated in US and Hong Kong dollars.

PLEDGE OF ASSETS

As at 30 June 2019, no fixed deposits were pledged to secure banking facilities. Pursuant to the prime brokerage agreements entered with the prime brokers of a fund held by the Group, cash and securities deposited with the prime brokers were secured against liabilities to the prime brokers. As at 30 June 2019, assets deposited with the prime brokers included HK\$2,040 million and HK\$50 million which formed part of the Group trading securities and debtors respectively.

CONTINGENT LIABILITIES

As at 30 June 2019, the Company had issued financial guarantees to subsidiaries. The Board does not consider it is probable that a claim will be made against the Company under the guarantees. The maximum liability of the Company as at 30 June 2019 for the provision of the guarantees related to the facilities drawn down by the subsidiaries was HK\$7,193 million.

EMPLOYEES

As at 30 June 2019, the Group had 363 employees. Total staff costs for the period under review amounted to approximately HK\$260 million as noted in the condensed consolidated statement of profit or loss. The Group ensures that the remuneration packages for employees are fair and competitive and employees are rewarded on a performance-related basis within the general framework of the Group's salary and bonus scale. Discretionary year end bonus may also be paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme and training programmes.

PRINCIPAL RISKS AND UNCERTAINTIES

During the period under review, the Group continuously implemented relevant work of the risk management system to effectively control the principal risks which may be encountered by the Group. Those risks include credit risk, liquidity risk, interest rate risk, currency risk and equity price risk, the details of which are set out in the Note 25 to the financial statements contained in this announcement.

CORPORATE GOVERNANCE CODE

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a “Code for Securities Transactions by Directors & Relevant Employees” (the “Code”) which is no less exacting than the required standard set out in the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “Model Code”) contained in Appendix 10 of the Listing Rules. Having made specific enquiry to all directors, all directors confirmed that they have complied with the required standard set out in both the Code and the Model Code for the six months ended 30 June 2019.

AUDIT AND RISK MANAGEMENT COMMITTEE

As at the date of this announcement, the Audit and Risk Management Committee comprises Dr. Chung Shui Ming, Timpson, Dr. Lin Zhijun and Mr. Law Cheuk Kin Stephen. The Committee is chaired by Dr. Chung Shui Ming Timpson. All members of the Committee are independent non-executive directors.

The Audit and Risk Management Committee and the management have reviewed the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters, including the review of the unaudited interim financial report of the Group for the six months ended 30 June 2019.

REMUNERATION COMMITTEE

As at the date of this announcement, the Remuneration Committee has four members comprising Dr. Cai Yunge, Chairman of the Board, and three independent non-executive directors, namely, Dr. Lin Zhijun, Dr. Chung Shui Ming Timpson and Mr. Law Cheuk Kin Stephen. The Committee is chaired by Dr. Lin Zhijun, an independent non-executive director.

NOMINATION COMMITTEE

As at the date of this announcement, the Nomination Committee has four members comprising Dr. Cai Yunge, Chairman of the Board, and three independent non-executive directors, namely, Dr. Lin Zhijun, Dr. Chung Shui Ming Timpson and Mr. Law Cheuk Kin Stephen. The Committee is chaired by Dr. Lin Zhijun, an independent non-executive director.

OTHER INFORMATION

Interim Dividend

The Board declared the payment of an interim dividend of HK\$0.25 per share for the six months ended 30 June 2019 (2018: HK\$0.26 per share) to those shareholders whose names appear on the register of members of the Company on 27 September 2019. Dividend cheques will be dispatched to shareholders of the Company on 11 October 2019.

Closure of Register of Members

The register of members of the Company will be closed from Wednesday, 25 September 2019 to Friday, 27 September 2019 (both days inclusive), during which no transfer of shares will be effected. In order to qualify for the interim dividend, all completed transfer forms accompanied with the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 24 September 2019.

Purchase, Sale or Redemption of the Company's Listed Securities

There was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the period.

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

Hong Kong, 29 August 2019

As at the date of this announcement, the directors of the Company are:

Executive Directors

Dr. Cai Yunge (*Chairman*)
Dr. Zhao Wei (*Chief Executive Officer*)
Mr. Tang Chi Chun Richard
Mr. Zhang Mingao
Mr. Yin Lianchen

Independent Non-executive Directors

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