新鴻基有限公司
SUN HUNG KAI & CO. LIMITED
(Stock Code: 86)

Annual Report 2012

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Lee Seng Huang
(Group Executive Chairman)
William Leung Wing Cheung
Joseph Tong Tang
Peter Anthony Curry

Non-Executive Directors

Goh Joo Chuan
Leung Pak To
Roy Kuan
Ho Chi Kit *(alternate to Roy Kuan)*

Independent Non-Executive Directors

David Craig Bartlett
Alan Stephen Jones
Carlisle Caldow Procter
Peter Wong Man Kong

EXECUTIVE COMMITTEE

Lee Seng Huang *(Chairman)*
William Leung Wing Cheung
Joseph Tong Tang
Peter Anthony Curry

NOMINATION COMMITTEE

Lee Seng Huang *(Chairman)*
David Craig Bartlett
Alan Stephen Jones
Carlisle Caldow Procter
Peter Wong Man Kong
Roy Kuan
Ho Chi Kit *(alternate to Roy Kuan)*

REMUNERATION COMMITTEE

Peter Wong Man Kong *(Chairman)*
David Craig Bartlett
Alan Stephen Jones
Carlisle Caldow Procter
Roy Kuan
Ho Chi Kit *(alternate to Roy Kuan)*

AUDIT COMMITTEE

Alan Stephen Jones *(Chairman)*
David Craig Bartlett
Carlisle Caldow Procter
Peter Wong Man Kong
Roy Kuan
Ho Chi Kit *(alternate to Roy Kuan)*

RISK MANAGEMENT COMMITTEE

Lee Seng Huang *(Chairman)*
Joseph Tong Tang *(Alternate Chairman)*
William Leung Wing Cheung
Peter Anthony Curry
Roy Kuan
Ho Chi Kit *(alternate to Roy Kuan)*
Paul Leung Tung Yip
Thomas Bennington Hulme

COMPANY SECRETARY

Hester Wong Lam Chun

INVESTOR RELATIONS

investor.relations@shkco.com

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Clifford Chance
King & Wood Mallesons
Linklaters
P. C. Woo & Co.

BANKERS

Standard Chartered Bank (Hong Kong) Limited
China CITIC Bank International Limited
Oversea-Chinese Banking Corporation Limited, Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank (Asia) Corporation Limited
DBS Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Bank of New York Mellon
Fubon Bank (Hong Kong) Limited
Public Bank (Hong Kong) Limited
Bank of China (Hong Kong) Limited
Chong Hing Bank Limited
Wing Hang Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited

REGISTRAR

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

REGISTERED OFFICE

42/F, The Lee Gardens
33 Hysan Avenue
Causeway Bay
Hong Kong

WEBSITES

www.shkco.com
www.shkf.com
www.shkfg.com
www.shkdirect.com
www.shkprivate.com
www.shkfinance.com.hk
www.shkforex.com
www.uaf.com.hk
www.uaf.com.cn

Corporate Profile

Sun Hung Kai & Co. Limited (the "Company", together with its subsidiaries, also known as the "Group") is one of the leading financial institutions in Hong Kong with its foundation dating back to 1969. Listed on the Hong Kong Stock Exchange in 1983 (Stock Code: 86), the Company, through its subsidiaries, including Sun Hung Kai Financial Limited ("Sun Hung Kai Financial") and United Asia Finance Limited ("UAF"), offers customised financial solutions for retail, corporate and institutional clients.

Operating under Sun Hung Kai Financial and UAF, the Group has four core business segments, which are

- Wealth Management & Brokerage,
- Capital Markets,
- Consumer Finance and
- Principal Investments.

It has an extensive branch and office network of about 150 locations in Hong Kong, Mainland China and Macau. As of 31 December 2012, the Group has more than HK$12.5 billion in shareholders' equity.

For over 40 years, we have always put our customers first. Our dedicated professional staff, with years of experience and an enviable track record in the financial industry, are always striving to provide investment and financial services that meet the needs of our customers.

To keep pace with the ever-changing financial environment, in recent years the Group has actively formed alliances with a number of significant local and international companies, with the objective of expanding our business and providing diversified products to satisfy the needs of our wide range of customers.

The success of the Group is based not only on its sound strategic business model, but also on our five important guiding principles: Excellence, Integrity, Innovation, Prudence and Professionalism, in which each plays a crucial role in ensuring the Group's continued growth.

As we grow our business, we never lose sight of our role as a responsible corporate citizen. As our member companies, Sun Hung Kai Financial and UAF have been named as a Caring Company by the Hong Kong Council of Social Services in recognition of their commitment in caring for the community, the employees and the environment. We have also set up Sun Hung Kai Financial Foundation to formalise our community involvement. The Foundation focuses on several key areas such as investor education, community healthcare and environmental protection. Progress has been made on greening of our operations, with the launch of "Going Green" drives including Toner-save, Power-save and Paper-save programmes. We expect more environmentally friendly programmes to be rolled out in the coming years as part of our Corporate Social Responsibility ("CSR") mission.

Corporate Milestones

1969
Sun Hung Kai & Co. was formed by Mr. Fung King Hey, Mr. Kwok Tak Seng and Mr. Lee Shau Kee. In 1973, Sun Hung Kai Securities Limited ("SHKS") was incorporated.

1983
Sun Hung Kai & Co. Limited (the "Company") was formed and listed on the Hong Kong Stock Exchange.

1991
Sun Hung Kai Investment Services Limited ("SHKIS") became one of the first underwriters and approved overseas agents in the Shanghai and Shenzhen Stock Exchanges.

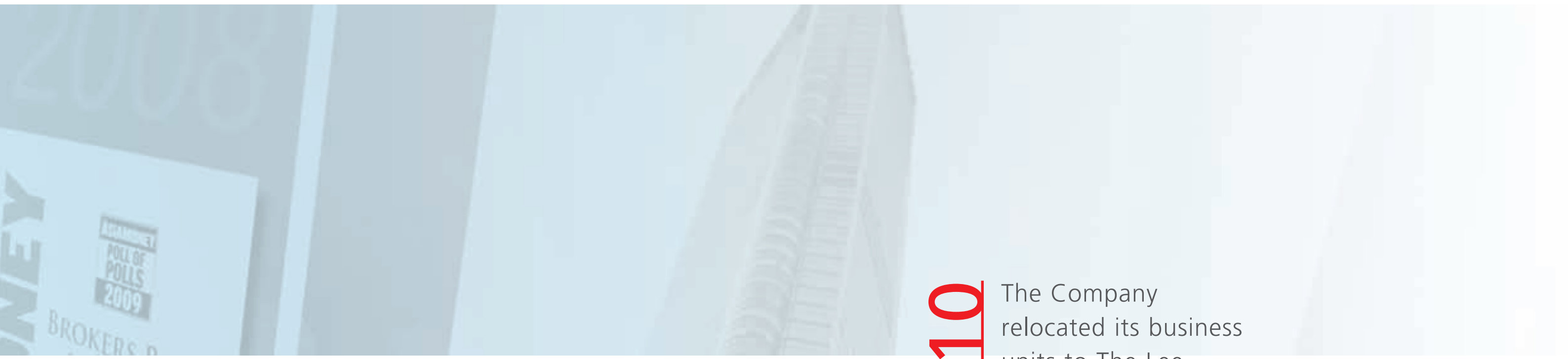
1993
SHKIS was approved as a B-share seat holder of the Shanghai and Shenzhen Stock Exchanges.

1996
Allied Properties (H.K.) Limited ("APL"), via its wholly-owned subsidiary, acquired the Fung family's equity interest in the Company.

1997
SHKIS was approved as a Foreign Share Broker and Lead Underwriter by the China Securities Regulatory Commission.

2000
SHKOnline.com (now known as "SHK Direct") was launched and was among the first batch of brokers offering straight-through Internet-based order processing.

Corporate Milestones



2002

The Company diversified its operations by establishing wealth management and alternative investment businesses.

2004

Sun Hung Kai International Bank [Brunei] Limited was officially opened, and the equity interest of APL in the Company increased to approximately 74.99% (currently stands at approximately 55.61%).

2006

The Company entered the consumer finance area by acquiring UAF Holdings Limited, and built its Mainland China strategy through a JV with Zhe Jiang Province Yongan Futures Broker Company Limited.

2007

The Company entered a strategic partnership with Dubai Investment Group through a placement of 166 million shares.

2010

The Company relocated its business units to The Lee Gardens in Causeway Bay. The Company formed strategic alliances with CVC Capital Partners and Macquarie FX Investments Pty Limited, a subsidiary of Macquarie Bank Limited.

2011

SHK Private, a signature account of the Company, was established to provide customised wealth management services to high-net-worth clients. The Company formed strategic alliance with Look's Asset Management Limited.

SHKS was renamed as Sun Hung Kai Financial Limited effective 1 December 2011 to align the corporate name with its Sun Hung Kai Financial brand.

Financial Highlights

KEY DATA

(HK$ Million)	2012	2011	Change
Revenue	**3,723.4**	3,593.2	4%
Operating earnings	**1,328.4**	1,546.0	-14%
Profit attributable to owners of the Company	**1,036.4**	1,032.4	0%
Per Share Data			
Earnings per share (HK cents)	**48.9**	48.8	
Dividend per share (HK cents)	**22.0**	20.0	
Book value per share (HK$)	**5.9**	5.7	
Financial Ratios			
Return on assets	**5.6%**	5.9%	
Return on equity	**8.1%**	8.5%	
Net gearing	**19.4%**	32.7%	

REVENUE ANALYSIS

(HK$ Million)	2012	2011	Change
Revenue	**3,723.4**	**3,593.2**	**4%**
Breakdown by Geography			
– Hong Kong	***2,770.3***	*3,044.2*	-9%
– Mainland China	***942.3***	*547.1*	72%
– Others	***10.8***	*1.9*	468%
Breakdown by Type			
– Interest income	***3,074.1***	*2,760.3*	11%
– Brokerage, commission and service income	***594.6***	*767.5*	-23%
– Fees received from funds management	***17.7***	*33.9*	-48%
– Others	***37.0***	*31.5*	17%

INCOME STATEMENT ANALYSIS

(HK$ Million)	2012	2011	Change
Revenue	**3,723.4**	**3,593.2**	**4%**
Operating expenses	**(1,690.5)**	(1,702.4)	-1%
As % of revenue ("cost to income")	***45%***	*47%*	
– Brokerage and commission expenses	***(187.9)***	*(214.4)*	-12%
– Advertising and promotion expenses	***(124.7)***	*(110.8)*	13%
– Direct cost and operating expenses	***(72.5)***	*(260.1)*	-72%
– Administrative expenses	***(1,290.9)***	*(1,107.6)*	17%
– Other expenses	***(14.5)***	*(9.5)*	53%
Finance costs	**(200.8)**	(160.3)	25%
Operating Earnings before Bad and Doubtful Debts	**1,832.1**	**1,730.5**	**6%**
Bad and doubtful debts	**(503.7)**	(184.5)	173%
Operating Earnings	**1,328.4**	**1,546.0**	**-14%**
Other income	**184.5**	224.3	
Net exchange gain (loss)	**3.7**	(46.0)	
Net profit (loss) on financial instruments	**171.5**	(132.3)	437%
Associates	**10.9**	17.1	
Jointly controlled entities	**1.3**	6.2	
Profit Before Taxation	**1,700.3**	**1,615.3**	**5%**
Taxation	**(276.0)**	(278.8)	-1%
Non-controlling interests	**(387.9)**	(304.1)	28%
Profit attributable to Owners of the Company	**1,036.4**	**1,032.4**	**0%**

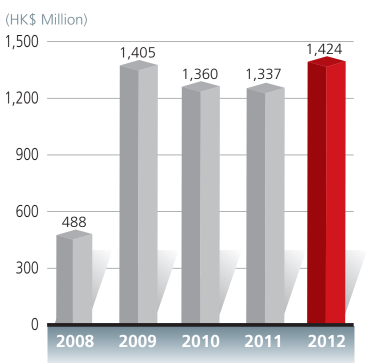
STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

(HK$ Million)	2012	2011	Change
Total loans and advances to customers:	**13,317.4**	12,797.9	4%
– Margin loans	***3,286.7***	*4,277.0*	-23%
– Secured term loans	***1,736.9***	*964.8*	80%
– Consumer finance loans	***8,293.8***	*7,556.1*	10%
Total Borrowings	**7,535.3**	6,682.8	13%
– Current	***3,166.6***	*2,923.5*	8%
– Long term	***4,368.7***	*3,759.3*	16%
Bank deposits, cash and cash equivalents	**5,035.3**	2,736.0	84%
Total assets	**25,255.6**	22,494.4	12%
Shareholders' equity	**12,863.0**	12,087.5	6%

SHARE INFORMATION

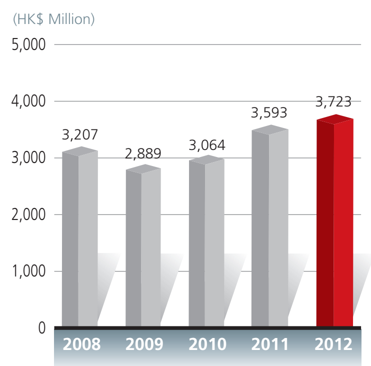
	2012	2011
No. of shares in issue at year end (million)	**2,162.1**	2,109.4
Weighted average number of shares (million)	**2,120.1**	2,113.7
Earnings per share (HK cents)	**48.9**	48.8
Dividend per share (HK cents)	**22.0**	20.0
– Final	**12.0**	10.0
– Interim	**10.0**	10.0
Share price (HK$)		
– High	**5.07**	6.93
– Low	**3.52**	3.80
– Close	**5.03**	4.08
Market capitalisation (HK$ million)	**10,875.4**	8,606.4

Profit after Taxation



Basic Earnings per Share

Revenue



Share of Revenue of Different Segments in 2012

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
(HK$ Million)	2008 (Note a)	2009 (Notes a & c)	2010 (Notes a & c)	2011	**2012**
RESULTS					
Revenue	3,207.3	2,889.3	3,064.1	3,593.2	**3,723.4**
Profit attributable to owners of the Company	346.5	1,258.4	1,087.0	1,032.4	**1,036.4**
Retained profits carried forward (after proposed final dividend)	5,350.9	6,150.7	3,200.2	3,757.2	**4,261.7**

	At 31 December				
(HK$ Million)	2008 (Note b)	2009 (Notes b & c)	2010 (Note c)	2011	**2012**
ASSETS AND LIABILITIES					
Current assets	9,129.9	10,141.0	13,016.1	14,230.6	**16,288.7**
Total assets	19,438.2	20,877.3	20,151.3	22,494.4	**25,255.6**
Current liabilities	3,493.6	5,493.6	4,047.6	4,115.2	**4,701.1**
Total liabilities	6,410.9	6,462.9	6,923.2	8,091.4	**9,290.3**

Notes:

(a) The comparative figures of revenue in 2008 to 2010 have been restated to conform to the reclassification of net profit (loss) on financial instruments from revenue to a separate item in the consolidated income statement taken place in 2011.

(b) The comparative figures of assets and liabilities in 2008 and 2009 have been restated as a result of the adoption of the amendment to HKAS 17 "Lease" and Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" in 2010.

(c) The comparative figures of profit attributable to owners of the Company, retained profits carried forward, current liabilities and total liabilities in 2009 and 2010 have been restated as a result of the adoption of the amendment to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" and the reclassification of accrued interest expenses under trade and other payables to respective financial liabilities in 2011.

Letter to our Shareholders

Dear Shareholders,

I am pleased to report that Sun Hung Kai & Co. Limited (the "Company" and its subsidiaries, the "Group") achieved another solid set of overall results for the year ended 31 December 2012, in spite of persistent global economic uncertainty.

Our prudently managed balance sheet and diversified revenue streams continued to serve us well in a challenging market environment, allowing the Group to report a profit before tax of HK$1,700.3 million (2011: HK$1,615.3 million). Profit attributable to owners of the Company amounted to HK$1,036.4 million (2011: HK$1,032.4 million), and earnings per share was HK48.9 cents (2011: HK48.8 cents).The Board has recommended a final dividend of HK12 cents per share (2011: HK10 cents per share). Together with the interim dividend of HK10 cents per share, total dividends for the year will be HK22 cents (2011: HK20 cents). This is consistent with our dividend pay-out policy of distributing at least 30% of our net operating profits.

Major global economic and political events including the ongoing European sovereign debt crisis, the so-called fiscal cliff in the United States and generally patchy economic conditions in many of the major economies (in some cases reflecting leadership changes) contributed to an extremely difficult year for the financial services sector.

Against this backdrop, the Group continued to execute its core strategy prudently while strengthening its asset base. Our diverse business segments including retail wealth management, lending services to consumers and corporate entities, as well as capital markets and principal investments, were impacted to varying degrees during the year. However, our strength in diversity, and financial discipline, allowed us to cope with these challenges.

Consumer Finance remains a key focus of our overall growth strategy, with Mainland China expansion delivering an increased contribution to the Group. A total of 79 branches had been established in Mainland China as of 31 December 2012, covering nine cities up from 54 at year end of 2011. We intend to maintain our rollout strategy through branch openings in major Mainland cities as well as developing new products to capture this underserved, yet rapidly growing, market.

Our Wealth Management & Brokerage business last year focused on developing our independent wealth management infrastructure and product platform. This allowed us to further improve our standard of service, and offer enhanced support to our investment consultants and clients. SHK Private, the premium brand established in 2011 for high net worth clients, has gained wider market acceptance and expanded in scale. Meanwhile, SHK Forex extended its innovative trading and international money transfer platform, gaining momentum in 2012 with 39% growth in gross revenue compared to 2011.

The performance of the Group's Capital Markets division was inevitably influenced by the difficult financial market conditions present in much of 2012. In these circumstances, we concentrated upon our structured lending business, which offers alternative funding solutions and a one-stop-shop funding model for clients. The Group also continued to tap into the mid-to-small cap sectors in Hong Kong and Mainland China, while reallocating resources to underwriting private equity and financial advisory-related transactions.

The year saw the successful closing of an international offering of US$350 million Guaranteed Notes due in 2017 (6.375% coupon). The inaugural issue came under our US$2 billion Guaranteed Medium

Term Note Programme that has been running since June 2012, targeting a fixed income investor base. The issue diversifies our funding sources for future growth opportunities by providing an alternative source of longer-duration funding, in addition to driving our return on equity.

Along with seeking to enhance our financial results, we aim to be recognised in the market as having best-in-class services. We secured several accolades this year, including our fifth FinanceAsia Best Broker Hong Kong award; The Asset Triple A Country Awards Best Brokerage House Hong Kong; a fifth consecutive Economic Digest "The Outstanding Brand Awards – Securities Company" award; a second consecutive "The Best Securities Company" award presented by CAPITAL Magazine's Outstanding Brand Enterprise Award; along with a third year as a Sing Tao Daily Excellent Services Brand.

Excellence in the market must also be matched by giving back to the community. It is an honour that we have again been named as a Caring Company by the Hong Kong Council of Social Services. Contributing to the strength of our community is essential for growth, and people are undoubtedly our most important asset. We have recently strengthened senior management and our Talent Leadership Development Programme in cultivating the next generation of leaders.

With a solid base to build on, we will strive for even greater success this year, guided by our core values of Excellence, Integrity, Prudence, Professionalism, and Innovation. On behalf of the Board, I would like to thank all our stakeholders and each and every one of my colleagues for a job well done in a most challenging year.

Lee Seng Huang
Group Executive Chairman

Hong Kong, 21 March 2013

Profit attributable to owners of the Company was HK$1,036.4 million, compared to HK$1,032.4 million achieved in the year 2011.

Earnings per share amounted to HK48.9 cents (2011: HK48.8 cents) and the Board has recommended a final dividend of HK12 cents per share. Together with the interim dividend of HK10 cents per share, it makes a total of HK22 cents per share for the full year. The Company repurchased 15.9 million shares for a total consideration (including expenses) of HK$65.9 million.

During the past year, operating conditions varied significantly for the Group's different businesses.

Our Consumer Finance business in Mainland China, operating under UAF, continued to grow. This growth was founded upon the market's increasing acceptance of our services and the extension of our branch network. UAF's total principal loan balance in Mainland China increased by 69%, with a healthy increase in turnover of 72%. As a result, the Consumer Finance business in Mainland China, accounted for 25% of the Group's total turnover in 2012. UAF's Hong Kong business on the other hand remained relatively stable in the face of increased competition from the major banks.

Conditions facing Sun Hung Kai Financial businesses (comprising our Wealth Management and Brokerage, and Capital Markets segments) were more challenging, with Hong Kong stock market trading and IPO fund raising volumes dropping by 23% and 65% respectively compared to 2011.

However, overall, the Group's blend of activities has enabled it to maintain a generally healthy financial position and to enhance shareholders' value, the Group continues its strategies to:

- prudently grow the Group's loan business while maintaining a balance on yield relative to risk;
- grow fee income in the Sun Hung Kai Financial businesses through new customer segments and products, while emphasis will be placed on products with a lower correlation with the market, such as wealth management products; and
- improve our balance sheet structure and efficiency.

Currently the Group's return on equity ("ROE") is 8.1%, with a healthy return on assets of 5.6%. The ultimate goal for the Group is to move the ROE up towards the teens.

In September 2012, the Group raised US$350 million from the debt market by issuing guaranteed notes due in 2017 (6.375% coupon) to professional investors under its US$2 billion Guaranteed Medium Term Note Programme established in June 2012. The issue is a first for the Group under the Programme, which aims to build up support amongst a fixed income investor base. The initiative also introduces a layer of longer-duration funding in addition to our banking facilities, and provides us with the option to reduce our reliance on funding asset growth through equity.

The Group ended 2012 in a strong financial position with total bank deposits and cash balance of HK$5.0 billion and a net gearing of 19.4% (2011: 32.7%). Total equity attributable to owners of the Company amounted to HK$12.9 billion, equivalent to HK$5.95 per share.

RESULTS ANALYSIS

Turnover increased by 4% to HK$3,723.4 million in 2012. Interest income, accounting for 83% of turnover, increased by 11%, driven primarily by Consumer Finance. In contrast, non-interest income, which mainly comprises commissions and fees, declined by 22% due to weaker volumes, in line with market conditions generally.

Total loans and advances to customers (after impairment allowances) as shown below, amounted to HK$13.3 billion at the end of 2012, an increase of 4% since 2011.

(HK$ Million)	As at 31.12.2012	As at 31.12.2011	Change
Loan Balances:			
Consumer Finance loans	**8,293.8**	7,556.1	10%
Margin loans (Wealth Management and Brokerage segment)	**3,286.7**	4,277.0	-23%
Secured term loans (Capital Markets segment)	**1,736.9**	964.8	80%
Total	**13,317.4**	12,797.9	4%
Interest Income:			
Consumer Finance	**2,568.5**	2,074.5	24%
Wealth Management and Brokerage	**296.1**	458.2	-35%
Capital Markets	**181.5**	213.4	-15%
Others	**28.0**	14.2	97%
Total	**3,074.1**	2,760.3	11%

Operating earnings before bad and doubtful debts grew by 6%. However, bad and doubtful debts were higher. For the Consumer Finance business, actual write offs (amounts directly deducted from the allowance of impairment) increased by 34% to HK$366.7 million. This is regarded as being still at a reasonable level given the growth in the business and the general market situation. The impairment allowance increased by HK$53.2 million in 2012, compared to a release of impairment allowance of HK$54.4 million in 2011.

Bad debts were also incurred in Sun Hung Kai Financial's margin and secured term loan books. Approximately half of the write offs related to one client in the structured finance business, which was an isolated event. As a result, operating earnings in total declined by 14% to HK$1,328.4 million. However, other income was boosted by the gain from disposal of some available-for-sale investments. This, together with a significant increase in profit from financial instruments, led to a rise in profit before tax of about 5%.

OPERATING EARNINGS ANALYSIS

(HK$ Million)	2012	2011	Change
Revenue	**3,723.4**	**3,593.2**	**4%**
Operating expenses	(1,690.5)	(1,702.4)	-1%
Finance costs	(200.8)	(160.3)	25%
Operating Earnings Before Bad and Doubtful Debts	**1,832.1**	**1,730.5**	**6%**
Bad and doubtful debts	(503.7)	(184.5)	173%
Operating Earnings	**1,328.4**	**1,546.0**	**-14%**
Other income	184.5	224.3	
Net exchange gain (loss)	3.7	(46.0)	
Net profit (loss) on financial instruments	171.5	(132.3)	437%
Associates	10.9	17.1	
Jointly controlled entities	1.3	6.2	
Profit Before Taxation	**1,700.3**	**1,615.3**	**5%**
Taxation	(276.0)	(278.8)	-1%
Non-controlling interests	(387.9)	(304.1)	28%
Profit Attributable to Owners of the Company	**1,036.4**	**1,032.4**	

WEALTH MANAGEMENT AND BROKERAGE

Wealth Management and Brokerage segment covers securities, structured products, futures, options, commodities, foreign exchange, discretionary portfolio management services, mutual funds, insurance, and Capital Investment Entrant Scheme (CIES) advisory. A platform under SHK Direct, "SHKF eMo!", is also available for customers who prefer to conduct trades on a "DIY" basis.

Sun Hung Kai Financial's total client assets under advice/custody or management amount to over HK$63 billion.

The Company's margin loan book was over HK$3 billion at the end of 2012.

Wealth Management and Brokerage experienced a challenging year in 2012. Global markets started 2012 on a positive note, followed by weakness in the second quarter due to investor concerns over the European debt crisis and a slow and erratic recovery in major global economies. In September 2012, the U.S. Federal Reserve sparked a final quarter rally for equities globally when they announced a third round of quantitative easing. The Hang Seng Index finished the year 23% higher, while the S&P 500 closed the year up 13.4% and the Shanghai-Shenzhen CSI300 Index was plus 8%.

Despite a better year for the index, the volume of equity trading was lower across all major bourses. In 2012, The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") traded an average daily turnover of HK$54 billion, 23% lower than in 2011.

(HK$ Million)	2012	2011	Change
Revenue	**839.5**	**1,135.2**	**-26%**
– Interest Income	296.1	458.2	-35%
– Brokerage/commission revenue	469.4	569.3	-18%
– Other fee based income	74.0	107.7	-31%
Operating costs	(685.6)	(773.8)	-11%
Cost to income (% Revenue)	81.7%	68.2%	
Finance costs	(8.5)	(9.0)	
Bad and doubtful debts	(66.6)	(21.0)	
Operating Earnings	**78.8**	**331.4**	**-76%**
Other income	2.5	17.3	
Exchange gain	1.1	8.4	
Net profit (loss) on financial instruments	25.2	(43.7)	
Jointly controlled entities	3.8	3.0	
Pre-tax Contribution	**111.4**	**316.4**	**-65%**

Turnover in this segment of the business declined by 26% during 2012. Interest income declined by 35%; brokerage and commission revenue declined by 18%. Pre-tax contribution to the Group declined by 65% to HK$111.4 million.

Despite the difficulties of 2012, our efforts to transform Sun Hung Kai Financial into a wealth management firm has helped cushion the decline in commission. Offering an open and one-stop investment platform should allow us to benefit from more stable and long term customer relationships that provide revenue streams less correlated to the stock market.

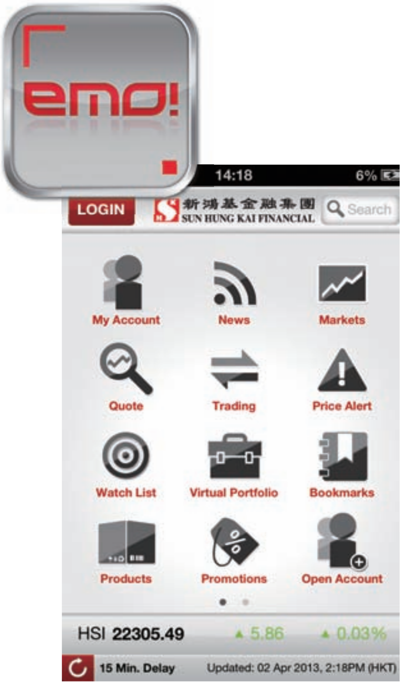
To this end, our efforts in product and service innovation achieved some positive results in 2012. Product development and research have been strengthened significantly. New customer segments were enhanced through CIES services as well as our SHK Private platform targeting high net worth customers. Our asset management division was also integrated into this segment, allowing for the development of more products suited to our wealth management customers, including discretionary portfolio management products. Total commission revenue from wealth management products (such as structured products, funds, insurance linked assurance schemes, and bonds) increased by 68% during 2012, accounting for 36% of overall commission in this segment.

Commission from brokerage products (including Hong Kong shares, options, futures, commodities and bullion) declined by 36% reflecting lower volumes as well as competitive market pressures. The Group's focus is on bottom line profitability, so market share is not its top priority. Nonetheless, given its leading position and low cost structure, the Group should benefit from any recovery in market sentiment and volumes.

Encouragingly, momentum in the business has picked up since the last quarter of 2012. For the first two months of 2013, Hong Kong's average daily stock turnover was HK$75 billion, which is higher than the HK$54 billion average for 2012. Enhancements have been made in the past two years to strengthen SHK Direct, our trading platform for "DIY" clients, with the introduction of our mobile trading app, SHKF eMO!. In our experience, this special group of customers tends to increase their trading when there is a recovery in sentiment.

The Group scaled back its margin loan book in 2012. Although demand for funding remained robust, we adopted a more conservative approach towards the writing of new loans in view of a less favourable risk/return metric. At the end of 2012, our net margin loan balance was HK$3,286.7 million, compared to HK$4,277.0 million in 2011. As a result, interest income in this segment also declined by 35%. Bad debts of HK$66.6 million also impacted profitability.

There was a net profit of HK$25.2 million on financial instruments in 2012 (2011: HK$43.7 million loss), mainly reflecting mark to market valuation adjustments from our strategic investments with our asset management business partners. These investments are classified under "Equity securities in unlisted investment funds" in our financial statements.



CAPITAL MARKETS

The Capital Markets segment services the Group's corporate and institutional clients. It covers corporate finance, structured lending, equity capital markets, and corporate and institutional sales business, offering equity and debt fund raising solutions for our clients.

The performance of the Group's Capital Markets division has largely mirrored market conditions. Revenue was HK$235.3 million, a decline of 28% from 2011, and contribution to pre-tax profit was HK$142.8 million, a 4% decline. During the year, the Group has continued to strengthen its capabilities in Hong Kong and Mainland China mid-to-small cap corporate segments.

(HK$ Million)	2012	2011	Change
Revenue	**235.3**	**328.2**	**-28%**
– Interest income	181.5	213.4	-15%
– Brokerage/commission revenue	23.5	25.5	-8%
– Fee based income	30.3	89.3	-66%
Operating costs	(97.6)	(87.2)	12%
Cost to income (% Revenue)	41.5%	26.6%	
Finance costs	–	(0.2)	
Bad and doubtful debts	(76.3)	–	
Operating Earnings	**61.4**	**240.8**	**-75%**
Other income	0.1	3.6	
Exchange loss	(1.3)	(0.6)	
Net profit (loss) on financial instruments	82.6	(94.3)	
Pre-tax Contribution	**142.8**	**149.5**	**-4%**

The uncertain market environment made 2012 a challenging year for corporate finance. Compared to 2011, total IPO funds raised in Hong Kong capital markets in 2012 tumbled 65% from approximately HK$260 billion to HK$90 billion. The total number of newly listed companies including listing board transfers from the Growth Enterprise Market to the Main Board also declined significantly from 101 in 2011 to 64 in 2012. In this environment, the segment's non-interest income declined. However, a HK$82.6 million net profit on financial instruments was recorded. In 2011, we booked a net loss of HK$94.3 million from unrealised mark to market losses on underwriting positions. Those positions were subsequently disposed of during 2012 and losses have been reversed.

In 2012, we took part in 12 IPO-related underwriting transactions, three secondary fundraising exercises and four financial advisory-related transactions, all of which were successfully completed. We are more optimistic about the market in 2013 and are buoyed by the Group's drive to tap into mid-to-small cap sectors, with increased resources devoted to underwriting and financial advisory-related transactions.

Our unique "debt plus equity" one-stop-shop funding model achieved positive results in 2012, despite the weak equity market. We also saw strong demand from our corporate customers for debt financing throughout the year, and in the last quarter of 2012 a number of new loans were written. As a result our structured finance business grew significantly. As of 31 December 2012, the Group's net secured term loans balance increased to HK$1,736.9 million, compared with HK$964.8 million at the end of 2011. This did not reflect in interest income for 2012, which declined 15% to HK$181.5 million, as a majority of new loans were written towards the end of the year. Bad debts of HK$76.3 million were recorded, impacting profitability. This impairment loss was an isolated case and we remain positive on the general prospects for the loan business.

In January 2013, we announced a HK$600 million loan transaction with Asia Financial Services Company Limited (details of which are disclosed in the Circular dated 23 January 2013), which will be added to the loan balance in 2013. In our structured finance portfolio, certain loans have equity-linked components related to Mainland China based investment projects with an IPO exit target of 24 months. These should bring potential for capital gains for the Group, as well as future business for our corporate finance unit. We are actively seeking further opportunities along this strategy.

CONSUMER FINANCE

United Asia Finance Limited (UAF) is a 58% owned subsidiary focusing on unsecured personal loans and mortgage loans.

UAF started operations in Mainland China in 2007 and its aggregate loan balance in the country now accounts for 30% of UAF's total. UAF has built a branch network of 125 outlets across Hong Kong and nine major cities in Mainland China.

UAF's total loan book is about HK$8.3 billion, 10% higher than at the end of 2011.

UAF delivered a record profit in 2012. Revenue for the Consumer Finance segment increased by 24% and its contribution to earnings before tax increased by 34% to HK$1,147.5 million.

(HK$ Million)	2012	2011	Change
Revenue	**2,581.6**	**2,084.3**	**24%**
Operating costs	(926.7)	(684.2)	35%
Cost to income (% Revenue)	35.9%	32.8%	
Finance costs	(129.7)	(120.4)	8%
Bad and doubtful debts	(350.8)	(164.5)	113%
Operating Earnings – excluding acquisition related expenses	**1,174.4**	**1,115.2**	**5%**
Finance costs (acquisition loan)	(13.5)	(25.6)	
Amortisation and impairment of intangibles	(16.2)	(174.4)	
Operating Earnings	**1,144.7**	**915.2**	25%
Other income	11.3	0.7	
Exchange loss	(8.5)	(61.6)	
Pre-tax Contribution	**1,147.5**	**854.3**	**34%**

Revenue grew faster than the total of loan balances during 2012, reflecting an increasing proportion of business from Mainland China that has a higher gross return than the Hong Kong business. In Hong Kong, yields have also improved slightly overall.

The total impairment charge on bad and doubtful debts which was an amount equal to the net sum of bad debts written off, charges or releases to/from impairment allowances and bad debts recovered increased to HK$350.8 million (2011: HK$164.5 million). The increase was caused by a rise in bad debts written off net of recovery during the year, and the absence of release in impairment allowance recorded in 2011. The charge-off ratio of bad debts written off net of recovery (as a % of year end gross loan balance) was 3.4% as against 2.8% in 2011.

BAD AND DOUBTFUL DEBTS AND IMPAIRMENT

(HK$ Million)	2012	2011
a. Amounts directly deducted from impairment allowance (“write off”)	**(366.7)**	(273.3)
b. Recoveries	**69.1**	54.4
c. Movement to impairment allowance	**(53.2)**	54.4
Total bad and doubtful debt charges	**(350.8)**	(164.5)
Net charge off (a-b) as % of gross loans	**3.4%**	2.8%
Impairment allowance	**459.7**	405.7
as % of gross loans	**5.3%**	5.1%

The segment’s earnings benefited from the finalisation of the costs associated with the Group’s acquisition of UAF in 2006. The amortisation of intangible assets largely ended in 2012. The interest expense incurred from associated loans also declined as these loans were repaid in full during the course of the year.

BREAKDOWN OF LOAN BOOK PRINCIPAL BY TYPE

By category	Percentage of total	Change from 2011
Hong Kong personal loans	42%	-10%
Hong Kong mortgage loans	28%	6%
PRC loans	30%	69%
Total		10%

UAF’s Mainland China business dominated its growth profile as the gross principal balance in Mainland China increased by 69% during 2012, accounting for 30% (2011: 20%) of UAF’s total. UAF will continue to expand in Mainland China with new branches and loan products. During 2012 UAF added a further 26 new branches to its network, of which 25 new branches were opened in Mainland China. UAF’s revenue in Mainland China increased by 72% along with rising profitability.

UAF'S BRANCH NETWORK AS OF 31.12.2012

City	New branches in 2012	Total at year end
Hong Kong	1	46
Shenzhen	6	43
Shenyang	2	5
Chongqing	3	5
Tianjin	2	4
Chengdu	4	7
Yunnan province	3	6
Dalian	3	6
Beijing	1	2
Wuhan	1	1
Total	26	125

At the end of 2012, money lending licenses in Shanghai, Fuzhou and Harbin were also granted to UAF, and operations have commenced in the first quarter of 2013. UAF will continue to pursue further money lending licenses in cities that show growth potential.

A new property mortgage loan business had its launch in Beijing and Wuhan in late 2012. UAF will monitor this product with a view to launching it in other cities in China in 2013. Feasibility studies on new loan products are always active on UAF's agenda and new products will be launched once market and regulatory conditions allow.

UAF's objective is to maintain growth momentum close to that of 2012. This loan growth can be comfortably funded given the Group's strong financial position. To date, more than HK$4 billion has been committed as paid up capital in various Mainland cities.

Loan balances in Hong Kong dropped slightly due to the competitive environment in personal loan markets and slower growth in mortgages as investors in the property market became more cautious. However, revenue from Hong Kong operations increased by 7% as more loans were granted at higher interest rates.

UAF successfully launched a new "No Show Loan" in 2012, featuring a more efficient service meeting customer appetite for a reduction in loan documentation requirements. UAF will continue to innovate with its loan products to cater to market demand.

Hiring a diverse range of sales personnel will reinforce our reach to more customer segments. Also in the pipeline are further advertising campaigns to promote the loan businesses. Our management will make every endeavour to use its leadership position in the market and increase the profit for the years ahead.

PRINCIPAL INVESTMENTS

The Group's capital has been invested in a variety of businesses and transactions, including small and medium enterprises in Mainland China, utilities, and private equity investments.

The Group's major fixed assets and investments include office space previously occupied by Sun Hung Kai Financial in Admiralty Centre, where 27,000 out of 32,000 square feet saleable area is classified as investment property.

We manage a portfolio of listed and un-listed investments to create synergies and business opportunities with the other segments of the Group.

Principal Investments contributed HK$298.6 million to the Group's pre-tax profit, an increase from HK$295.1 million of 2011. In 2012, the Group has recorded a HK$63.7 million (2011: HK$5.7 million) profit from financial instruments in its investment portfolio. Our strategy for this portfolio is to identify investments with attractive returns and provide synergies with other business divisions of the Group.

In 2012, we completed the disposal of legacy hotel investments in Malaysia and the Philippines, resulting in a total profit of HK$96.4 million shown under Other Income. An increase in the fair value of our investment properties also contributed HK$41.5 million (2011: HK$192.6 million).

OUTLOOK

Sun Hung Kai Financial and UAF faced difficult market conditions in 2012. Looking ahead to 2013, we anticipate somewhat more positive market conditions for both sides of the business.

With regard to UAF, the Group will continue prudent expansion in Mainland China consumer finance, with a view to developing it as a major contributor to profits in the future.

Prospects for the Sun Hung Kai Financial business have improved with the European sovereign debt crisis more stable for the moment, and some continuing improvement in U.S. financial indicators. There were also signs of increased economic activity in Mainland China towards the end of 2012, though the trend in asset prices is becoming a concern. Hopefully, these developments will lead to increased activity in financial markets and a recovery in our fee generating businesses as well as growth in our loan books. Despite this more optimistic outlook, we will maintain a prudent oversight of our cost structure.

FINANCIAL REVIEW

Financial Resources, Liquidity and Capital Structure

As of 31 December 2012, the equity attributable to owners of the Company amounted to HK$12,863.0 million, representing an increase of HK$775.5 million or approximately 6% from 31 December 2011. During the year, the Trustee of the SHK Employee Ownership Scheme (the "EOS") acquired 2.4 million shares of the Company through purchases on the Hong Kong Stock Exchange for the shares awarded under the scheme. The Company issued 68.7 million shares under the 2011 final and 2012 interim scrip dividend schemes. The Company repurchased 15.9 million shares for a total consideration (including expenses) of HK$65.9 million. Details regarding share capital are set out in Note 39 to the consolidated financial statements.

The Group maintained a strong cash position and short-term bank deposits, bank balances and cash, amounted to HK$5,035.3 million (at 31 December 2011: HK$2,736.0 million).

On 26 September 2012, the Group issued US$350 million 6.375% guaranteed notes, under a US$2 billion guaranteed medium term note programme. The notes are listed on the Hong Kong Stock Exchange and are issued to professional investors only as described in the pricing supplement dated 17 September 2012 and the offering circular dated 13 June 2012. The notes will mature on 26 September 2017 and are guaranteed by the Company.

The Group's total borrowings comprising of bank and other borrowings, amount due to an associate of a holding company, loans due to fellow subsidiaries, notes and bonds, amounted to HK$7,535.3 million (at 31 December 2011: HK$6,682.8 million). HK$3,166.6 million is repayable within one year and HK$4,368.7 million is repayable after one year (at 31 December 2011: HK$2,923.5 million and HK$3,759.3 million respectively).

The Group's bank and other borrowings (charged at floating interest rates) and loans due to fellow subsidiaries were in HK dollars and Renminbi as at 31 December 2012. There are no known seasonal factors in the Group's borrowing profiles.

The Group's gearing ratio calculated on the basis of net debt to the equity attributable to owners of the Company was approximately 19.4% as at 31 December 2012 (at 31 December 2011: approximately 32.7%). Net debt represents the total of bank and other borrowings, amount due to an associate of a holding company, loans due to fellow subsidiaries, notes and bonds less bank deposits, cash and cash equivalents.

The Group maintained foreign currency positions to cater for its present and potential investment and operating activities, meaning it will be subject to some acceptable exchange rate exposures. The exchange risks are closely monitored by the Group.

Material Acquisitions and Disposals of Subsidiaries, Associates and Jointly Controlled Entities

There were no material acquisitions or disposals of subsidiaries, associates or jointly controlled entities during the year.

Segment Information

Detailed segment information in respect of the revenue and profit or loss is shown in Note 6 to the consolidated financial statements.

Charges over Group Assets

Listed shares held by the Group with an aggregate value of HK$49.9 million were pledged for bank loans and overdrafts. Properties of the Group with a total book value of HK$478.0 million were pledged by subsidiaries to banks for installment loans granted to them with a total outstanding balance of HK$110.9 million as at 31 December 2012.

Contingent Liabilities

Details regarding the contingent liabilities are set out in Note 45 to the consolidated financial statements.

HUMAN RESOURCES AND TRAINING

As at 31 December 2012, the Group's headcount stood at 5,108 (including investment consultants), representing an approximate increase of 44.3% as compared to 31 December 2011. The bulk of the increase stemmed from UAF's business expansion in Mainland China (including the opening of 25 branches in Mainland China between January 2012 and December 2012). Staff costs (including Directors' emoluments), contributions to retirement benefit schemes and expenses recognised for the EOS amounted to approximately HK$775.5 million (2011: HK$653.8 million).

The Group operates different compensation schemes to reflect different job roles within the organisation. For sales staff and investment consultants, the package may consist of a base pay and commission/bonus/incentive or alternatively, may consist of commission/incentives. For non-sales staff, the compensation comprises either a base salary with discretionary bonus/share-based incentive or base salary, as appropriate.

Under the EOS, which was formally adopted on 18 December 2007, selected employees or directors of the Group (the "Selected Grantees") were awarded shares of the Company. Following management's recommendation, a total of 2,424,000 shares were granted to the Selected Grantees during the year subject to various terms including, amongst other things, the vesting scale whereby awarded shares will vest and become unrestricted over a three-year period. As at 31 December 2012, the outstanding awarded shares under the EOS (excluding shares awarded, but subsequently forfeited) amounted to 3,267,000, out of which 842,000 shares were awarded to Directors.

The Group is devoted to unleashing the potential of our people through talent development programmes, supporting long-term leadership development with a number of initiatives including the 360 Degree Assessment and Balanced Scorecard. Additionally, the Group enhances the competency of our people by equipping them with skills and knowledge. Extensive in-house training programmes are provided to frontline sales and back office staff, aiming at accelerating their growth and fostering their career development. With the objective of strengthening our internal communication, additional two-way communication channels between senior management and our people have been established.

LITIGATION

Details regarding material litigation giving rise to contingent liabilities, namely proceedings relating to Chang Zhou Power Development Company Limited, a Mainland China joint venture, are set out in Note 45 to the consolidated financial statements.

MANAGEMENT OF RISKS

Strong Risk Management Awareness

The Group adopts a comprehensive risk management framework. Risk management policies and procedures are regularly reviewed and updated to react to changes of market conditions and the Group's business strategy. The Risk Management Committee, a standing committee reporting to the Board of Directors, supervises and scrutinises risk-related policies necessary for monitoring and controlling of the major risks, spelt out here, arising from the Group's business activities, external changing risks and regulatory environment.

Financial Risk Management

The Group's financial risk management seeks to manage market risk (risk that the value of an investment will change due to movements in market factors; comprised of equity risk, interest rate risk and foreign exchange or currency risk), credit risk (risk of losses arising from clients or counterparties fail to make payments as contracted) and liquidity risk (risk that a given security or asset cannot be traded readily in the market to prevent a loss or make the required profit). These are further discussed and outlined in Note 54 to the consolidated financial statements.

Operational Risk Management

Operational risk is defined as the risk of losses resulting from inadequate or failed internal processes, people, systems or external events. The Group extends operational risk to cover potential losses arising from legal and compliance breaches. Operational risk is reduced and controlled through establishing robust internal controls, clear lines of responsibility, proper segregation of duties and effective internal reporting and contingency planning. It is our corporate culture that the business and operating line management are fully aware of and responsible for managing operational risks of their business units on a day-to-day basis. There are independent monitoring and reviews conducted by Compliance and Internal Audit which report regularly to the Group's senior management and the Audit Committee of the Board.

Reputational Risk Management

Reputational risk is the risk related to the trustworthiness of a business. Loss of trust can result in declines in the customer base, revenue erosion, costly litigation and destruction of shareholder value and damage to the Company's reputation as a whole. The Group manages reputational risk through sound corporate governance practices. Group employees and sales personnel are provided with comprehensive training. Operating procedures manuals are regularly updated. The responsibilities and duties of staff are properly segregated. The internal control functions report directly to the Group's senior management.

Profiles of Directors and Senior Management

BOARD OF DIRECTORS

Back row (from left to right): William Leung Wing Cheung, David Craig Bartlett, Goh Joo Chuan, Leung Pak To, Joseph Tong Tang, Peter Anthony Curry

Front row (from left to right): Ho Chi Kit, Peter Wong Man Kong, Lee Seng Huang, Carlisle Caldow Procter, Alan Stephen Jones

Roy Kuan is also a Board member.

EXECUTIVE DIRECTORS

Lee Seng Huang, aged 38, was appointed as an Executive Director and has been the Group's Executive Chairman of the Company since 1 January 2007. Mr. Lee was educated at the University of Sydney in Australia and has wide ranging financial services and real estate investment experience in the Asian region. He has previously served, in various capacities, on the board of directors of Lippo Limited and Lippo China Resources Limited in Hong Kong, Auric Pacific Group Limited in Singapore, and the Export and Industry Bank, Inc. in the Philippines. He is currently the executive chairman of Mulpha International Berhad (a Malaysian listed conglomerate with operations in Southeast Asia, Australia and Mainland China) as well as Mulpha Australia Limited, and FKP Property Group, a leading property developer listed on the Australian Securities Exchange (the "ASX"). He is also a non-executive director of Mudajaya Group Berhad, a company listed on the Bursa Malaysia Securities Berhad. Mr. Lee is a trustee of Lee and Lee Trust, a discretionary trust owning a controlling interest in the issued share capital of Allied Group Limited ("AGL"), a holding company of the Company through its interest in Allied Properties (H.K.) Limited ("APL"). Both AGL and APL are companies listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). He resigned as a non-executive director of East West Resources PLC ("East West"), a company listed on the Alternate Investment Market of the London Stock Exchange, in July 2012. Mr. Lee is also a director of United Asia Finance Limited ("UAF"), a subsidiary of the Company.

William Leung Wing Cheung, *BBS, JP*, aged 58, was appointed an Executive Director of the Company on 26 March 2012. He was appointed as Group Deputy Chief Executive Officer of the Company and Chief Executive Officer of Sun Hung Kai Financial Limited ("SHKF") on 1 January 2012. Mr. Leung has over 30 years of experience in the banking and financial services industry. He joined Hang Seng Bank Limited ("HS Bank"), a company listed on the Hong Kong Stock Exchange, in 1994 as assistant general manager and head of credit card centre until his resignation in August 2011 with HS Bank as Executive Director and Head of Personal Banking. Prior to joining HS Bank, he had worked with American Express International Inc., Standard Chartered Bank in Hong Kong, Visa International and MasterCard International in Sydney. He was also a non-executive director of HSBC China Dragon Fund until his resignation in August 2011. Mr. Leung was educated at the Hong Kong Baptist University and obtained a Diploma of Arts in English Language and Literature in 1978. He was appointed Justice of the Peace in July 2005 and honoured with a Bronze Bauhinia Star by the Hong Kong Special Administrative Region Government in July 2009. Mr. Leung also holds directorships in various subsidiaries of the Company.

Joseph Tong Tang, aged 53, was appointed an Executive Director of the Company on 4 December 2003 and was the Group Chief Operating Officer of the Company from 1 December 2004 to 31 December 2006. Mr. Tong is currently the Chief Executive Officer of the Capital Markets and Institutional Brokerage. He has over 28 years of experience in the financial services industry, and previously held senior positions with a number of international banks and financial institutions, including ABN AMRO Bank, CCIC Finance Limited, Bain & Co. Securities Limited and Bali International Finance Limited. Mr. Tong has a Bachelor's Degree in Social Sciences from the University of Hong Kong and a Master's Degree in Business Administration from the Chinese University of Hong Kong, and is a fellow member of the Association of Chartered Certified Accountants. Mr. Tong is also an independent director of Jih Sun Financial Holding Co., Ltd (and two of its subsidiaries), the shares of which are listed on the Gre Tai Securities Market (GTSM) in Taiwan. Mr. Tong also holds directorships in various subsidiaries of the Company.

Peter Anthony Curry, aged 60, was appointed an Executive Director of the Company on 1 January 2011. He joined the Company as the Group Chief Financial Officer in November 2010. He graduated from the University of New South Wales with a Bachelor Degree of Commerce in 1974 and a Bachelor Degree of Laws in 1976. He became a chartered accountant and a barrister (non-practising) in Australia in 1978. He was elected as a fellow of The Institute of Directors in Australia in 1989. In 2002, he completed the PS 146 Compliance Program organised by Securities Institute in Australia. Mr. Curry has over 37 years of business experience. He joined Peat Marwick Mitchell (now known as KPMG) in Australia in 1974 upon graduation and worked as Tax Partner in 1983. Since that time he has worked in different listed and unlisted companies in Australia as executive director/managing director specialising in natural resources, corporate finance, mergers and acquisitions etc. Since 1995 Mr. Curry has been a director and shareholder in a corporate advisory firm which holds an Australian Financial Services licence. He has been involved in a range of public and private capital raisings, initial public offering related services and providing corporate and financial advisory services in relation to a range of business transactions including a wide range of mining projects. Mr. Curry is currently a non-executive director of APAC Resources Limited, a company listed on the Hong Kong Stock Exchange. He was previously a non-executive director of Forest Enterprises Australia Limited which was removed from official listing on the ASX in August 2010. He resigned as a non-executive director of Ormil Energy Limited and an alternate director of Mount Gibson Iron Limited ("Mount Gibson"), both of which are listed on the ASX, in September 2012 and a non-executive director of East West in December 2012. Mr. Curry also holds directorships in various subsidiaries of the Company.

NON-EXECUTIVE DIRECTORS

Goh Joo Chuan, aged 52, was appointed a Non-Executive Director of the Company on 19 November 2009. Mr. Goh graduated from the University of Chicago where he obtained his Bachelor of Arts with Honors and Master of Arts in International Finance. Mr. Goh joined the Dubai Group as its chief investment officer in November 2008 and is now head of treasury for Dubai Holdings. As at the date of this report, Dubai Ventures L.L.C, a subsidiary of the Dubai Group, holds 166,000,000 shares of the Company. Mr. Goh has over 28 years of experience in several major areas of the banking industry, including management of financial institutions, consumer banking, Islamic banking, treasury management, risk management, e-commerce, structuring, sales, distribution and trading, change management and private equity work. He was key to managing Citibank's Asian exposure during the Asian Crisis. Prior to joining the Dubai Group, Mr. Goh was the director of treasury for Guangdong Development Bank, China. Mr. Goh has served with several leading regional and international institutions including the Saudi American Bank and Samba Group in Riyadh, Citibank, Chase Manhattan Bank and The Monetary Authority of Singapore. Mr. Goh resigned from the board of Oman National Investment Corporation Holding, a company listed on the Muscat SM Abu Dhabi Securities Exchange, in March 2013. He is currently a director of Dubai Ventures Group Sdn. Bhd., Sino Emirates Chemicals Ltd and Tael One Partners Ltd.

Leung Pak To, aged 58, was appointed a Non-Executive Director of the Company on 13 July 2010. He has over 30 years of experience in investment banking, in particular, the field of corporate finance involving capital raising, mergers and acquisitions, corporate restructuring and reorganisation, investments and other general finance advisory activities in Hong Kong and Mainland China. Mr. Leung is currently the chairman of Greater China of and a managing partner of CVC Asia Pacific Ltd ("CVC AP"), the adviser to the investment funds which ultimately own Asia Financial Services Company Limited ("AFSCL"). As at the date of this report, AFSCL holds 341,600,000 shares of the Company and HK$427,000,000 in face value of warrants exercisable to subscribe for shares of the Company (the "Warrants"). Mr. Leung is a non-executive director and the chairman of Imagi International Holdings Limited and an independent non-executive director of Shanghai Industrial Holdings Limited, both are listed on the Hong Kong Stock Exchange. During June 2001 and July 2006, Mr. Leung was chairman of Citigroup Global Markets in Asia.

Prior to Citigroup, he was chief executive and vice chairman of BNP Paribas Peregrine Ltd. Mr. Leung holds an MBA and an undergraduate degree from the University of Toronto in Canada.

Roy Kuan, aged 46, was appointed an Alternate Director to Mr. Ho Chi Kit on 13 July 2010 and re-designated as a Non-Executive Director of the Company on 1 January 2011. He is a managing partner and head of Asia of CVC AP and a director of CVC Capital Partners SICAV-FIS S.A.. As at the date of this report, AFSCL holds 341,600,000 shares of the Company and the Warrants. Mr. Kuan has worked at CVC AP and its predecessor firms since 1996. He has led numerous investments in Greater China, Korea, Japan, and Southeast Asia. He served on the board of directors in 17 of these companies. Mr. Kuan holds a BA from Georgetown University and an MBA from the Wharton School University of Pennsylvania. Since 1 April 2010, Mr. Kuan is a commissioner of PT Matahari Department Stores Tbk in Indonesia.

Ho Chi Kit, aged 50, was appointed a Non-Executive Director of the Company on 13 July 2010 and re-designated as an Alternate Director to Mr. Roy Kuan on 1 January 2011. He is a partner of CVC AP. As at the date of this report, AFSCL holds 341,600,000 shares of the Company and the Warrants. Mr. Ho holds a B.S. (Honours) in Computer Science from the University of Manitoba and an MBA from the University of British Columbia. He is also a chartered financial analyst. Mr. Ho has been with CVC AP since 1999 and was responsible for CVC Capital Partners' investment activities in Hong Kong and Mainland China. Prior to CVC AP, Mr. Ho was an investment director of Citicorp Everbright China Fund where he actively led the fund's investments in China. Prior to that, he was the associate investment director of Citicorp Capital Asia Limited and assisted in building a regional investment portfolio for Citicorp in Asia. He was previously a non-executive director of Hung Hing Printing Group Limited, a company listed on the Hong Kong Stock Exchange until August 2011. Mr. Ho is currently the vice chairman of Zhuhai Zhongfu Enterprise Co., Ltd., a company listed on the Shenzhen Stock Exchange, and a non-executive director of C.banner International Holdings Limited, a company listed on the Hong Kong Stock Exchange. He is also a director of two of the subsidiaries of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

David Craig Bartlett, aged 47, was appointed an Independent Non-Executive Director of the Company on 26 November 1999. Mr. Bartlett graduated with honours in law from Exeter University in the United Kingdom in 1988 and subsequently qualified as a solicitor in England & Wales, the Republic of Ireland and the Hong Kong Special Administrative Region. A former partner of the international law firm Clyde & Co., he regularly acted for and advised the Company and its subsidiaries before leaving private practice for a career in industry. Now based primarily in Europe, he is also an independent non-executive director of each of AGL and APL, the holding companies of the Company, and the shares of which are listed on the Hong Kong Stock Exchange.

Alan Stephen Jones, aged 70, was appointed an Independent Non-Executive Director of the Company on 3 January 2006. Mr. Jones, a chartered accountant, has extensive experience in management, administration, accounting, property development, carpark management, finance and trading, and has been involved in successful mergers and acquisitions of a number of public companies in Australia and internationally. He is also an independent non-executive director of each of AGL and APL, the holding companies of the Company, and the shares of which are listed on the Hong Kong Stock Exchange. Mr. Jones is also an independent non-executive director of Mount Gibson and a non-executive chairman of Air Change International Limited, both are listed on the ASX, as well as a non-executive director of Mulpha Australia Limited.

Carlisle Caldow Procter, aged 72, was appointed an Independent Non-Executive Director of the Company on 30 September 2004. Mr. Procter graduated from the University of Sydney, Australia with a Bachelor's Degree and a Master's Degree in Economics. He is a fellow of the Financial Services Institute of Australasia (FFin.). Based in Australia, Mr. Procter worked at the Reserve Bank of Australia for over 30 years, holding various senior management positions. Since leaving the Bank, he has worked as a consultant to the International Monetary Fund (IMF) and the Asian Development Bank (ADB), and has also undertaken private consulting work in the Philippines, Indonesia and Papua New Guinea in the areas of bank supervision, anti-money laundering and corporate governance respectively. Mr. Procter is currently a non-executive director of Bank South Pacific Limited, a company listed on the Port Moresby Stock Exchange, Eurogold Limited and Tanami Gold NL, both listed on the ASX and an independent non-executive director of Allied Overseas Limited, a company listed on the Hong Kong Stock Exchange.

Peter Wong Man Kong, *BBS, JP*, aged 64, was appointed an Independent Non-Executive Director of the Company on 30 May 2001. Mr. Wong graduated from the University of California at Berkeley, U.S.A. with a Bachelor of Science Degree in Mechanical Engineering (Naval Architecture). He is the chairman of M.K. Corporation Limited, Culture Resources Development Co., Ltd. and North West Development Limited. He is also a non-executive director of Hong Kong Ferry (Holdings) Company Limited and New Times Energy Corporation Limited, an independent non-executive director of China Travel International Investment Hong Kong Limited, Far East Consortium International Limited, Glorious Sun Enterprises Limited, Chinney Investments, Limited and Sino Hotels (Holdings) Limited, all being companies listed on the Hong Kong Stock Exchange. Mr. Wong has been appointed as an independent non-executive director of MGM China Holdings Limited, a company listed on the Hong Kong Stock Exchange from 1 December 2012. Mr. Wong is serving as a deputy to the 12th National People's Congress of the People's Republic of China.

SENIOR MANAGEMENT

Akihiro Nagahara, aged 72, is the Managing Director and CEO of UAF and a director of various subsidiaries of the Company. He holds a law degree from the National Taiwan University and a Master's Degree from the Graduate School in Law of the National Hitotsubashi University of Japan, where he also completed his doctorate courses. He is an acknowledged expert in the consumer finance business in Hong Kong and is credited with the successful establishment of Public Finance Limited (formerly known as JCG Finance Company, Limited). He is also the chairman of The Hong Kong S.A.R. Licensed Money Lenders Association Limited, a position he has held since its establishment in 1999, which is the only industry representative association of licensed money lenders in Hong Kong.

Paul Leung Tung Yip, aged 57, joined the Group in December 2010. Mr. Leung is the Chief Financial Officer of SHKF and a director of various subsidiaries of the Company. He has worked in senior finance management roles for more than 25 years in investment banks and commercial banks in Hong Kong and Australia. Prior to joining the Group, he was the chief financial officer, Greater China of the Royal Bank of Scotland, Hong Kong Branch and had worked at Indosuez W I Carr Securities Limited, Smith New Court (Far East) Limited, Merrill Lynch (Australia) Pty Limited. Mr. Leung graduated from the University of Hong Kong with a Bachelor Degree of Social Sciences, majoring in economics and business management. He is an associate member of the Institute of Chartered Accountants in England and Wales and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Kevin Tai Yiu Kuen, aged 46, joined the Group in July 2000. Mr. Tai has held a number of senior positions across various business functions within the Group and is presently the Chief Operating Officer, Wealth Management & Brokerage and a director of various subsidiaries of the Company. He has more than 20 years' experience in the financial services industry. Prior to joining the Group, Mr. Tai was head of settlement at CLSA Limited. Before that, Mr. Tai was vice president of regional middle office for global equities at J.P. Morgan Securities (Asia Pacific) Limited.

Rizal Wijono, aged 43, joined the Group in June 2008. Mr. Wijono is the Managing Director of SHK Fund Management Limited ("SHKFM") and a director of various subsidiaries of the Company. He carries full management responsibility for SHKFM's asset management business. Mr. Wijono has over 18 years' experience in the financial services industry in Asia. Prior to joining the Group, he was regional director – head of product strategy and services at Deutsche Asset Management Asia Pacific Ltd. in Singapore. Before that he spent nine years with ING Investment Management Asia Pacific (HK) Ltd. ("ING") in a variety of positions with exposure to product development, wholesale, and institutional sales, business management and establishing ING's investment management businesses across ten countries in Asia. In his last role, he was a member of ING's executive committee responsible for wholesale sales and business development across Asia. Before ING, he was the head of private banking for Dharmala Investment Management Services Ltd and helped Belgian Bank set up a Euro-desk for its international client base. Mr. Wijono is proficient in six languages which include Dutch, French, German, English, Bahasa and Putonghua. Mr. Wijono is a graduate of the University of Antwerp (Belgium) with a Bachelor Degree in Applied Business Economics and holds a Management Degree (equivalent to an MBA) from the Xavier Institute of Management, India.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework, with an emphasis on the principles of integrity, transparency, accountability and equity. The Board of Directors believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholder value.

CORPORATE GOVERNANCE CODE

In the light of the Corporate Governance Code and Corporate Governance Report (the "CG Code") (previously known as Code on Corporate Governance Practices (the "Former CG Code")) contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Board has reviewed the corporate governance practices of the Company with the adoption of the various enhanced procedures which are detailed in this report. The Company has applied the principles of, and complied with, the applicable code provisions of the CG Code during the year ended 31 December 2012, except for certain deviations as specified with considered reasons for such deviations as explained below. The Board will review the current practices at least annually, and makes appropriate changes if considered necessary.

THE BOARD

The Board currently comprises 11 members, with four Executive Directors, three Non-Executive Directors (the "NEDs") (and one Alternate Director) and four Independent Non-Executive Directors (the "INEDs"):

Executive Directors:	Lee Seng Huang *(Group Executive Chairman)* William Leung Wing Cheung Joseph Tong Tang Peter Anthony Curry
Non-Executive Directors:	Goh Joo Chuan Leung Pak To Roy Kuan Ho Chi Kit *(alternate to Roy Kuan)*
Independent Non-Executive Directors:	David Craig Bartlett Alan Stephen Jones Carlisle Caldow Procter Peter Wong Man Kong

The brief biographical details of the Directors are set out in the Profiles of Directors and Senior Management on pages 23 to 28.

BOARD PROCESS

During the year, the NEDs (four of whom were independent) provided the Company and its subsidiaries (the "Group") with a wide range of expertise and experience. Their active participation in the Board and committee meetings brought independent judgment on issues relating to the Group's strategy, performance and management process, at the same time taking into account the interests of all shareholders of the Company (the "Shareholders").

Throughout the year, and up to the date of this report, the Company has had four INEDs representing more than one-third of the Board. Two out of the four INEDs have the appropriate professional qualifications or accounting or related financial management expertise specified under Rule 3.10 of the Listing Rules. The Board has received from each INED an annual confirmation of his independence and considers that all the INEDs are independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to meetings for reviewing and approving the Group's annual and interim results and other ad hoc matters which need to be dealt with by the Board. The chief financial officer and other relevant senior executives are invited to attend Board meetings to make presentations and answer the Board's enquiries.

During the year, 10 Board meetings were held. The individual attendance records of each Director at the meetings of the Board, Remuneration Committee, Audit Committee, Risk Management Committee and general meetings of the Company during the year ended 31 December 2012 are set out as follows:

	Number of meetings attended/held				
Name of Directors	Board	Remuneration Committee	Audit Committee	Risk Management Committee	General Meetings
Executive Directors:					
Lee Seng Huang	9/10			2/2	2/2
William Leung Wing Cheung *(appointed on 26 March 2012)*	9/9*			1/1*	2/2
Joseph Tong Tang	10/10			2/2	2/2
Peter Anthony Curry	10/10			2/2	2/2
Non-Executive Directors:					
Goh Joh Chuan	6/10				2/2
Leung Pak To	5#/10				0/2
Roy Kuan	8/10	0/1	3/4	0^/2	0/2
Ho Chi Kit *(alternate to Roy Kuan)*	3/10	1/1	1/4	1/2	1/2
Ming Cheng *(retired on 30 May 2012)*	0/3@				0/1@
Independent Non-Executive Directors:					
David Craig Bartlett	8/10	1/1	4/4		0/2
Alan Stephen Jones	9/10	1/1	4/4		2/2
Carlisle Caldow Procter	9/10	1/1	4/4		1/2
Peter Wong Man Kong	9/10	1/1	3/4		1/2

* *Only nine Board meetings, and one Risk Management Committee meeting were held during his tenure*
\# *Five Board meetings were attended by himself, while there were three Board meetings attended by his representative*
^ *One committee meeting was attended by his representative while another committee meeting was attended by his alternate*
@ *Only three Board meetings and one general meeting were held during his tenure*

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, annual and interim results, approval of Directors' appointment or re-appointment (based on the recommendations made by the Nomination Committee), material contracts and transactions, corporate governance as well as other significant policy and financial matters. The Board has delegated the daily operation and administration responsibilities to the executive management under the instruction/supervision of the Executive Committee which has its specific written terms of reference. The respective functions of the Board and management of the Company have been formalised and set out in writing. The Board reviews these procedures from time to time to ensure that they are consistent with the existing rules and regulations.

Regular Board meetings each year are scheduled in advance to facilitate maximum attendance of Directors. At least 14 days' notice of a Board meeting is normally given to all Directors who are given an opportunity to include matters for discussions in the agenda. The Company Secretary assists the Chairman in preparing the agenda for meetings, and ensures all applicable rules and regulations are complied with. The agenda and the accompanying Board papers are normally sent to all Directors at least three days prior to the proposed Board meeting (and so far as practicable for other Board meetings). Draft minutes of each Board meeting are circulated to all Directors for their comment before being tabled at the following Board meeting for approval. Minutes of meetings are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

According to current Board practice, if a substantial shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter cannot be dealt with by a written resolution of the Board but must be dealt with by the Board at a duly convened Board meeting. The Articles of Association of the Company ("Articles") stipulate that save for the exceptions as provided therein, a Director shall abstain from voting and not be counted in the quorum at meetings of the Board for approving any contract or arrangement in which such Director or any of his associate(s) has a material interest. The Board will also follow rules stipulated in the Listing Rules in this regard.

Every Director is entitled to have access to Board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. In addition, a written procedure has been established since June 2005 to enable the Directors, in the discharge of their duties, to seek independent professional advice in appropriate circumstances at a reasonable cost to be borne by the Company.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Directors will continuously be updated on major developments of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices. During the year, the Company has organised a briefing session regarding the disclosure of inside information by listed corporation conducted by Messrs. P. C. Woo & Co. for the Directors.

For continuous professional development, in addition to Directors' attendance at meetings and review of papers and circulars sent by management, Directors participated in the activities including the following:

Participation in Continuous Professional Development Activities

Name of Directors	Reading regulatory updates	Attending trainings/briefings/ seminars/conference relevant to Directors' duties
Executive Directors:		
Lee Seng Huang	✓	✓
William Leung Wing Cheung	✓	✓
Joseph Tong Tang	✓	✓
Peter Anthony Curry	✓	✓
Non-Executive Directors:		
Goh Joh Chuan	✓	✓
Leung Pak To	✓	✓
Roy Kuan	✓	✓
Ho Chi Kit *(alternate to Roy Kuan)*	✓	✓
Independent Non-Executive Directors:		
David Craig Bartlett	✓	✓
Alan Stephen Jones	✓	✓
Carlisle Caldow Procter	✓	✓
Peter Wong Man Kong	✓	✓

ROLES OF CHAIRMAN AND CHIEF EXECUTIVE

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current organisational structure of the Company, the functions of a chief executive are performed by the Group Executive Chairman, Mr. Lee Seng Huang, in conjunction with the other three Executive Directors, Mr. William Leung Wing Cheung, Mr. Joseph Tong Tang and Mr. Peter Anthony Curry. The Group Executive Chairman oversees the Group's principal investments, as well as the Group's interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. William Leung leads the overall business of Sun Hung Kai Financial Limited ("SHKF"). Mr. Joseph Tong acts as the CEO of Capital Markets and Institutional Brokerage and Mr. Peter Curry oversees the management of the corporate administrative functions, including finance and budget, internal audit and risk management.

The Board believes that this structure spreads the workload that would otherwise be borne by an individual chief executive, allowing the growing businesses of the Group to be overseen by appropriately qualified and experienced senior executives in those fields. Furthermore, it enhances communications and speeds up decision-making processes across the Company. The Board also considers that this structure will not impair the balance of power and authority between the Board and management of the Company. An appropriate balance can be maintained by the operation of the Board, which holds at least four regular meetings a year to discuss the business and operational issues of the Group.

The Group Executive Chairman is responsible for the leadership of the Board, ensuring all key and appropriate issues are discussed by the Board in a timely and constructive manner; all Directors are properly briefed on issues arising at Board meetings, and that the Directors receive in a timely manner, adequate information is accurate, clear, complete and reliable.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

In June 2005, the Board established and adopted a written nomination procedure (the "Nomination Procedure") specifying the process and criteria for the selection and recommendation of candidates for directorships of the Company. The Chairman of the Board shall, based on those criteria as set out in the Nomination Procedure (including appropriate experience, personal skills and time commitment, among others), identify and recommend the proposed candidate to the Board for approval. The Nomination Procedure has been included in the terms of reference of the Nomination Committee with effect from the establishment of the Nomination Committee on 1 April 2012.

New Directors, upon appointment, will be given an induction package containing all key applicable regulations and the Listing Rules requirements, as well as guidelines on the responsibilities and obligations to be observed by a Director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board. Senior management will subsequently conduct such briefings as necessary to give the new Directors more detailed information on the Group's businesses and activities.

All NEDs (including the INEDs) of the Company were appointed for a specific term, and are subject to the relevant provisions of the Articles or any other applicable laws whereby the Directors shall vacate or retire from their office but eligible for re-election. The term of appointment of the NEDs (including the INEDs) has been renewed for further two years commencing from 1 January 2013.

According to the Articles, any Director appointed to fill a casual vacancy shall hold office until the Company's next following general meeting and shall be eligible for re-election. Any Director appointed as an addition to the Board shall also hold office only until the next following Annual General Meeting (the "AGM") of the Company and shall be eligible for re-election at that meeting. Further, at each AGM of the Company, one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation. Every Director shall be subject to retirement by rotation at least once every three years.

CORPORATE GOVERNANCE FUNCTIONS

To maintain a high standard of corporate governance within a sensible framework, with an emphasis on the principles of integrity, transparency, accountability and equity, the Company has adopted a Corporate Governance Policy and the terms of reference of the Board with effect from 1 April 2012.

The major duties of the Board in respect of performing the corporate governance functions are:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

BOARD COMMITTEES

The Board has established various committees, including the Nomination Committee (set up with effect from 1 April 2012), Executive Committee, Remuneration Committee, Audit Committee and Risk Management Committee, each of which has its specific written terms of reference. Copies of minutes of all meetings and resolutions of the committees, which are kept by the Company Secretary, are circulated to all Board members, and the committees are required to report back to the Board on their decisions and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned above, have been adopted for the committee meetings so far as practicable.

Nomination Committee

The Nomination Committee has been established with effect from 1 April 2012 and currently consists of one Executive Director, four INEDs and one NED, including Messrs. Lee Seng Huang *(Chairman of the Committee)*, David Craig Bartlett, Alan Stephen Jones, Carlisle Caldow Procter, Peter Wong Man Kong and Roy Kuan *(with Mr. Ho Chi Kit as his alternate)*. The Nomination Committee is provided with sufficient resources to perform its duties, including, where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibilities.

The major duties and authorities of the Nomination Committee are:

(i) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(ii) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the Board on the selection of individual(s) nominated for directorship(s);

(iii) to assess the independence of the INEDs; and

(iv) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive.

The terms of reference of the Nomination Committee of the Company are fully complied with the code provision A.5.2 of the CG Code and are available on the websites of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") and the Company.

The Nomination Committee shall hold meeting when necessary in accordance with its terms of reference and may also deal with matters by way of circulation. In 2012, no Nomination Committee meeting was held while the Committee dealt with matters by way of circulation. In 2012 and up to the date of this report, the Nomination Committee performed work as summarised below:

(i) reviewed and recommended for the Board approval the renewed term of appointment of the NEDs (including the INEDs);

(ii) reviewed the structure, size and composition of the Board;

(iii) reviewed and confirmed the independent of the INEDs; and

(iv) reviewed and recommended to the Board the retiring Directors to stand for re-election by the Shareholders at the 2013 AGM.

Remuneration Committee

The Remuneration Committee has been established since April 1985 and currently consists of four INEDs and one NED, including Messrs. Peter Wong Man Kong *(Chairman of the Committee)*, David Craig Bartlett, Alan Stephen Jones, Carlisle Caldow Procter and Roy Kuan *(with Mr. Ho Chi Kit as his alternate)*. The Remuneration Committee is provided with sufficient resources to perform its duties, including where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibilities.

The major duties and authorities of the Remuneration Committee are:

(i) to make recommendations to the Board on the Company's policy and structure for all Directors' remuneration matters and on the establishment of a formal and transparent procedure for developing remuneration policy;

(ii) to review and recommend Executive Directors' remuneration proposals with reference to the Board's corporate goals and objectives;

(iii) to make recommendation to the Board on the remuneration packages of individual Executive Directors;

(iv) to make recommendations to the Board on the remuneration of the NEDs;

(v) to review and recommend compensation payable to Executive Directors for any loss or termination of office or appointment;

(vi) to review and recommend compensation arrangements relating to dismissal or removal of Directors for misconduct; and

(vii) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The terms of reference of the Remuneration Committee of the Company are in compliance with the code provision B.1.3 of the Former CG Code, but with a deviation from the code provision that the Remuneration Committee shall review (as opposed to determine under the code provision) and make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the code provision). Certain amendments have been made to the Former CG Code with effect from 1 April 2012, including code provision B.1.2 of CG Code (B.1.3 of the Former CG Code), which now accommodates a model where the remuneration committee performs an advisory role as to the remuneration packages of the Executive Directors and senior management. Accordingly, the revised terms of reference of the Remuneration Committee adopted to align with the CG Code are in compliance with the code provision B.1.2 except that the Remuneration Committee shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the new code provision B.1.2). The reasons for the above derivations are summarised as below:

(i) the Board believes that the Remuneration Committee is not in a proper position to evaluate the performance of senior management and that this evaluation process is more effectively carried out by the Executive Directors;

(ii) a majority of the Remuneration Committee members are the INEDs who come from different professions and backgrounds, and they are not involved in the daily operation of the Company. They may have little direct knowledge of industry practice and standard compensation packages. The Remuneration Committee is thus not in a position to properly determine the remuneration of the Executive Directors;

(iii) the Executive Directors must be in a position to supervise and control senior management and thus must be able to determine their compensation; and

(iv) there is no reason for Executive Directors to pay senior management more than industry standards and thus the Shareholders will benefit by reducing costs in the fixing of such compensation packages.

The terms of reference of the Remuneration Committee are available on the websites of the Hong Kong Stock Exchange and the Company.

The Remuneration Committee shall meet at least once a year in accordance with its terms of reference. One Remuneration Committee meeting was held in 2012 and the attendance of each member at the meeting is set out in the section headed "Board Process" of this report.

In 2012, the Remuneration Committee performed work as summarised below:

(i) reviewed the policy and structure for the remuneration of Directors;

(ii) reviewed the remuneration packages of the Executive Directors and recommended an increase in the monthly salary of Mr. Lee Seng Huang, Mr. Joseph Tong Tang and Mr. Peter Anthony Curry commencing from the year 2012 for the Board's approval;

(iii) reviewed and recommended bonuses for the year ended 31 December 2011 for three Executive Directors for the Board's approval; and

(iv) reviewed the remuneration of all Directors (including the INEDs) and consultancy fees of the INEDs and recommended to the Board of an increase to the consultancy fee of the INEDs commencing from the year 2012.

Each Director will be entitled to a fee which is to be proposed for the Shareholders' approval at the AGM of the Company. Further remuneration payable to Directors (including any consultancy fees to the INEDs) for their additional responsibilities and services will be determined according to their respective contractual terms under their employment contracts or service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in Note 8 to the consolidated financial statements. Details of the remuneration policy of the Group are also set out in the "Human Resources and Training" section in the Management Discussion and Analysis on pages 21 to 22.

Subsequent to the balance sheet date, a Committee meeting was held to review the policy and structure of the Directors' remuneration; and the remuneration packages of the Directors. The Committee recommended to the Board of (i) the payment of the following discretionary bonuses for the year 2012 to the four Executive Directors:

– HK$5,000,000 in cash to Mr. Lee Seng Huang;

– HK$1,790,000 in cash and such number of shares of the Company to be awarded under the SHK Employee Ownership Scheme (the "EOS") equivalent of HK$1,460,000 to Mr. William Leung Wing Cheung;

– HK$400,000 in cash and such number of shares of the Company to be awarded under the EOS equivalent of HK$100,000 to Mr. Joseph Tong Tang; and

– HK$1,050,000 in cash and such number of shares of the Company to be awarded under the EOS equivalent to HK$700,000 to Mr. Peter Anthony Curry;

and (ii) an increase of 2% to the monthly salary of the above four Executive Directors commencing from the year 2013. The Board subsequently approved these recommendations put forward by the Remuneration Committee.

For the purpose of Rule 13.51B(1) of the Listing Rules, amount for the monthly rental-related expenses which form part of the emoluments of Mr. Lee Seng Huang and are varying in nature have changed.

Audit Committee

The Audit Committee has been established since April 1985 and currently consists of four INEDs and one NED. To retain independence and objectivity, the Audit Committee is chaired by an INED who possesses appropriate professional qualifications or accounting or related financial management expertise. The current members of the Audit Committee are Messrs. Alan Stephen Jones *(Chairman of the Committee)*, David Craig Bartlett, Carlisle Caldow Procter, Peter Wong Man Kong and Roy Kuan *(with Mr. Ho Chi Kit as his alternate)*. The Audit Committee is provided with sufficient resources to perform its duties and has access to independent professional advice according to the Company's policy when necessary.

The major responsibilities and duties of the Audit Committee are:

(i) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

(ii) to act as the key representative body for overseeing the Company's relations with the external auditor;

(iii) to review and monitor the external auditor's independence and objectivity;

(iv) to review the interim and annual financial statements before submission to the Board;

(v) to discuss any problems and reservations arising from the interim review and final audit, and any other matters the external auditor may wish to discuss;

(vi) to review the external auditor's management letters and management's response;

(vii) to review the Group's financial controls, internal control and risk management systems;

(viii) to discuss the internal control system with management and scrutinise whether management has performed its duty to have an effective internal control system;

(ix) to consider major investigations on internal control matters as delegated by the Board or on its own initiative and management's responses to these findings; and

(x) to review the internal audit plan, promote coordination between the internal audit and external auditor, and to check whether the internal audit is adequately resourced and has appropriate standing within the Group.

The terms of reference of the Audit Committee of the Company are revised from time to time to comply with the code provision C.3.3 of the CG Code and the Former CG Code, but with deviations from the code provision regarding the Audit Committee's responsibilities to:

(i) implement policy on the engagement of the external auditor to supply non-audit services;

(ii) ensure that management has performed its duty to have an effective internal control system;

(iii) ensure coordination between the internal audit and external auditor; and

(iv) ensure that the internal audit is adequately resourced and has appropriate standing within the Company.

The Board considers that the Audit Committee of the Company should recommend (as opposed to implement) the policy on the engagement of the external auditor to supply non-audit services for the following reasons:

(i) it is more proper and appropriate for the Board and its committees to develop policy and make appropriate recommendations;

(ii) the proper and appropriate mechanism for implementation of such policy and recommendations is through the Executive Directors and management; and

(iii) the INEDs are not in an effective position to implement policy and follow up the same on a day-to-day basis.

Further, the Board considers that the Audit Committee only possesses the effective ability to scrutinise (as opposed to ensure) whether management has performed its duty to have an effective internal control system. The Audit Committee is not equipped to ensure that the same is in place, as this would involve day-to-day supervision and the employment of permanent experts. The Audit Committee is not in a position to ensure coordination between the internal audit and external auditor, but it can promote the same. Similarly, the Audit Committee cannot ensure that the internal audit is adequately resourced and has appropriate standing within the Company but it can check whether it is adequately resourced and has appropriate standing within the Company, and recommend the correction of any identified deficiency.

The terms of reference of the Audit Committee are available on the websites of the Hong Kong Stock Exchange and the Company.

The Audit Committee shall meet at least three times a year in accordance with its terms of reference. Four Audit Committee meetings were held in 2012 and the attendance of each member at these meetings is set out in the section headed "Board Process" of this report.

Apart from Committee meetings, the Audit Committee would also deal with matters by way of circulation, when necessary. In 2012, the Audit Committee performed the work as summarised below:

(i) considered and approved the terms of engagement and fees proposed by the external auditor regarding the final audit of the Group for the year ended 31 December 2011 and the interim review for the six months ended 30 June 2012;

(ii) reviewed the reports from the external auditor, management representation letters and management's responses in relation to the final audit of the Group for the year ended 31 December 2011;

(iii) reviewed the reports from the external auditor and management representation letters in relation to the interim review for the six months ended 30 June 2012;

(iv) reviewed the financial reports for the year ended 31 December 2011 and for the six months ended 30 June 2012 and recommended the same for the Board's approval;

(v) reviewed the audit planning memorandum for the year ended 31 December 2012 submitted by the Internal Audit Department;

(vi) reviewed an independent system assessment report prepared by a major professional firm and its recommendations for improvements in the IT operational and securities trading process;

(vii) reviewed a follow up report from the major professional firm on the remediation actions taken to strengthen the overall system controls for the trading system;

(viii) reviewed an updated Business Continuity Plan of the Group; and

(ix) reviewed the lists of audit reports issued by the Internal Audit Department and discussed the risk and internal control issues of the Group.

Executive Committee

The Executive Committee has been established since November 1983 and currently consists of four Executive Directors, being Messrs. Lee Seng Huang *(Chairman of the Committee)*, William Leung Wing Cheung, Joseph Tong Tang and Peter Anthony Curry. The Executive Committee is vested with all the general powers of management and control of the activities of the Group as are vested in the Board, save for those matters which are reserved for the Board's decision and approval pursuant to the written terms of reference of the Executive Committee.

The Executive Committee is mainly responsible for undertaking and supervising the day-to-day management of the Company, and is empowered, subject to the general policies adopted by the Board:

(i) to formulate and implement policies for the business activities, internal control and administration of the Group; and

(ii) to plan and decide on strategies to be adopted for the business activities of the Group.

Risk Management Committee

The Risk Management Committee (the "RMC") was established in January 2007, and currently consists of four Executive Directors, being Messrs. Lee Seng Huang *(Chairman of the Committee)*, Joseph Tong Tang *(Alternate Chairman of the Committee)*, William Leung Wing Cheung and Peter Anthony Curry, one NED being Mr. Roy Kuan *(with Mr. Ho Chi Kit as his alternate)* and two other members from the Company's management.

The major roles and responsibilities of the RMC are:

(i) to analyse and define risks likely to be encountered by the Group in the various aspects of its operation;

(ii) to ensure through appropriate mechanisms including committee(s) and divisional/ department heads, where applicable, the review, assessment, recording and monitoring of the various risks which may be encountered by the Group and the effectiveness of the Group's system of internal controls, including but without limiting the financial, operational and compliance controls and risk management functions;

(iii) to act as a provider of assurance (in conjunction with the Group's Internal Audit and Compliance departments and the Group's external auditor) to the Board in its annual review of:

(a) the changes in the nature and extent of significant risks likely to be encountered by the Group since the last annual review, and the Group's ability to respond to such changes in its business activities and external environment;

(b) the scope and quality of management's ongoing monitoring of risks and system of internal controls;

(c) the adequacy of the extent, and frequency of the communication relating to results of monitoring to the Board such that both the Board and the Audit Committee are able to develop a cumulative assessment of the state of control undertaken across the Group and the effectiveness in which risk is being managed;

(d) any major incident that poses substantial risk and/ or loss exposure to the Group, whether actual loss is incurred or not; in the event of likely or actual violations of the Code of Conduct or applicable laws, regulations, regulatory guidelines/ codes; significant internal policy, operational or technological failures; and any other significant events that may expose the Group to substantial reputational risk;

(e) the effectiveness of the Group's processes relating to financial reporting and Listing Rules compliance; and

(f) all other relevant issues appropriate to risk identification and management and internal control issues.

The RMC normally meets quarterly, unless as otherwise directed by the Chairman of the RMC. During the financial year of 2012, it was noted that the risk factors of external environment affecting the finance industry had increased and a Risk Management Committee of SHKF group ("RMC-SHKF") was set up to increase focus on risk monitoring. The RMC-SHKF is filled with three Executive Directors, an alternate NED and senior management of SHKF group as members and it reports to the RMC. Two meetings of the RMC of the Company were held in 2012 and the attendance of each member is set out in the section headed "Board Process" of this report.

During the financial year of 2012, the RMC, with RMC-SHKF reporting to it, performed and monitored the followings:

(i) commanded independent internal control reviews by major professional firms to enhance and improve securities business controls;

(ii) reviewed the legal and compliance issues and requirements arising from business activities and regulatory issues;

(iii) determined the feasible market risk monitoring and reporting approaches;

(iv) controlled and reviewed the annual responsibility statement regarding risk, compliance and internal control procedures for the financial year ended 31 December 2011; and

(v) reviewed and regular updated important risk mitigating measures and controlling parameters e.g. Business Continuity Plan, risk limits.

COMPANY SECRETARY

Ms. Hester Wong Lam Chun is an employee and the Company Secretary of the Company. All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that Board procedures are followed and for facilitating communications among Directors as well as with the Shareholders and management.

Ms. Wong is a fellow member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Chartered Secretaries. During 2012, Ms. Wong undertook over 15 hours of relevant professional training to update her skills and knowledge.

CODES FOR SECURITIES TRANSACTIONS BY DIRECTORS AND RELEVANT EMPLOYEES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specified enquiries being made by the Company, that they have complied with the required standard as set out in the Model Code.

The Company has also adopted the Model Code as the Code for Securities Transactions by Relevant Employees, to regulate dealings in the securities of the Company by certain employees of the Company or any of its subsidiaries who are considered to be likely in possession of inside information in relation to the Company or its securities.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility, with the support of the Finance Department, for preparing the financial statements of the Group. In preparing the financial statements for the year ended 31 December 2012, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance have been complied with. The Directors believe that they have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable, and ensure the financial statements are prepared on a "going concern" basis.

The reporting responsibilities of the Company's external auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), are set out in the Independent Auditor's Report on pages 56 and 57.

External Auditor's Remuneration

During the year and up to the date of this report, the remuneration paid to the Company's external auditor, Deloitte, is set out as follows:

	Fees paid (HK$ million)
Services rendered for the Group	
Audit services	6.9
Non-audit services (taxation and other professional services)	2.8
Total	9.7

INTERNAL CONTROL

The Board is responsible to ensure that the Group maintains sound and effective internal controls to safeguard the Group's corporate interests.

The Group's internal control framework is to provide reasonable but not absolute assurance against material misstatement or loss; to manage prudently but not completely eliminate the risk of system failure. Systems and procedures are put in place to identify, manage and control the risks of different businesses and activities. Risk control limits are established according to the appropriate authorisation hierarchy. More detailed discussions of different types of risks and how they are managed could be seen in the "Management of Risks" section in the Management Discussion and Analysis; and in Note 54 to the consolidated financial statements — Financial Risk Management.

In addition to safeguarding the Group's corporate interests, the internal control framework is to maintain proper accounting records and to comply with relevant laws and regulations.

The Group has several independent control functions e.g. Internal Audit and Compliance. Together with the RMC (see the "Board Committees" section of the earlier part of this report), they play an important role in assuring the Board and management that a sound internal control system is being implemented, maintained, and relevant regulatory requirements are complied with.

Internal Audit is an independent function reporting to the Group Chief Financial Officer. It provides an independent and objective assurance and internal consultancy services to safeguard the Group's operations. It effects a systematic and disciplined approach to evaluate and improve the Group's process on risk management, control and governance. The audit plans are risk-based to ensure a methodical coverage of the Group's operations and resources are focused on high risk areas. Ad hoc reviews are conducted on areas of concern where necessary. Internal Audit reports are issued to the Chairman, the Audit Committee, relevant senior management and division/ department heads.

Compliance assists management to maintain effective policies, guidelines, procedures to comply with regulatory rules and requirements. It carries out regular and ad-hoc reviews to monitor the Group's regulated activities. Compliance is an independent function reporting to the Chief Executive Officer of SHKF. The Head of Compliance acts as the Group's designated Money Laundering Reporting Officer.

Each year, a Group-wide self-assessment is conducted on the effectiveness of internal control framework covering all major areas such as front-office, compliance, finance and operations with the purposes of assessing and documenting key risks to enable control improvement. The assessment is performed by the divisions and co-ordinated by the Chief Financial Officer of SHKF (the "CFO") reporting directly to the Group Chief Financial Officer. The results and findings are reported to the RMC, Audit Committee and the Board. Other monitoring and review on risk exposures to formulate risk management policies is also co-ordinated by the CFO.

Management reviews are conducted on new products, processes and systems to ensure that policies and procedures are updated in accordance with new and changing risk-related environment.

The Group engaged external consultants on ad-hoc basis to perform independent reviews covering significant parts of the Group's operations.

The Board, through the Audit Committee, reviewed the adequacy of resources, training programmes, budget, qualifications and experience of the accounting and financial reporting staff in accordance with the Listing Rules' requirements. The RMC, Audit Committee and the Board reviewed the effectiveness of the internal control systems of the Group and fulfilled the requirement of the CG Code regarding internal control systems in general.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of strong communication with our shareholders. Information in relation to the Group is disseminated to the Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents, together with the latest corporate information and news, are also made available on the Company's website.

The Company's general meetings are valuable forums for the Board to communicate directly with the Shareholders. Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting and also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his/her duly appointed delegate, to attend. These persons should be available to answer questions at the annual general meeting.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. The chairman of any independent board committee formed as necessary or pursuant to the Listing Rules (or if no such chairman is appointed, at least a member of the independent board committee) should also be available to answer questions at any general meeting of the Shareholders to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The 2012 AGM was held on 30 May 2012. An extraordinary general meeting (the "EGM") was held on 23 July 2012 to approve a service agreement entered into between a subsidiary of the Company and its director and the details of the transaction was set out in the circular of the Company dated 29 June 2012. Due to other business engagements, some NEDs (including some INEDs) could not attend the 2012 AGM and the EGM. However, at the respective general meetings of the Company, there were Executive Directors, a NED and INEDs present to enable the Board to develop a balanced understanding of the views of the Shareholders. The attendance record of the Directors at the general meetings is set out in the section headed "Board Process" of this report.

Separate resolutions are proposed at the general meetings for each substantial issue, including the re-election of retiring Directors.

Notice of meetings to the Shareholders is to be sent in the case of the AGM at least 20 clear business days before the meeting and to be sent at least 10 clear business days in case of all other general meetings. An explanation of the detailed procedures of conducting a poll is provided to the Shareholders at the commencement of the meeting. The Chairman answers questions from the Shareholders regarding voting by way of a poll. The poll results of the resolutions are thereafter published in the manner prescribed under the requirements of the Listing Rules.

Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company which carries the right of voting at general meetings of the Company can request to convene an extraordinary general meeting according to article 67 of the Articles and section 113 of the Companies Ordinance (Chapter 32 of the laws of Hong Kong). The business proposed to be transacted at the meeting must be stated in the related requisition, and which must be signed and deposited at the registered office of the Company. Besides, the Shareholders may make a proposal at a the Shareholders' meeting by submitting it in written form to the Board at the registered office of the Company in the form of a proposed resolution, which shall be clearly and concisely set out the proposal for discussion and be relevant to the Company's business scope.

The Board adopted a shareholders' communication policy in March 2012. Shareholders may make reasonable requests to the Company for information regarding the Company which has been made publicly available. Such requests should be directed to the Company Secretary at the Company's registered office. If a Shareholder wishes to make an enquiry to the Board, it must be served at the Registered Office for the attention of the Company Secretary. In addition, the Shareholders can contact Tricor Secretaries Limited, the share registrar of the Company, for any questions about their shareholdings.

CONSTITUTIONAL DOCUMENTS

There was no change in the Company's Memorandum and Articles of Association during 2012. A consolidated version of the Company's Memorandum and Articles of Association is available on the websites of the Hong Kong Stock Exchange and the Company.

CORPORATE GOVERNANCE ENHANCEMENT

To comply with the code provisions of the CG Code with effect from 1 April 2012, the Board adopted a revised set of Corporate Governance documentation effective on even date. In summary, the Company has made enhancement in the following major areas:

(i) the Board has adopted a corporate governance policy which sets out the overall corporate governance values of the Company;

(ii) a Nomination Committee has been set up with a majority of its members being the INEDs; and

(iii) a Shareholders Communication Policy by which the Shareholders and other stakeholders of the Company can communicate with the Company and the Board has been adopted.

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Hong Kong Stock Exchange, but about promoting and developing an ethical and healthy corporate culture. We will continue to review, and where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our shareholders to promote and improve our transparency are also welcome.

On behalf of the Board

Lee Seng Huang
Group Executive Chairman

Hong Kong, 21 March 2013

The directors of the Company (the "Directors") are pleased to present the Annual Report and audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries, principal associates and principal jointly controlled entities are set out in Notes 48, 49 and 50 to the consolidated financial statements respectively. Details and respective analysis of the main business segments of the Group during the year are set out in Note 6 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2012 are set out in the Consolidated Income Statement. An interim dividend of HK10 cents per share was paid to shareholders on 12 October 2012. The Directors recommended the declaration of a final dividend of HK12 cents per share to shareholders of the Company, making a total dividend for the year 2012 of HK22 cents per share. The final dividend will be paid in the form of scrip, with the shareholders being given an option to elect cash in respect of part or all of such dividend. A circular giving full details of the scrip dividend proposal and a form of election will be issued by the Company in due course.

PROPERTY AND EQUIPMENT

Movements in property and equipment during 2012 are detailed in Note 19 to the consolidated financial statements.

CHARITABLE DONATIONS

The total donations made by the Group for charitable purposes during the year amounted to HK$3,048,000.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 39 to the consolidated financial statements.

RESERVES

Details of the movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity.

DIRECTORS

The Board of Directors during the year and up to the date of this report comprises:

Executive Directors

Lee Seng Huang *(Group Executive Chairman)*
William Leung Wing Cheung *(appointed on 26 March 2012)*
Joseph Tong Tang
Peter Anthony Curry

Non-Executive Directors

Goh Joo Chuan
Leung Pak To
Roy Kuan
Ho Chi Kit *(alternate to Roy Kuan)*
Ming Cheng *(retired on 30 May 2012)*

Independent Non-Executive Directors ("INEDs")

David Craig Bartlett
Alan Stephen Jones
Carlisle Caldow Procter
Peter Wong Man Kong

In accordance with Article 103 of the Company's Articles of Association (the "Articles"), one-third of the Directors for the time being shall be subject to retirement by rotation at the annual general meeting ("AGM") such that each Director will be subject to rotation at least once every three years. Messrs. Joseph Tong Tang, Peter Anthony Curry, Goh Joo Chuan and Leung Pak To, Directors being the longest in office since their last election, will retire at the forthcoming AGM of the Company, and being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS

As at 31 December 2012, the interests of Directors in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(a) Interests in the Shares and underlying Shares

Directors	Capacity	Number of Shares and underlying Shares	Approximate % of the issued share capital
Lee Seng Huang	Interests of controlled corporation *(Note 1)*	1,190,311,630 *(Note 2)*	55.05%
Joseph Tong Tang	Beneficiary of trust	434,000 *(Note 3)*	0.02%
Peter Anthony Curry	Beneficiary of trust	408,000 *(Note 4(a))*	0.02%
	Beneficial owner	51,000 *(Note 4(b))*	0.002%

Notes:

1. Mr. Lee Seng Huang, Director, together with Mr. Lee Seng Hui and Ms. Lee Su Hwei are the trustees of Lee and Lee Trust, being a discretionary trust. Lee and Lee Trust together with Mr. Lee Seng Hui indirectly owned approximately 65.00% interest in the issued share capital of Allied Group Limited ("AGL") and was therefore deemed to have interests in the Shares in which AGL was interested.

2. This refers to the interest in 1,190,311,630 Shares.

3. These include the deemed interests in:

   (i) 26,000 unvested Shares out of the total of 78,000 Shares granted to Mr. Joseph Tong Tang on 5 May 2010 under the EOS (as defined in the section headed "SHK Employee Ownership Scheme" of this report) and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 26,000 Shares) was vested and became unrestricted from 15 April 2011; another one-third thereof was vested and became unrestricted from 15 April 2012; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2013;

   (ii) 108,000 unvested Shares out of the total of 162,000 Shares granted to Mr. Tong on 13 April 2011 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 54,000 Shares) was vested and became unrestricted from 15 April 2012; another one-third thereof shall be vested and become unrestricted from 15 April 2013; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2014; and

   (iii) 300,000 unvested Shares granted to Mr. Tong on 7 December 2012 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 100,000 Shares) shall be vested and become unrestricted from 1 November 2013; another one-third thereof shall be vested and become unrestricted from 1 November 2014; and the remaining one-third thereof shall be vested and become unrestricted from 1 November 2015.

4. (a) These include the deemed interests in:

   (i) 12,000 unvested Shares out of the total of 36,000 Shares granted to Mr. Peter Anthony Curry on 29 October 2010 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 12,000 Shares) was vested and became unrestricted from 1 November 2011; another one-third thereof was vested and became unrestricted from 1 November 2012; and the remaining one-third thereof shall be vested and become unrestricted from 1 November 2013;

   (ii) 54,000 unvested Shares out of the total of 81,000 Shares granted to Mr. Curry on 13 April 2011 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 27,000 Shares) was vested and became unrestricted from 15 April 2012; another one-third thereof shall be vested and become unrestricted from 15 April 2013; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2014; and

   (iii) 342,000 unvested Shares granted to Mr. Curry on 13 April 2012 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof shall be vested and become unrestricted from 15 April 2013; another one-third thereof shall be vested and become unrestricted from 15 April 2014; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2015.

   (b) This represents the Shares granted to Mr. Curry under the EOS that were vested, became unrestricted and the title of which had been transferred to his beneficiary.

(b) Interests in the shares, underlying shares and debentures of associated corporations

Directors	Associated corporations	Capacity	Number of shares and underlying shares	Approximate % of the relevant issued share capital
Lee Seng Huang *(Note 1)*	AGL	Trustee (other than a bare trustee) *(Note 2)*	124,242,492	64.98%
	Allied Properties (H.K.) Limited ("APL")	Interests of controlled corporation *(Note 3)*	6,107,217,730 *(Note 4)*	89.76%
	Allied Overseas Limited ("AOL")	Interests of controlled corporation *(Note 5)*	178,042,931 *(Note 6)*	87.14%
	SHK Hong Kong Industries Limited ("SHK HK Ind")	Interests of controlled corporation *(Note 7)*	2,975,829,606 *(Note 8)*	72.37%
Joseph Tong Tang	APL	Beneficial owner	20,158 *(Note 9)*	0.0003%

Notes:

1. Mr. Lee Seng Huang, by virtue of his interests in AGL and APL, was deemed to be interested in the shares of the subsidiaries of AGL (including SHK HK Ind, a listed subsidiary of AGL) and APL (including AOL, a listed subsidiary of APL), which are associated corporations of the Company as defined under the SFO.

   A waiver application was submitted to The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for exemption from disclosure of Mr. Lee's deemed interests in the shares of such associated corporations of the Company in this report, and the waiver was granted by the Hong Kong Stock Exchange on 14 January 2013.

2. Mr. Lee Seng Huang is one of the trustees of Lee and Lee Trust, being a discretionary trust which indirectly owned 124,242,492 shares of AGL.

3. This refers to the same interests held directly or indirectly by AGL in APL.

4. These include interests in (i) 5,101,211,521 shares of APL; and (ii) listed physically settled warrants of APL giving rise to an interest in 1,006,006,209 underlying shares of APL. The warrants of APL entitle the holders thereof to subscribe at any time during the period from 13 June 2011 to 13 June 2016 (both days inclusive) for fully paid shares of APL at an initial subscription price of HK$2 per share (subject to adjustments).

5. This refers to the same interests held indirectly by APL in AOL.

6. These include interests in (i) 149,165,776 shares of AOL; and (ii) listed physically settled warrants of AOL giving rise to an interest in 28,877,155 underlying shares of AOL. The warrants of AOL entitle the holders thereof to subscribe at any time during the period from 4 March 2011 to 4 March 2016 (both days inclusive) for fully paid shares of AOL at an initial subscription price of HK$5 per share (subject to adjustments).

7. This refers to the same interests held indirectly by AGL in SHK HK Ind.

8. This refers to the interest in 2,975,829,606 shares of SHK HK Ind.

9. This refers to the interest in listed physically settled warrants of APL giving rise to an interest in 20,158 underlying shares of APL. The warrants of APL entitle the holders thereof to subscribe at any time during the period from 13 June 2011 to 13 June 2016 (both days inclusive) for fully paid shares of APL at an initial subscription price of HK$2 per share (subject to adjustments).

All interests stated above represent long positions. As at 31 December 2012, none of the Directors held any short positions in the Shares, underlying shares of equity derivatives or debentures of the Company.

Save as disclosed above, as at 31 December 2012, neither the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

SHK EMPLOYEE OWNERSHIP SCHEME

On 18 December 2007 (the "Adoption Date"), the Company adopted the SHK Employee Ownership Scheme (the "EOS") to recognise the contributions by any employee or director (the "Selected Grantees") of the Group and to provide them with long-term incentives in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

A committee comprising senior management of the Company has been formed, with the power and authority delegated by the Board, to administer the EOS. An independent trustee (the "Trustee") has been appointed for the administration of the EOS. Under the EOS, Selected Grantees are to be awarded Shares which have been purchased by the Trustee at the cost of the Company and be held in trust for the Selected Grantees until the end of each vesting period. Upon management's recommendation, the number of Shares awarded to the Selected Grantees (other than a Director) shall be determined, with the vesting dates for various tranches, by the committee. Any shares award under the EOS to a Selected Grantee who is a Director shall be subject to the Board's approval following a recommendation from the Remuneration Committee of the Board.

Subject to the terms thereof, the EOS shall be valid and effective for an initial term of five years commencing on 18 December 2007 and automatically extended for another three subsequent terms of five years each unless otherwise terminated. The maximum number of Shares which can be awarded under the EOS and to a Selected Grantee throughout its duration are limited to 5 per cent (i.e. 83,989,452 Shares) and 1 per cent (i.e. 16,797,890 Shares) of the issued share capital of the Company as at the Adoption Date.

During the year, a total of 2,424,000 Shares (2011: 1,803,000 Shares) were awarded to the Selected Grantees subject to various terms including, amongst other things, vesting scales whereby awarded shares will vest and become unrestricted over a three-year period. A total of 1,194,000 Shares (2011: 1,538,000 Shares) were vested during the year.

Since its adoption, a total of 10,457,000 Shares have been awarded up to the date of this report, representing about 0.62 per cent of the issued share capital of the Company as at the Adoption Date. As at 31 December 2012, the outstanding awarded Shares under the EOS (excluding Shares awarded, but subsequently forfeited) amounted to 3,267,000 Shares, out of which 842,000 Shares were awarded to the Directors.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

During the year and as at 31 December 2012, none of the Directors had any personal interests in the options to subscribe for shares in the Company's holding company, AGL, granted under the share option scheme of the said company which has expired on 2 June 2012.

Other than the EOS, at no time during the year was the Company, or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 31 December 2012, the following shareholders had interests in the Shares and underlying Shares as recorded in the register required to be kept under Section 336 of the SFO (the "SFO Register"):

Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the issued share capital
APL	Interests of controlled corporation *(Note 1)*	1,190,311,630 *(Note 2)*	55.05%
AGL	Interests of controlled corporation *(Note 3)*	1,190,311,630 *(Note 4)*	55.05%
Lee and Lee Trust	Interests of controlled corporation *(Note 5)*	1,190,311,630 *(Note 4)*	55.05%
Dubai Ventures L.L.C ("Dubai Ventures")	Beneficial owner	166,000,000 *(Note 6)*	7.84%
Dubai Ventures Group (L.L.C) ("DVG")	Interests of controlled corporation *(Note 7)*	166,000,000 *(Note 8)*	7.84%
Dubai Group LLC ("Dubai Group")	Interests of controlled corporation *(Note 9)*	166,000,000 *(Note 8)*	7.84%
Dubai Holding Investments Group LLC ("DHIG")	Interests of controlled corporation *(Note 10)*	166,000,000 *(Note 8)*	7.84%
Dubai Holding (L.L.C) ("Dubai Holding")	Interests of controlled corporation *(Note 11)*	166,000,000 *(Note 8)*	7.84%
Dubai Group Limited ("DGL")	Interests of controlled corporation *(Note 12)*	166,000,000 *(Note 8)*	7.84%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation *(Note 13)*	166,000,000 *(Note 8)*	7.84%
Asia Financial Services Company Limited ("AFSC")	Interests of controlled corporation	409,920,000 *(Note 14)*	18.92%
Asia Financial Services Holdings Limited ("AFSH")	Interests of controlled corporation *(Note 15)*	409,920,000 *(Note 14)*	18.92%

Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the issued share capital
Asia Financial Services Group Limited ("AFSG")	Interests of controlled corporation *(Note 16)*	409,920,000 *(Note 14)*	18.92%
CVC Capital Partners Asia Pacific III L.P. ("CVC LP")	Interests of controlled corporation *(Note 17)*	409,920,000 *(Note 14)*	18.92%
CVC Capital Partners Asia III Limited ("CVC Capital III")	Interests of controlled corporation *(Note 18)*	409,920,000 *(Note 14)*	18.92%
CVC Capital Partners Advisory Company Limited ("CVC Capital Partners Advisory")	Interests of controlled corporation *(Note 19)*	409,920,000 *(Note 14)*	18.92%
CVC Capital Partners Finance Limited ("CVC Capital Partners Finance")	Interests of controlled corporation *(Note 20)*	409,920,000 *(Note 14)*	18.92%
CVC Group Holdings L.P. ("CVC Group Holdings")	Interests of controlled corporation *(Note 21)*	409,920,000 *(Note 14)*	18.92%
CVC Portfolio Holdings Limited ("CVC Portfolio")	Interests of controlled corporation *(Note 22)*	409,920,000 *(Note 14)*	18.92%
CVC MMXII Limited ("CVC MMXII")	Interests of controlled corporation *(Note 23)*	409,920,000 *(Note 14)*	18.92%
CVC Capital Partners 2012 Limited ("CVC Capital Partners 2012")	Interests of controlled corporation *(Note 24)*	409,920,000 *(Note 14)*	18.92%
CVC Capital Partners SICAV-FIS S.A. ("CVC Capital Partners SA")	Interests of controlled corporation *(Note 25)*	409,920,000 *(Note 14)*	18.92%
Ontario Teachers' Pension Plan Board	Beneficial owner	122,035,002 *(Note 26)*	5.80%

Notes:

1. The interests were held by AP Emerald Limited ("AP Emerald"), a wholly-owned subsidiary of AP Jade Limited which in turn was a wholly-owned subsidiary of APL. APL was therefore deemed to have interests in the Shares in which AP Emerald was interested.

2. This represents an interest in 1,190,311,630 Shares held by APL through AP Emerald.

3. AGL owned approximately 74.97% interest in the issued share capital of APL and was therefore deemed to have interests in the Shares in which APL was interested.

4. This refers to the same interests in 1,190,311,630 Shares held by AP Emerald.

5. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang (a Director) are the trustees of Lee and Lee Trust, being a discretionary trust. They together owned approximately 65.00% interest in the issued share capital of AGL (inclusive of Mr. Lee Seng Hui's personal interest) and were therefore deemed to have interests in the Shares in which AGL was interested.

6. This represents an interest in 166,000,000 Shares.

7. DVG owned a 99% interest in the issued share capital of Dubai Ventures and was therefore deemed to have an interest in the Shares in which Dubai Ventures was interested.

8. This refers to the interests in 166,000,000 Shares held by Dubai Ventures.

9. Dubai Group owned a 99% interest in the issued share capital of DVG and was therefore deemed to have an interest in the Shares in which DVG was interested.

10. DHIG owned a 51% interest in the issued share capital of Dubai Group and was therefore deemed to have an interest in the Shares in which Dubai Group was interested.

11. Dubai Holding owned approximately a 99.66% interest in the issued share capital of DHIG and was therefore deemed to have an interest in the Shares in which DHIG was interested.

12. DGL owned a 49% interest in the issued share capital of Dubai Group. DGL was therefore deemed to have interests in the Shares in which Dubai Group was interested.

13. HH Mohammed Bin Rashid Al Maktoum owned approximately a 97.40% interest in the issued share capital of Dubai Holding and was therefore deemed to have interests in the Shares in which Dubai Holding was interested.

14. This represents (i) the interest in 341,600,000 Shares; and (ii) the deemed interest in 68,320,000 underlying Shares arising from HK$427,000,000 in face value of warrants issued by the Company to AFSC pursuant to a Subscription Agreement dated 22 April 2010.

15. AFSH held 100% interest in AFSC and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

16. AFSG owns 99.1% interest in AFSH and is therefore deemed to have interest in the Shares and underlying Shares in which AFSC was interested.

17. CVC LP owns 88% interest in AFSG and is therefore deemed to have interest in the Shares and underlying Shares in which AFSC was interested.

18. CVC Capital III, as the general partner of CVC LP, exclusively managed and controlled CVC LP and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

19. CVC Capital Partners Advisory held 100% interest in CVC Capital III and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

20. CVC Capital Partners Finance held 100% interest in CVC Capital Partners Advisory and was therefore deemed to have interest in the Shares and underlying Shares in which AFSC was interested.

21. CVC Group Holdings held 100% interest in CVC Capital Partners Finance and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

22. CVC Portfolio, as the general partner of CVC Group Holdings, exclusively managed and controlled CVC Group Holdings and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

23. CVC MMXII held a 100% controlling interest in CVC Portfolio and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

24. CVC Capital Partners 2012 held 100% interest in CVC MMXII and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

25. CVC Capital Partners SA held 100% interest in CVC Capital Partners 2012 and was therefore deemed to have interest in the Shares and the underlying Shares in which AFSC was interested.

26. This represents an interest in 122,035,002 Shares.

All interests stated above represent long positions. As at 31 December 2012, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 31 December 2012, the Directors are not aware of any other persons who have interests or short positions in the shares, underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would require to be disclosed to the Company pursuant to Part XV of the SFO.

CONTINUING CONNECTED TRANSACTIONS

(1) **Sharing of Management Services Agreement for three years from 2011 to 2013**

As disclosed in the announcement of the Company dated 31 January 2011, and in its Annual Report for the year 2011, a Renewed Sharing of Management Services Agreement was entered into between the Company and AGL on 31 January 2011 (the "Renewed Services Agreement") to extend the term of the Sharing of Management Services Agreement dated 31 January 2008 for a period of three years from 1 January 2011 to 31 December 2013, in relation to the provision of management, consultancy, strategic and business advice services by the senior management and the selected staff of AGL to the Company and its subsidiaries, and the reimbursement of costs payable to AGL. Pursuant to the Renewed Services Agreement, the aggregate amount payable to AGL for the three respective financial years ending 31 December 2013 shall not exceed HK$3.24 million, HK$3.63 million and HK$4.08 million respectively. The total amount paid to AGL for the year ended 31 December 2012 was HK$3.63 million.

(2) **Insurance Brokerage Services Agreements for two years from 2011 to 2012**

As disclosed in the announcement of the Company dated 31 January 2011 and in its Annual Report for the year 2011, Sun Hung Kai Insurance Consultants Limited ("SHK Insurance"), an indirect wholly-owned subsidiary of the Company, entered into an insurance brokerage services agreement with each of AGL, APL, AOL, Tian An China Investments Company Limited ("TACI", an associated company of APL) and Yu Ming Investment Management Limited ("YMIM", an indirect wholly-owned subsidiary of AGL) on 31 January 2011 (collectively the "Insurance Brokerage Services Agreements") whereby SHK Insurance would provide packaged insurance brokerage services to the AGL Group, the APL Group, the AOL Group, the TACI Group (as defined in the said announcement) and YMIM for two years from 1 January 2011 to 31 December 2012 by assisting them in procuring insurance policies to be taken out with third party insurers ("Insurance Services") in accordance with the terms of the Insurance Brokerage Services Agreements. The maximum aggregate amount payable by AGL Group, APL Group, AOL Group, TACI Group and YMIM under the Insurance Brokerage Services Agreements for the year ended 31 December 2012 shall not exceed HK$0.88 million, HK$1.32 million, HK$1.65 million, HK$4.4 million and HK$0.16 million respectively.

The total amount paid by the AGL Group, the APL Group, the AOL Group, the TACI Group and YMIM to SHK Insurance for the year ended 31 December 2012 under the Insurance Brokerage Services Agreements were approximately HK$0.87 million, HK$0.91 million, HK$1.15 million, HK$1.61 million and HK$0.11 million respectively.

Given that APL is a substantial shareholder of the Company; and AGL, AOL, TACI and YMIM are all associates of APL under the definition of the Listing Rules, each of AGL, APL, AOL, TACI and YMIM is regarded as a connected person of the Company under the Listing Rules. As such, the entering into of the Renewed Services Agreement and the Insurance Brokerage Services Agreements constituted continuing connected transactions for the Company (the "Continuing Connected Transactions") under Rule 14A.34 of the Listing Rules. In accordance with the requirements of Rules 14A.45 and 14A.46 of the Listing Rules, details of the said two Continuing Connected Transactions are included in this report.

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

Pursuant to Rule 14A.37 of the Listing Rules, the INEDs, being Messrs. David Craig Bartlett, Alan Stephen Jones, Carlisle Caldow Procter and Peter Wong Man Kong, reviewed the above Continuing Connected Transactions and confirmed that they were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms; and

(iii) in accordance with the Renewed Services Agreement and the Insurance Brokerage Services Agreements governing them on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

In the opinion of the Board of Directors, the Continuing Connected Transactions were entered into in the manners stated above.

(3) Insurance Brokerage Services Agreements for two years from 2013 to 2014

Subsequent to the year-end date, SHK Insurance entered into an insurance brokerage services agreement with each of AGL, APL, AOL, TACI and YMIM on 29 January 2013 (the "New Insurance Brokerage Services Agreements") for the provision of Insurance Services for two years from 1 January 2013 and expiring on 31 December 2014 in accordance with the terms of the New Insurance Brokerage Services Agreements.

Given that each of AGL, APL, AOL, TACI and YMIM is regarded as a connected person of the Company as established above, the entering into of the New Insurance Brokerage Services Agreements constituted continuing connected transactions for the Company under Rule 14A.34 of the Listing Rules as disclosed in the announcement of the Company dated 29 January 2013. In accordance with the requirements of Rules 14A.45 and 14A.46 of the Listing Rules, details of the said continuing connected transactions will be included in the next published annual report and accounts of the Company.

CONNECTED TRANSACTIONS

(1) Grant of Option under the Director's Service Agreement

On 9 May 2012, United Asia Finance Limited ("UAF"), a non wholly-owned subsidiary of the Company, entered into a director's service agreement (the "Director's Service Agreement") with Mr. Akihiro Nagahara ("Mr. Nagahara"), a director of UAF, for a term of 10 years and pursuant to which Mr. Nagahara shall serve UAF to formulate, supervise and implement the project of developing the money lending business in the PRC (the "PRC Business") for the group of UAF and to complete the proposed incorporation of the new company (the "Newco") to hold all equity interests in the subsidiaries incorporated or to be incorporated in the PRC directly or indirectly engaged the PRC Business.

Pursuant to the Director's Service Agreement, UAF has granted an option (the "Option") to Mr. Nagahara to (i) subscribe for up to 20% of the enlarged issued capital of the Newco or (ii) purchase from UAF or its subsidiary up to 20% of the then existing issued capital of the Newco at the date of exercise of the Option. The exercise price of the Option (the "Exercise Price") will be determined based on the aggregate amount of shareholders equity and shareholders loan proportional to the shareholding to be taken up by Mr. Nagahara. Detailed information of the principal terms, including the basis of calculation of the Exercise Price, is set out in the circular of the Company dated 29 June 2012.

Mr. Nagahara, being a director of a subsidiary of the Company, is therefore a connected person of the Company under the Listing Rules. Accordingly, the grant of the Option to Mr. Nagahara constitutes a connected transaction of the Company. Pursuant to Rule 14A.45 of the Listing Rules, details of the grant of the Options are included in this Annual Report.

(2) Facility Agreement

On 2 January 2013, Sun Hung Kai Structured Finance Limited ("SHKSFL") as lender and Sun Hung Kai Investment Services Limited ("SHKISL") as arranger entered into a facility agreement (the "Facility Agreement") with AFSC as borrower, pursuant to which SHKSFL has agreed to make available to AFSC a secured term facility of HK$600 million (the "Facility") for a term of 48 months at the interest rate of 6.5% per annum. In addition, the arrangement fee (being HK$12 million less the aggregate fees, costs and expenses of SHKISL and AFSC in connection with the Facility) and commitment fee (being HK$36 million payable by AFSC to SHKSFL) shall be payable to each of SHKISL and SHKSFL respectively from the proceeds of the drawdown of the Facility; and (ii) an amount of HK$32 million from the proceeds of the drawdown of the Facility shall be kept in the share and cash collateral account on drawdown date for the purposes of meeting interest payments under the Facility.

A security deed dated 2 January 2013 executed by AFSC as charger in favour of SHKSFL as chargee by way of a first fixed charge over the pledged securities (being 341,600,000 Shares and warrants with face value of HK$427 million exercisable to subscribe for Shares) and the share and cash collateral account was provided to secure the loan under the Facility. Detailed information of the transaction contemplated under the Facility Agreement (the "Transaction") is set out in the circular of the Company dated 23 January 2013.

SHKSFL and SHKISL are wholly-owned subsidiaries of the Company, while AFSC is a substantial shareholder of the Company and therefore a connected person of the Company under the Listing Rules. Accordingly, the Transaction constitutes a connected transaction of the Company. Pursuant to Rule 14A.45 of the Listing Rules, details of the Transaction are included in this Annual Report.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, overdrafts and other borrowings of the Group are set out in Note 34 to the consolidated financial statements.

SUBSIDIARIES

Particulars regarding the principal subsidiaries are set out in Note 48 to the consolidated financial statements.

INTEREST CAPITALISED

No interest was capitalised by the Group during the year.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 29 to 43.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

TERMS OF OFFICE FOR THE NON-EXECUTIVE DIRECTORS

All the Non-Executive Directors (including the INEDs) were appointed for a specific term of two years which shall continue until 31 December 2014 but subject to the relevant provisions of the Articles or any applicable laws whereby the Directors shall rotate or retire from their office.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, save as disclosed below, none of the Directors (not being the INEDs) are considered to have interests in the businesses listed below which compete or are likely to compete with the businesses of the Group pursuant to the Listing Rules:

1. Mr. Lee Seng Huang is one of the trustees of Lee and Lee Trust which is a deemed substantial shareholder of each of AGL, APL, TACI and AOL which, through their subsidiaries, are partly engaged in the businesses as follows:

    – AGL, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment;

    – APL, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment;

    – TACI, through certain of its subsidiaries, is partly engaged in the businesses of money lending and property investment; and

    – AOL, through certain of its subsidiaries, is partly engaged in the business of investment in financial instrument.

2. Mr. Peter Anthony Curry is a director of APAC Resources Limited and was a director of Ormil Energy Limited and an alternate director of Mount Gibson Iron Limited (up to September 2012) which, through certain of their subsidiaries, are partly involved in the investment and/or trading in listed securities in the resources and related industries.

3. Mr. Leung Pak To is the chairman and substantial shareholder of Luminary Capital Limited which carries out Type 6 licensed activity (advising on corporate finance) in Hong Kong.

Although the abovementioned Directors have competing interests in other companies by virtue of their respective common directorship, they will fulfil their fiduciary duties in order to ensure that they will act in the best interests of the shareholders and the Company as a whole at all times. Hence the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of such companies.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiary companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for less than 30% of the total turnover for the year.

Also, the aggregate purchases attributable to the Group's five largest suppliers taken together were less than 30% of the Group's total purchases for the year.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2012, the Company repurchased a total of 15,937,000 Shares on the Hong Kong Stock Exchange at an aggregate consideration (before expenses) of HK$65,661,700.
All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	**Number of Shares repurchased**	**Purchase price**		**Aggregate consideration (before expenses)**
		Highest	**Lowest**	
		(HK$)	*(HK$)*	*(HK$)*
January	856,000	4.09	3.97	3,432,520
April	10,600,000	4.00	3.90	41,650,000
July	93,000	3.75	3.74	348,650
October	847,000	4.40	4.03	3,628,240
November	3,541,000	4.99	4.46	16,602,290
	15,937,000			65,661,700

The repurchases were made for the benefit of the Company and its shareholders as a whole with a view to enhancing the earnings per share of the Company.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the year ended 31 December 2012.

AUDITOR

The consolidated financial statements have been audited by Messrs. Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Lee Seng Huang
Group Executive Chairman

Hong Kong, 21 March 2013

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF SUN HUNG KAI & CO. LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Sun Hung Kai & Co. Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 148, which comprise the consolidated and Company's statements of financial position as at 31 December 2012, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 21 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

	Notes	2012 HK$ Million	2011 HK$ Million
Revenue (turnover)	5	**3,723.4**	3,593.2
Other income	7	**184.5**	224.3
Total income		**3,907.9**	3,817.5
Brokerage and commission expenses		**(187.9)**	(214.4)
Advertising and promotion expenses		**(124.7)**	(110.8)
Direct cost and operating expenses		**(72.5)**	(260.1)
Administrative expenses	10	**(1,290.9)**	(1,107.6)
Net profit (loss) on financial instruments	11	**171.5**	(132.3)
Net exchange gain (loss)		**3.7**	(46.0)
Bad and doubtful debts	12	**(503.7)**	(184.5)
Finance costs	13	**(200.8)**	(160.3)
Other expenses		**(14.5)**	(9.5)
		1,688.1	1,592.0
Share of results of associates		**10.9**	17.1
Share of results of jointly controlled entities		**1.3**	6.2
Profit before taxation	10	**1,700.3**	1,615.3
Taxation	14	**(276.0)**	(278.8)
Profit for the year		**1,424.3**	1,336.5
Profit attributable to:			
— Owners of the Company		**1,036.4**	1,032.4
— Non-controlling interests		**387.9**	304.1
		1,424.3	1,336.5
Earnings per share	16		
— Basic (HK cents)		**48.9**	48.8
— Diluted (HK cents)		**48.9**	48.8

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK$ Million	2011 HK$ Million
Profit for the year	**1,424.3**	1,336.5
Other comprehensive (expenses) income		
Available-for-sale investments		
— Net fair value changes during the year	**(3.7)**	(19.2)
— Reclassification adjustment to profit or loss on disposal	**(46.6)**	(4.3)
— Reclassification upon impairment	**0.7**	—
	(49.6)	(23.5)
Exchange differences arising on translating foreign operations	**45.6**	109.3
Reclassification adjustment to profit or loss on liquidation of subsidiaries	**(0.4)**	—
Reclassification adjustment to profit or loss on liquidation of a jointly controlled entity	**—**	(0.3)
Revaluation gain on properties transferred from property and equipment to investment properties	**—**	146.0
Share of other comprehensive income of associates	**—**	0.1
Other comprehensive (expenses) income for the year	**(4.4)**	231.6
Total comprehensive income for the year	**1,419.9**	1,568.1
Total comprehensive income attributable to:		
— Owners of the Company	**1,013.7**	1,220.4
— Non-controlling interests	**406.2**	347.7
	1,419.9	1,568.1

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Non-current Assets			
Investment properties	17	**760.9**	714.0
Leasehold interests in land	18	**9.8**	10.0
Property and equipment	19	**240.5**	220.6
Intangible assets	20	**1,001.4**	1,023.5
Goodwill	21	**2,384.0**	2,384.0
Interest in associates	24	**60.4**	56.7
Interest in jointly controlled entities	25	**121.5**	122.1
Available-for-sale investments	26	**120.4**	316.2
Statutory deposits		**26.5**	26.9
Deferred tax assets	27	**106.0**	92.7
Amounts due from associates	29	**51.4**	51.3
Loans and advances to consumer finance customers	30	**3,057.6**	2,972.6
Deposits for acquisition of property and equipment		**20.4**	28.7
Financial assets at fair value through profit or loss	31	**286.1**	236.7
Trade and other receivables	32	**720.0**	7.8
		8,966.9	8,263.8
Current Assets			
Amounts due from associates	29	**5.6**	12.5
Loans and advances to consumer finance customers	30	**5,236.2**	4,583.5
Financial assets at fair value through profit or loss	31	**469.0**	536.0
Trade and other receivables	32	**5,525.0**	6,345.7
Taxation recoverable		**17.6**	16.9
Bank deposits	33	**467.8**	940.9
Cash and cash equivalents	33	**4,567.5**	1,795.1
		16,288.7	14,230.6
Current Liabilities			
Bank and other borrowings	34	**(3,166.6)**	(1,646.4)
Trade and other payables	35	**(1,337.6)**	(1,023.7)
Financial liabilities at fair value through profit or loss	36	**(52.7)**	(14.9)
Amount due to an associate of a holding company	37	**—**	(24.7)
Amounts due to fellow subsidiaries and a holding company	37	**(8.9)**	(1,256.2)
Amounts due to associates	37	**(0.1)**	(2.2)
Provisions	38	**(33.0)**	(46.5)
Taxation payable		**(102.2)**	(100.6)
		(4,701.1)	(4,115.2)
Net Current Assets		**11,587.6**	10,115.4
Total Assets less Current Liabilities		**20,554.5**	18,379.2

Consolidated Statement of Financial Position

At 31 December 2012

	Notes	**31/12/2012 HK$ Million**	31/12/2011 HK$ Million
Capital and Reserves			
Share capital	39	**432.4**	421.9
Reserves		**12,430.6**	11,665.6
Equity attributable to owners of the Company		**12,863.0**	12,087.5
Non-controlling interests		**3,102.3**	2,315.5
Total Equity		**15,965.3**	14,403.0
Non-current Liabilities			
Deferred tax liabilities	27	**210.4**	204.6
Bank and other borrowings	34	**1,174.4**	3,203.5
Provisions	38	**10.1**	12.3
Notes and bonds	41	**3,194.3**	555.8
		4,589.2	3,976.2
		20,554.5	18,379.2

The consolidated financial statements on pages 58 to 148 were approved and authorised for issue by the Board of Directors on 21 March 2013 and are signed on its behalf by:

Lee Seng Huang
Director

Peter Anthony Curry
Director

Statement of Financial Position

At 31 December 2012

	Notes	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Non-current Assets			
Intangible assets	20	**1.1**	1.1
Interest in subsidiaries	23	**4,011.0**	3,990.9
Amounts due from subsidiaries	28	**6,444.6**	6,253.0
Amounts due from associates	29	**54.4**	54.4
		10,511.1	10,299.4
Current Assets			
Trade and other receivables		**0.2**	0.3
Amounts due from subsidiaries	28	**329.0**	684.4
Amounts due from associates	29	**—**	0.9
Cash and cash equivalents	33	**31.2**	1.4
		360.4	687.0
Current Liabilities			
Amounts due to subsidiaries	28	**(117.5)**	(111.0)
Trade and other payables		**(32.1)**	(6.3)
Trade payable to a holding company		**(0.9)**	(0.8)
Taxation payable		**(0.6)**	(2.8)
		(151.1)	(120.9)
Net Current Assets		**209.3**	566.1
Total Assets less Current Liabilities		**10,720.4**	10,865.5
Capital and Reserves			
Share capital	39	**432.4**	421.9
Reserves	42	**10,288.0**	10,443.6
Equity attributable to owners of the Company		**10,720.4**	10,865.5

Lee Seng Huang
Director

Peter Anthony Curry
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$ Million	Share premium HK$ Million	Capital redemption reserve HK$ Million	Equity element of warrants HK$ Million	Shares held for Employee Ownership Scheme HK$ Million	Employee share-based compensation reserve HK$ Million	Exchange reserve HK$ Million	Revaluation reserve HK$ Million	Capital reserves HK$ Million	Retained earnings HK$ Million	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At 1 January 2012	421.9	7,011.0	60.5	57.6	(19.6)	9.1	76.2	502.0	0.8	3,968.0	12,087.5	2,315.5	14,403.0
Profit for the year	–	–	–	–	–	–	–	–	–	1,036.4	1,036.4	387.9	1,424.3
Other comprehensive income (expenses) for the year (Note 40)	–	–	–	–	–	–	26.9	(49.6)	0.1	(0.1)	(22.7)	18.3	(4.4)
Total comprehensive income (expenses) for the year	–	–	–	–	–	–	26.9	(49.6)	0.1	1,036.3	1,013.7	406.2	1,419.9
Recognition of equity-settled share-based payments	–	–	–	–	–	7.5	–	–	–	–	7.5	–	7.5
Purchase of shares held for the SHK Employee Ownership Scheme	–	–	–	–	(10.0)	–	–	–	–	–	(10.0)	–	(10.0)
Vesting of shares of the SHK Employee Ownership Scheme	–	–	–	–	4.4	(7.7)	–	–	–	3.3	–	–	–
Final dividend paid	–	–	–	–	–	–	–	–	–	(86.0)	(86.0)	–	(86.0)
Interim dividend paid	–	–	–	–	–	–	–	–	–	(83.5)	(83.5)	–	(83.5)
Shares issued for scrip dividends	13.7	239.7	–	–	–	–	–	–	–	(253.4)	–	–	–
Shares repurchased and cancelled	(3.2)	–	3.2	–	–	–	–	–	–	(66.2)	(66.2)	–	(66.2)
Shares of subsidiaries issued to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	490.8	490.8
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(110.2)	(110.2)
At 31 December 2012	432.4	7,250.7	63.7	57.6	(25.2)	8.9	103.1	452.4	0.9	4,518.5	12,863.0	3,102.3	15,965.3

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Attributable to owners of the Company												
	Share capital HK$ Million	Share premium HK$ Million	Capital redemption reserve HK$ Million	Equity element of convertible notes and warrants HK$ Million	Shares held for Employee Ownership Scheme HK$ Million	Employee share-based com-pensation reserve HK$ Million	Exchange reserve HK$ Million	Revaluation reserve HK$ Million	Capital reserves HK$ Million	Retained earnings HK$ Million	Total HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At 1 January 2011	355.1	5,438.0	58.3	1,616.5	(23.7)	10.3	10.8	379.5	0.6	3,519.8	11,365.2	1,862.9	13,228.1
Profit for the year	—	—	—	—	—	—	—	—	—	1,032.4	1,032.4	304.1	1,336.5
Other comprehensive income (expenses) for the year (Note 40)	—	—	—	—	—	—	65.4	122.5	0.2	(0.1)	188.0	43.6	231.6
Total comprehensive income for the year	—	—	—	—	—	—	65.4	122.5	0.2	1,032.3	1,220.4	347.7	1,568.1
Recognition of equity-settled share-based payments	—	—	—	—	—	9.0	—	—	—	—	9.0	—	9.0
Purchase of shares held for the SHK Employee Ownership Scheme	—	—	—	—	(14.7)	—	—	—	—	—	(14.7)	—	(14.7)
Vesting of shares of the SHK Employee Ownership Scheme	—	—	—	—	18.8	(10.2)	—	—	—	(8.6)	—	—	—
Final dividend paid	—	—	—	—	—	—	—	—	—	(313.2)	(313.2)	—	(313.2)
Interim dividend paid	—	—	—	—	—	—	—	—	—	(199.7)	(199.7)	—	(199.7)
Shares issued for scrip dividends	0.7	17.7	—	—	—	—	—	—	—	(18.4)	—	—	—
Shares repurchased and cancelled	(2.2)	—	2.2	—	—	—	—	—	—	(44.2)	(44.2)	—	(44.2)
Conversion of mandatory convertible notes	68.3	1,555.3	—	(1,558.9)	—	—	—	—	—	—	64.7	—	64.7
Formation of new subsidiaries	—	—	—	—	—	—	—	—	—	—	—	122.4	122.4
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	—	—	—	(17.5)	(17.5)
At 31 December 2011	421.9	7,011.0	60.5	57.6	(19.6)	9.1	76.2	502.0	0.8	3,968.0	12,087.5	2,315.5	14,403.0

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$ Million	2011 HK$ Million
OPERATING ACTIVITIES		
Profit before taxation	**1,700.3**	1,615.3
Adjustments for:		
— Share of results of associates	**(10.9)**	(17.1)
— Share of results of jointly controlled entities	**(1.3)**	(6.2)
— Dividend income	**(16.4)**	(14.1)
— Interest income	**(3,074.1)**	(2,760.3)
— Profit on liquidation of subsidiaries	**(3.8)**	—
— Profit on disposal of an associate	**(0.3)**	(13.4)
— Profit on disposal of available-for-sale investments	**(96.4)**	(5.2)
— Bad and doubtful debts	**503.7**	184.5
— Increase in fair value of investment properties	**(45.6)**	(192.6)
— Impairment loss on intangible assets	**3.7**	—
— Impairment loss on available-for-sale investments	**9.5**	0.5
— Impairment loss on amounts due from associates	**1.1**	4.9
— Net fair value loss on financial instruments	**17.7**	202.1
— Amortisation of leasehold interests in land	**0.4**	0.4
— Amortisation of intangible assets	**44.2**	198.9
— Depreciation of property and equipment	**55.5**	49.4
— Expenses recognised for the SHK Employee Ownership Scheme	**7.5**	9.0
— Interest expenses	**194.9**	155.8
— Loss on disposal of equipment and intangible assets	**0.1**	4.1
— Gain on repurchase of bonds	**(3.8)**	—
— Exchange difference	**1.7**	61.1
Operating cash flows before movements in working capital	**(712.3)**	(522.9)
Increase in loans and advances to consumer finance customers	**(1,058.4)**	(2,165.6)
(Increase) decrease in trade and other receivables	**(45.4)**	304.7
Decrease (increase) in financial assets at fair value through profit or loss	**50.3**	(348.4)
Increase (decrease) in trade and other payables	**308.1**	(332.2)
Increase in financial liabilities at fair value through profit or loss	**19.0**	8.6
Increase (decrease) in amounts due to fellow subsidiaries and a holding company	**5.2**	(0.2)
Decrease in provisions	**(15.8)**	(16.8)
Cash used in operations	**(1,449.3)**	(3,072.8)
Interest received	**3,075.6**	2,721.5
Dividends received from held for trading investments	**6.9**	5.0
Interest paid	**(132.3)**	(147.4)
Taxation paid	**(283.2)**	(317.6)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**1,217.7**	(811.3)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$ Million	2011 HK$ Million
INVESTING ACTIVITIES		
Purchase of property and equipment	**(66.1)**	(67.1)
Purchase of intangible assets	**(21.9)**	(34.0)
Liquidation of subsidiaries	**3.5**	—
Advance to associates	**(0.2)**	—
Dividends received from associates	**12.0**	13.7
Proceeds on disposal of an associate	**—**	13.4
Capital injection to a jointly controlled entity	**(3.1)**	—
Dividends received from jointly controlled entities	**5.3**	—
Liquidation of a jointly controlled entity	**—**	1.0
Dividends received from available-for-sale investments	**9.4**	4.9
Purchase of available-for-sale investments	**(1.0)**	(52.9)
Proceeds on disposal of available-for-sale investments	**234.0**	10.0
Net refund of statutory deposits	**0.3**	24.0
Payment of deposits for acquisition of equipment	**(0.8)**	(16.2)
Purchase of long-term financial assets designated as at fair value through profit or loss	**(35.6)**	(44.9)
Proceeds on long-term financial assets designated as at fair value through profit or loss	**3.9**	—
Fixed deposits with banks withdrawn (placed)	**476.2**	(653.5)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**615.9**	(801.6)

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK$ Million	2011 HK$ Million
FINANCING ACTIVITIES		
Dividends paid	**(169.5)**	(512.9)
Dividends to non-controlling interests	**(110.2)**	(17.4)
Capital contribution by non-controlling interests	**490.8**	122.4
Net short-term bank and other borrowings (repaid) raised	**(816.9)**	10.5
New long-term bank borrowings raised	**318.7**	1,139.7
Repayment of long-term bank loans	**(35.1)**	(17.3)
Issue of bonds	**—**	591.0
Repayment of bonds	**—**	(500.0)
Repurchase of bonds	**(56.0)**	—
Short-term loans due to fellow subsidiaries raised	**—**	600.0
Short-term loans due to fellow subsidiaries repaid	**(1,250.0)**	(112.7)
Loan due to an associate of a holding company repaid	**(24.6)**	(24.1)
Purchase of shares for the SHK Employee Ownership Scheme	**(10.0)**	(14.7)
Shares repurchased and cancelled	**(66.2)**	(44.2)
Proceeds from issue of notes	**2,678.5**	—
Purchase of notes	**(31.2)**	—
NET CASH FROM FINANCING ACTIVITIES	**918.3**	1,220.3
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,751.9**	(392.6)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,795.1**	2,177.7
Effect of foreign exchange rate changes	**20.5**	10.0
CASH AND CASH EQUIVALENTS AT THE REPORTING DATE (Note 33)	**4,567.5**	1,795.1

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent is AP Emerald Limited. Its ultimate holding company is Allied Group Limited, a public limited company which is listed and incorporated in Hong Kong. The ultimate controlling party of the Company is the trustees of Lee and Lee Trust. The address of the principal place of business of the trustees of Lee and Lee Trust is 24/F, Allied Kajima Building, 138 Gloucester Road, Wanchai, Hong Kong. The address of the registered office of the Company is disclosed in the Corporate Information of the Annual Report. The principal place of business of the Company is in Hong Kong.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activity of the Company is to act as an investment holding company and the principal activities of its major subsidiaries are disclosed in Note 48.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group adopted certain amendments to Standards that are mandatorily effective for the Group's financial year beginning on 1 January 2012 except that the Group had early adopted the amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" in 2011. The adoption of the amendments to Standards in the current year has had no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective, and are relevant to the operations of the Group.

Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[1]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance[2]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[3]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 — 2011 Cycle[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

Amendments to HKAS 1 — Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to HKAS 32 and HKFRS 7 — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospectively application required. The management anticipates that the application of the above amendments does not have material impact to the amounts reported in the consolidated financial statements but results in more extensive disclosures in the consolidated financial statements.

HKFRS 9 — Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, an entity may make an irrevocable election to present changes in fair value of equity investments in other comprehensive income, with only dividend income recognised in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. The application of HKFRS 9 might affect the measurement of the Group's financial assets. The management is still in the process of assessing the impact of the adoption of HKFRS 9.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011) and HKAS 28 (2011).

Key requirements of these five Standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and Separate Financial Statements" that deal with consolidated financial statements. HK(SIC) — Int 12 "Consolidation — Special Purpose Entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) — Int 13 "Jointly Controlled Entities — Non-monetary Contributions by Venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities are currently under HKAS 31 accounted for using the equity method of accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) issued in December 2012 define an investment entity and require a parent that is an investment entity to measure its investments in particular subsidiaries at fair value through profit or loss in accordance with HKFRS 9 instead of consolidating those subsidiaries in its consolidated and separate financial statements. In addition, the amendments introduce new disclosure requirements related to investment entities in HKFRS 12.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013. The amendments relating to investment entities are effective for annual period beginning on or after 1 January 2014. Earlier application is permitted provided that all of these five standards are applied early at the same time. The Directors anticipate that the application of these five standards does not have material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(CONTINUED)*

HKFRS 13 — Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current standards.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The management anticipates that the application of the new Standard does not have material impact to the amounts reported in the consolidated financial statements but results in more extensive disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

(b) Basis of preparation and consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and the Group's interest in associates and jointly controlled entities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses within the Group are eliminated on consolidation.

(c) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in the consolidated income statement as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Business combinations *(continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

— deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits" respectively;

— liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date; and

— assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated income statement as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in the consolidated income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to the consolidated income statement where such treatment would be appropriate if those interests were disposed of.

(d) Goodwill

Goodwill arising on acquisition is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

On disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(e) Interest in subsidiaries

A subsidiary (including special purpose entities) is an entity over which the Group has the power to govern the financial and operating policies and is generally accompanied by a shareholding of more than one half of the voting rights so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the accumulated amounts in equity are accounted for as if the Company had directly disposed of the related assets.

Investments in subsidiaries are included in the Company's statement of financial position at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

(f) Interest in associates

An associate is a company not being a subsidiary or a joint venture, in which the Group has significant influence but not control, generally accompanying a shareholding between 20% and 50% of the voting rights.

Interest in associates is accounted for in the consolidated financial statements under the equity method and is initially recognised at cost. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated income statement.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition other comprehensive income is recognised in the reserves. The cumulative post-acquisition share of the profit or loss and other comprehensive income are adjusted against the carrying amount of the investment. In the consolidated statement of financial position, interest in associates comprises the Group's share of the net assets plus goodwill identified on acquisition (net of any accumulated impairment losses).

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including its investment cost and other long-term interests, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Interest in associates *(continued)*

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When the Group transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

In the Company's statement of financial position, the interest in associates is stated at cost less impairment. The results of associates are accounted by the Company on the basis of dividends received or receivable.

(g) Interest in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

A joint venture arrangement which involves the establishment of a separate entity in which each venturer has an interest is referred to as a jointly controlled entity.

The Group's interest in its jointly controlled entities is accounted for by the equity method, whereby its interest in the jointly controlled entities is initially recorded at cost and adjusted thereafter for the post-acquisition share of the profit or loss and other comprehensive income of the jointly controlled entities. The Group's share of post-acquisition results of the jointly controlled entities is included in the consolidated income statement. In the consolidated statement of financial position, interest in jointly controlled entities comprises the Group's share of the net assets plus goodwill identified on acquisition (net of any accumulated impairment losses).

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the jointly controlled entities.

(h) Investment properties

The Group's investment properties are properties which are held for long-term rental yields or for capital appreciation or both. Investment properties are initially measured at cost including all transaction costs. Subsequent to initial recognition they are stated at fair value based on an independent professional valuation at the end of each reporting period. Any revaluation increase or decrease arising from the revaluation of investment properties is recognised in the consolidated income statement in the year in which it arises.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(i) Leasehold interests in land

Leasehold interests in land are classified as operating leases and presented as "leasehold interests in land" in the consolidated statement of financial position when all the risks and rewards incidental to ownership are not substantially transferred to the Group. Leasehold interests in land are amortised in the consolidated income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the consolidated income statement.

(j) Property and equipment

Property and equipment include buildings and leasehold land (classified as finance lease) held by the Group for its own use. All property and equipment are stated at cost, less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight-line method to write off the cost of each asset to its residual value over its estimated useful life as follows:

Property	—	shorter of the estimated useful life and the remaining lease term of land
Furniture and equipment	—	10% to 33% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

If an item of property included in "property and equipment" becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in the revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained earnings.

For a transfer from an investment property carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amount and are included in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) Intangible assets

(i) Exchange participation rights and club membership

They comprise:

— the eligibility right to trade through The Stock Exchange of Hong Kong Limited, Hong Kong Futures Exchange Limited and other Exchanges; and

— the eligibility right to use the facilities of various clubs.

The exchange participation rights are considered by the management of the Group as having an indefinite useful life because they are expected to contribute net cash flows indefinitely. The management also considers that the club membership does not have a finite useful life. They are both carried at cost less any impairment losses and are tested for impairment annually by comparing their recoverable amounts with their carrying amounts. Useful lives are also examined on an annual basis and adjustments where applicable are made on a prospective basis.

(ii) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method.

Costs associated with developing or maintaining computer software are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised from the dates when the software becomes available for use using the straight-line method.

(iii) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably. Such intangible assets are measured at their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Intangible assets with indefinite lives are carried at cost less any impairment losses and are tested for impairment annually by comparing their recoverable amount with their carrying amount.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Investments/financial assets

(i) Classification

Financial assets of the Group are classified under the following categories:

"Financial assets at fair value through profit or loss"

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in the held for trading category if acquired principally for the purpose of selling in the short-term. All derivative financial assets are also categorised as held for trading unless they are designated as effective hedging instruments. Financial assets other than financial assets held for trading may be designated as fair value through profit or loss if the assets are managed and their performance is evaluated on a fair value basis, in accordance with the Group's investment strategy, and information about the grouping is provided internally on that basis.

"Available-for-sale investments"

This category comprises financial assets, which are non-derivatives that are either designated as available-for-sale or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. They include both listed and unlisted investments which are stated at fair value, except for those equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured whereby they are measured at cost.

"Loans and receivables"

This category includes trade and other receivables, bank deposits and balances, loans and advances to consumer finance customers and amounts due from related parties. They arise when the Group provides money, goods or services directly to clients or brokers with no intention of trading the receivables. For those secured margin or term loans, clients are normally required to provide additional margin or securities as collateral whenever there are any shortfalls in their accounts.

(ii) Recognition and initial measurement

Purchases and sales of investments are recognised on trade date, which is the date that the Group enters into a contract to purchase or sell the asset. Financial assets at fair value through profit or loss are initially recognised at fair value with transaction costs recognised as expenses in the consolidated income statement. Financial assets which are not financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Investments/financial assets *(continued)*

(iv) Subsequent measurement

"Financial assets at fair value through profit or loss"

Investments under this category are subsequently re-measured to fair value at the end of the reporting period until the assets are derecognised. Unrealised gains and losses arising from changes in the fair value are included in the consolidated income statement in the period in which they occur. Upon disposal, the difference between the net sale proceeds and the carrying amount is included in the consolidated income statement.

"Available-for-sale investments"

Available-for-sale investments are carried at fair value. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the revaluation reserve. When the securities are sold, the difference between the net sale proceeds and the carrying amount, and the accumulated fair value adjustments in the revaluation reserve are treated as gains or losses on disposal.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of each reporting period subsequent to initial recognition.

"Loans and receivables"

Loans and receivables are carried at amortised cost using the effective interest method, less impairment losses, if any.

(v) Fair value measurement principles

Fair values of quoted investments are based on bid prices. For unlisted securities or financial assets without an active market, the Group establishes the fair value by using appropriate valuation techniques including the use of recent arm's length transactions, reference to other investments that are substantially the same, discounted cash flow analysis and option pricing models.

(vi) Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement) is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity investments are not reversed through the consolidated income statement.

Each receivable that is individually significant is reviewed for indication of impairment at the end of each reporting period. Loans and receivables that are individually not significant and are assessed not to be impaired individually are reviewed at the end of each reporting period on a collective portfolio basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(l) Investments/financial assets *(continued)*

(vi) Impairment (continued)

Individual impairment allowance applies to securities margin financing and secured term loans which are individually significant or have objective evidence of impairment. In assessing the individual impairment, management estimates the present value of future cash flows which are expected to be received, taking into account the borrower's financial situation and the net realisable value of the underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits and the impairment allowance is measured as the difference between the loan's carrying amount and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

Collective impairment allowances cover credit losses inherent in portfolios of loans receivable and other accounts with similar economic and credit risk characteristics where objective evidence for individual impaired items cannot be identified. In assessing the collective impairment, management makes assumptions both to define the way the Group assesses inherent losses and to determine the required input parameters, based on historical loss experience and current economic conditions. Changes in the carrying amount of the allowance account are recognised in consolidated income statement.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank balances and short-term time deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(n) Financial liabilities

Financial liabilities for trading purposes are generally classified as "financial liabilities at fair value through profit or loss" which are recognised initially at fair value. A financial liability other than held for trading purpose may be designated as at fair value through profit or loss upon initial recognition if it form part of a contract containing one or more embedded derivatives and HKAS 39 permits the entire contract to be designated as at fair value through profit or loss. At the end of each reporting period, subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the consolidated income statement in the period in which they arise. Other financial liabilities including loans, bank borrowings and overdrafts, notes and bonds, trade and other payables and amounts due to related parties, which are recognised initially at fair value, are subsequently measured at amortised cost, using the effective interest method.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(o) Share capital

Ordinary shares of the Company are classified as equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised in equity. Repurchased shares that are not subsequently cancelled are classified as treasury shares and presented as a deduction from total equity.

Dividend distribution to the Company's owners is recognised as a liability in the period in which the dividends are approved by the Directors or shareholders as appropriate.

Where the shares of the Company ("Awarded Shares") are purchased under the SHK Employee Ownership Scheme, the consideration paid, including any directly attributable incremental costs, is presented as "Shares held for Employee Ownership Scheme" and deducted from equity. When the Awarded Shares are transferred to the awardees upon vesting, the related costs of the Awarded Shares are eliminated against the employee share-based compensation reserve and the remaining balances will be transferred to retained earnings.

Other equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs. Derivatives that are settled by the exchange of a fixed amount of cash or other financial assets for a fixed number of the Company's own equity instruments are classified as equity.

(p) Convertible notes

Convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component regarding the fixed interest payment during the life of the convertible notes is estimated using the discounted cash flow method. This amount is recorded as a liability and measured at amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The equity portion of the convertible notes is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. The equity portion is not subsequently remeasured at subsequent reporting dates.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, if it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Provisions and contingent liabilities *(continued)*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(r) Impairment of non-financial assets

Goodwill and intangible assets that have indefinite useful lives are not subject to amortisation, and are tested at least annually for impairment and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units) if an impairment test cannot be performed for an individual asset. An impairment loss is recognised immediately as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated income statement.

(s) Taxation

Taxation comprises current and deferred tax.

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

Deferred tax is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(s) Taxation *(continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the assets realised. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in the consolidated income statement, except when it relates to items recognised in equity, in which case the current and deferred tax is also dealt with in equity.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale.

(t) Foreign currencies

Transactions in currencies other than the functional currency of the respective group entities (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions.

At the end of each reporting period, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Foreign exchange gains and losses arising on the settlement of monetary items, and on the retranslation of monetary items, are included in net profit or loss for the period, except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group’s foreign operations are translated to Hong Kong dollars at exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group’s exchange reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

(u) Borrowing costs

Interest expenses directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of the asset.

All other borrowing costs are recognised on a time apportionment basis, taking into account the principal and the effective interest rates. They are charged to the consolidated income statement in the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

"The Group as lessor"

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

"The Group as lessee"

Rentals payable under operating leases are charged to the consolidated income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

(w) Employee benefits

The Group operates defined contribution retirement schemes, the assets of which are held in independently administrated funds. The Group's contributions to the defined contribution retirement schemes are expensed as the employees have rendered their services entitling them to the contributions and are reduced by contributions forfeited, if applicable, by those employees who leave the schemes prior to vesting fully in the contributions.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

The Group recognises a liability and an expense for bonuses and profit-sharing, where appropriate, based on approved formulas that take into consideration the profit attributable to the Group after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

For the Awarded Shares granted under the SHK Employee Ownership Scheme, the fair value of the employee services received is determined by reference to the fair value of Awarded Shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (employee share-based compensation reserve). At the end of each reporting period, the Group revises its estimates of the number of Awarded Shares that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the consolidated income statement, with a corresponding adjustment to the employee share-based compensation reserve.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related tax. Income is recognised in the consolidated income statement on the following basis:

(i) Brokerage commission income is recognised as income on a trade date basis.

(ii) Underwriting commission, sub-underwriting income, placing commission and sub-placing commission are recognised as income in accordance with the terms and conditions of the relevant agreement or deal mandate when the relevant significant acts have been completed.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(x) Revenue recognition *(continued)*

(iii) Fees for management and advisory services for funds are recognised when the related services are rendered.

(iv) Income from the provision of services is recognised upon the provision of the relevant services or on a time apportionment basis over the terms of service contracts.

(v) Interest income from financial assets is recognised on a time apportionment basis, taking into account the principal amounts outstanding and the effective interest applicable, which is the rate that discounts the estimated future cash flows through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

(vi) Dividend income from investments is recognised when the owners' right to receive payment has been established.

(vii) Realised profits or losses from financial assets at fair value through profit or loss are recognised on a trade date basis whilst the unrealised profits or losses are recognised from valuation at the end of the reporting period.

(viii) Rental income arising on investment properties is accounted for on a straight-line basis over the lease term regardless of when the cash rental payment is received.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Impairment allowances on loans and receivables

In determining individual impairment allowances, the Group periodically reviews its trade receivables, secured term loans and margin loans to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in the consolidated income statement, management estimates the present value of future cash flows which are expected to be received, taking into account the borrower's financial situation and the net realisable value of the underlying collateral or guarantees in favour of the Group.

(b) Impairment allowances on loans and advances to consumer finance customers

The policy for collective impairment allowances for loans and advances to consumer finance customers of the Group is based on the evaluation of collectibility and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these loans and advances, including the current creditworthiness, and the past collection history of each loan.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(CONTINUED)*

(c) Impairment of available-for-sale investments

For listed available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account.

For those unlisted equity investments that are carried at fair value, the Group determines their fair value by using appropriate valuation techniques and making assumptions that are based on market conditions existing at the end of each reporting period. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

(d) Estimated impairment of goodwill and intangible assets with indefinite useful lives

The Group conducts tests for impairment of goodwill and intangible assets with indefinite useful lives annually in accordance with the relevant accounting standards. Determining whether the goodwill and the intangible assets are impaired requires an estimation of the fair value less cost to sell or value in use on the basis of data available to the Group. Where future cash flows are less than expected, an impairment loss may arise.

(e) Deferred tax

Estimating the amount for recognition of deferred tax assets arising from tax losses requires a process that involves forecasting future years' taxable income and assessing the Group's ability to utilise tax benefits through future earnings. Where the actual future profits generated are more or less than expected, a recognition or reversal of the deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a recognition or reversal takes place. While the current financial models indicate that the recognised tax losses can be utilised in the future, any changes in assumptions, estimates and tax regulations can affect the recoverability of this deferred tax asset.

(f) Fair value of derivative and financial instruments

The Group selects appropriate valuation techniques for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied (Note 53).

The Group's unlisted equity instruments that are classified as available-for-sale investments and carried at fair value with a carrying amount of HK$68.7 million (31/12/2011: HK$73.5 million) as set out in Note 26 are valued using generally accepted pricing models such as discounted cash flows.

For the valuation of held for trading investments at fair value and most of the financial liabilities at fair value through profit or loss as set out in Notes 31 and 36, appropriate assumptions are used based on quoted market data as adjusted for specific features of the instrument. The carrying amounts of these financial assets and liabilities are HK$163.1 million (31/12/2011: HK$35.4 million) and HK$52.5 million (31/12/2011: HK$13.2 million) respectively.

5. REVENUE

Revenue represents the amounts received and receivables for brokerage and commission, interest, dividends, rental and service income.

	2012 **HK$ Million**	2011 HK$ Million
Brokerage, commission and service income	**594.6**	767.5
Dividends from listed investments	**6.9**	5.9
Dividends from unlisted investments	**9.5**	8.2
Gross rental income from investment properties	**18.7**	15.7
Interest income	**3,074.1**	2,760.3
Fees received from funds management	**17.7**	33.9
Net charge on gold positions	**1.9**	1.7
	3,723.4	3,593.2

During the year, the interest income that was derived from financial assets not at fair value through profit or loss amounted to HK$3,069.8 million (2011: HK$2,758.0 million).

6. SEGMENT INFORMATION

The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Inter-segment sales are charged at prevailing market rates.

The main reportable and operating segments presented in these financial statements are as follows:

(a) Wealth Management and Brokerage:

— provision of financial planning and wealth management services;

— provision of broking services and insurance broking;

— provision of online financial services and online financial information;

— provision of securities margin financing;

— dealing in securities, funds, bullion, commodities, futures and options; and

— provision of asset management including funds marketing and management.

(b) Capital Markets: provision of corporate finance services and structured finance.

(c) Consumer Finance: provision of consumer financing.

(d) Principal Investments: strategic investments, properties holding and rental.

6. SEGMENT INFORMATION *(CONTINUED)*

In the current year, Asset Management segment was integrated into Wealth Management and Brokerage segment as a result of the increasing collaboration between two segments. The comparatives of the segment information are restated to conform to the current year presentation.

	2012				
	Wealth Management and Brokerage HK$ Million	Capital Markets HK$ Million	Consumer Finance HK$ Million	Principal Investments HK$ Million	Total HK$ Million
Brokerage/commission revenue	469.4	23.5	—	1.5	494.4
Non brokerage/commission revenue	376.3	211.8	2,581.6	149.2	3,318.9
Segment revenue	845.7	235.3	2,581.6	150.7	3,813.3
Less: inter-segment revenue	(6.2)	—	—	(83.7)	(89.9)
Segment revenue from external customers	839.5	235.3	2,581.6	67.0	3,723.4
Segment profit or loss	107.6	142.8	1,147.5	290.2	1,688.1
Share of results of associates	—	—	—	10.9	10.9
Share of results of jointly controlled entities	3.8	—	—	(2.5)	1.3
Profit before taxation	111.4	142.8	1,147.5	298.6	1,700.3
Included in segment profit or loss:					
Interest income	296.1	181.5	2,568.5	28.0	3,074.1
Other income	2.5	0.1	11.3	170.6	184.5
Net profit on financial instruments	25.2	82.6	—	63.7	171.5
Net exchange gain (loss)	1.1	(1.3)	(8.5)	12.4	3.7
Amortisation and depreciation	(12.3)	(0.6)	(40.0)	(47.2)	(100.1)
Impairment loss					
— Intangible assets	—	—	(1.6)	(2.1)	(3.7)
— Available-for-sale investments	—	—	(8.8)	(0.7)	(9.5)
— Amounts due from associates	—	—	—	(1.1)	(1.1)
— Loans and advances to consumer finance customers	—	—	(350.8)	—	(350.8)
— Trade and other receivables	(66.6)	(76.3)	—	(10.0)	(152.9)
Loss on disposal of equipment and intangible assets	—	—	—	(0.1)	(0.1)
Finance costs	(8.5)	—	(143.2)	(49.1)	(200.8)

6. SEGMENT INFORMATION *(CONTINUED)*

	2011 (restated)				
	Wealth Management and Brokerage HK$ Million	Capital Markets HK$ Million	Consumer Finance HK$ Million	Principal Investments HK$ Million	Total HK$ Million
Brokerage/commission revenue	569.3	25.5	—	—	594.8
Non brokerage/commission revenue	568.0	303.1	2,084.3	117.6	3,073.0
Segment revenue	1,137.3	328.6	2,084.3	117.6	3,667.8
Less: inter-segment revenue	(2.1)	(0.4)	—	(72.1)	(74.6)
Segment revenue from external customers	1,135.2	328.2	2,084.3	45.5	3,593.2
Segment profit or loss	313.4	149.5	854.3	274.8	1,592.0
Share of results of associates	—	—	—	17.1	17.1
Share of results of jointly controlled entities	3.0	—	—	3.2	6.2
Profit before taxation	316.4	149.5	854.3	295.1	1,615.3
Included in segment profit or loss:					
Interest income	458.2	213.4	2,074.5	14.2	2,760.3
Other income	17.3	3.6	0.7	202.7	224.3
Reversal of impairment loss on loans and advances to consumer finance customers	—	—	54.2	—	54.2
Net profit (loss) on financial instruments	(43.7)	(94.3)	—	5.7	(132.3)
Net exchange gain (loss)	8.4	(0.6)	(61.6)	7.8	(46.0)
Amortisation and depreciation	(13.2)	(0.6)	(193.1)	(41.8)	(248.7)
Impairment loss					
— Available-for-sale investments	—	—	—	(0.5)	(0.5)
— Amounts due from associates	—	—	—	(4.9)	(4.9)
— Loans and advances to consumer finance customers	—	—	(218.7)	—	(218.7)
— Trade and other receivables	(21.0)	—	—	—	(21.0)
Loss on disposal of equipment and intangible assets	(1.0)	—	—	(3.1)	(4.1)
Finance costs	(9.0)	(0.2)	(146.0)	(5.1)	(160.3)

6. SEGMENT INFORMATION *(CONTINUED)*

The geographical information of revenue and non-current assets are disclosed as follows:

	2012 HK$ Million	2011 HK$ Million
Revenue from external customers by location of operations		
— Hong Kong	**2,770.3**	3,044.2
— Mainland China	**942.3**	547.1
— Others	**10.8**	1.9
	3,723.4	3,593.2

	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Non-current assets other than financial instruments and deferred tax assets by location of assets		
— Hong Kong	**4,157.8**	4,258.5
— Mainland China	**283.7**	147.8
— Others	**2.0**	1.4
	4,443.5	4,407.7

7. OTHER INCOME

	2012 HK$ Million	2011 HK$ Million
Net realised profit on disposal of investments		
— Liquidation of subsidiaries	**3.8**	—
— Disposal of an associate	**0.3**	13.4
— Disposal of available-for-sale investments	**96.4**	5.2
Increase in fair value of investment properties	**45.6**	192.6
Gain on repurchase of bonds	**3.8**	—
Miscellaneous income	**34.6**	13.1
	184.5	224.3

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	2012					
	Director's fees HK$ Million	Consultancy fees HK$ Million	Salaries, housing and other allowances and benefits in kind HK$ Million	Discretionary bonuses HK$ Million	Contributions to retirement benefit scheme HK$ Million	Total HK$ Million
David Craig Bartlett	0.01	0.19	—	—	—	0.20
Peter Anthony Curry[4]	0.02[1]	—	2.50	1.05[7]	0.12	3.69
Goh Joo Chuan	0.01	—	—	—	—	0.01
Ho Chi Kit	—	—	—	—	—	—
Alan Stephen Jones	0.01	0.25	—	—	—	0.26
Roy Kuan	—	—	—	—	—	—
Lee Seng Huang	0.01	—	6.63	5.00	0.23	11.87
Leung Pak To	—	—	—	—	—	—
William Leung Wing Cheung[5]	0.02[2]	—	4.03	1.79[8]	0.20	6.04
Ming Cheng	—	—	—	—	—	—
Carlisle Caldow Procter	0.01	0.19	—	—	—	0.20
Joseph Tong Tang[6]	0.02[3]	—	2.49	0.40[9]	0.12	3.03
Peter Wong Man Kong	0.01	0.19	—	—	—	0.20
	0.12	0.82	15.65	8.24	0.67	25.50

1 Including Director's fee of HK$0.01 million for Sun Hung Kai Financial Limited (2011: HK$0.01 million).
2 Including Director's fee of HK$0.01 million for Sun Hung Kai Financial Limited (2011: Nil).
3 Including Director's fee of HK$0.01 million for Sun Hung Kai Financial Limited (2011: HK$0.01 million).
4 In March 2013, Awarded Shares with fair value at grant date of HK$0.7 million under the SHK Employee Ownership Scheme is approved to be granted to the director in relation to his performance in 2012. In addition, 39,000 shares were vested during 2012.
5 In March 2013, Awarded Shares with fair value at grant date of HK$1.46 million under the SHK Employee Ownership Scheme is approved to be granted to the director in relation to his performance in 2012.
6 In March 2013, Awarded Shares with fair value at grant date of HK$0.1 million under the SHK Employee Ownership Scheme is approved to be granted to the director in relation to his performance in 2012. In addition, 102,000 shares were vested during 2012.
7 The amount represents an actual cash bonus of HK$1.05 million for the year 2012 (2011: HK$2.26 million).
8 The amount represents an actual cash bonus of HK$1.79 million for the year 2012 (2011: Nil).
9 The amount represents an actual cash bonus of HK$0.4 million for the year 2012 (2011: HK$2.26 million).

Bonuses, which are recommended by the remuneration committee and subsequently approved by the Board, are discretionary and are determined by reference to the Group's and the individuals' performance.

For the year ended 31 December 2012, Mr. Ho Chi Kit, Mr. Roy Kuan and Mr. Leung Pak To waived emolument of HK$0.01 million each.

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES *(CONTINUED)*

(a) Directors *(continued)*

	2011					
	Director's fees HK$ Million	Consultancy fees HK$ Million	Salaries, housing and other allowances and benefits in kind HK$ Million	Discretionary bonuses HK$ Million	Contributions to retirement benefit scheme HK$ Million	Total HK$ Million
David Craig Bartlett	0.01	0.18	—	—	—	0.19
Peter Anthony Curry[1]	0.02	—	2.44	2.26	0.09	4.81
Fevzi Timucin Engin	—	—	—	—	—	—
Josefh Kamal Eskandar	—	—	—	—	—	—
Goh Joo Chuan	0.01	—	—	—	—	0.01
Ho Chi Kit	—	—	—	—	—	—
Alan Stephen Jones	0.01	0.24	—	—	—	0.25
Roy Kuan	—	—	—	—	—	—
Lee Seng Huang	0.01	—	6.53	8.25	0.23	15.02
Patrick Lee Seng Wei	0.01	—	—	—	—	0.01
Leung Pak To	0.01	—	—	—	—	0.01
Ming Cheng	0.01	—	—	—	—	0.01
Carlisle Caldow Procter	0.01	0.18	—	—	—	0.19
Joseph Tong Tang[2]	0.02	—	2.44	2.26	0.12	4.84
Peter Wong Man Kong	0.01	0.18	—	—	—	0.19
	0.13	0.78	11.41	12.77	0.44	25.53

[1] On 13 April 2012, 342,000 shares granted to Mr. Curry under the SHK Employee Ownership Scheme in relation to the performance in 2011.

[2] On 7 December 2012, 300,000 shares granted to Mr. Tong under the SHK Employee Ownership Scheme in relation to the performance in 2011.

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES *(CONTINUED)*

(b) Senior employees

The five highest paid individuals of the Group include three Directors (2011: one Director) of the Company. The emoluments of the remaining two (2011: four) senior employees are analysed below:

	2012 HK$ Million	2011 HK$ Million
Salaries, housing and other allowances, and benefits in kind	**12.9**	7.8
Bonuses	**35.7**	17.1
Contributions to retirement benefit scheme	**0.6**	0.3
Incentive/commission	—	25.2
	49.2	50.4

The above emoluments of the senior employees were within the following bands:

Emoluments band (HK$)	**Number of employees**	
	2012	2011
$2,500,001 — $3,000,000	**1**	—
$8,000,001 — $8,500,000	—	1
$9,000,001 — $9,500,000	—	2
$23,000,001 — $23,500,000	—	1
$46,000,001 — $46,500,000	**1**	—

During the year, 171,000 shares were granted under the SHK Employee Ownership Scheme to the remaining two highest paid individuals of the Group. In addition, a total amount of HK$0.78 million represents 194,000 shares which vested for the remaining two highest paid individuals during the year. The total dividend expenses paid to the remaining two highest paid individuals during the year is HK$0.29 million.

During the year, the Group granted an option to one of the senior employees by entering into a director's service agreement. Further information of the option granted is disclosed in Note 37.

9. EMPLOYEE BENEFITS

(a) Retirement Benefit Scheme

The principal retirement benefit schemes operated by the Group related to defined contribution schemes for the Hong Kong and overseas offices' qualifying employees.

The amount of forfeited contributions utilised in the course of the year ended 31 December 2012 was HK$1.1 million (2011: HK$0.8 million).

(b) SHK Employee Ownership Scheme ("EOS")

During the year, 2.4 million shares (2011: 1.8 million shares) of the Company were awarded to selected grantees under the EOS. The fair value of the services rendered as consideration of the shares awarded during the year was HK$10.3 million (2011: HK$10.5 million) which will be amortised to the consolidated income statement during the vesting period. The amount expensed during the year was HK$7.5 million (2011: HK$9.0 million).

10. PROFIT BEFORE TAXATION

	2012 HK$ Million	2011 HK$ Million
Profit before taxation for the year has been arrived at after charging:		
Administrative expenses*	**(1,290.9)**	(1,107.6)
Amortisation of leasehold interests in land	**(0.4)**	(0.4)
Amortisation of intangible assets acquired in business combination included in direct cost and operating expenses	**(14.6)**	(174.4)
Commission expenses and sales incentives to investment consultants and certain staff included in brokerage and commission expenses	**(100.8)**	(143.5)
Outgoings in respect of investment properties		
— Non-rental generating properties	**—**	(0.6)
— Rental generating properties	**(0.7)**	(0.9)
Net loss on disposal/write-off of equipment and intangible assets included in other expenses	**(0.1)**	(4.1)
Impairment loss included in other expenses		
— Intangible assets	**(3.7)**	—
— Available-for-sale investments	**(9.5)**	(0.5)
— Amounts due from associates	**(1.1)**	(4.9)
Share of taxation of associates and jointly controlled entities	**(2.1)**	(6.9)
* Analysis of administrative expenses		
Staff costs (including Directors' emoluments)	**(707.6)**	(605.8)
Contributions to retirement benefit schemes	**(60.4)**	(39.0)
Expenses recognised for the SHK Employee Ownership Scheme	**(7.5)**	(9.0)
Total staff costs	**(775.5)**	(653.8)
Auditors' remuneration	**(6.1)**	(5.6)
Depreciation of property and equipment	**(55.5)**	(49.4)
Amortisation of intangible assets — computer software	**(29.6)**	(24.5)
Operating lease rentals		
— Premises	**(159.3)**	(139.8)
— Others	**(13.4)**	(9.2)
Other administrative expenses	**(251.5)**	(225.3)
	(1,290.9)	(1,107.6)

11. NET PROFIT (LOSS) ON FINANCIAL INSTRUMENTS

The following is an analysis of the net profit (loss) on financial instruments at fair value through profit or loss:

	2012 HK$ Million	2011 HK$ Million
Net realised and unrealised (loss) profit on derivatives	**(12.2)**	64.7
Net profit on other dealing activities	**1.3**	3.0
Net realised and unrealised profit (loss) on trading in equity securities	**154.7**	(122.7)
Net realised and unrealised profit (loss) on trading in bonds	**5.3**	(3.0)
Net realised and unrealised profit (loss) on financial assets designated as at fair value through profit or loss	**22.4**	(74.3)
	171.5	(132.3)

12. BAD AND DOUBTFUL DEBTS

	2012 HK$ Million	2011 HK$ Million
Loans and advances to consumer finance customers		
— Reversal of impairment loss	**—**	54.2
— Impairment loss	**(350.8)**	(218.7)
	(350.8)	(164.5)
Trade and other receivables		
— Impairment loss	**(152.9)**	(21.0)
— Bad debts recovery after written off	**—**	1.3
— Bad debts written off	**—**	(0.3)
	(152.9)	(20.0)
	(503.7)	(184.5)

As stated in notes 30 and 32, the amounts written off in allowance of impairment against the loans and advances to consumer finance customers and trade and other receivables were HK$366.7 million (2011: HK$273.3 million) and HK$0.3 million (2011: HK$27.6 million) respectively. Recoveries of loans and advances to consumer finance customers credited to allowance of impairment were HK$69.1 million (2011: HK$54.4 million).

13. FINANCE COSTS

	2012 HK$ Million	2011 HK$ Million
Interest on the following liabilities wholly repayable within five years		
— Bank loans and overdrafts	**(109.6)**	(91.7)
— Bonds and notes	**(68.8)**	(21.7)
— Short-term loans included in amounts due to fellow subsidiaries	**(12.0)**	(20.0)
— Other borrowings	**(4.5)**	(19.3)
— Mandatory convertible notes	**—**	(3.1)
Other borrowing costs	**(5.9)**	(4.5)
	(200.8)	(160.3)

14. TAXATION

	2012 HK$ Million	2011 HK$ Million
Current tax		
— Hong Kong	**(196.2)**	(230.9)
— PRC and other jurisdictions	**(92.5)**	(53.1)
	(288.7)	(284.0)
Over (under) provision in prior years		
— Hong Kong	**5.1**	(13.4)
— PRC and other jurisdictions	**—**	0.5
	(283.6)	(296.9)
Deferred tax (Note 27)		
— Current year	**7.6**	18.1
	(276.0)	(278.8)

Hong Kong profits tax is calculated at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (for both years). Taxation arising in other jurisdictions is calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in the relevant jurisdictions.

14. TAXATION *(CONTINUED)*

The taxation for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	2012 HK$ Million	2011 HK$ Million
Profit before taxation	**1,700.3**	1,615.3
Less: Share of results of associates	**(10.9)**	(17.1)
Share of results of jointly controlled entities	**(1.3)**	(6.2)
	1,688.1	1,592.0
Tax at the Hong Kong profits tax rate of 16.5% (2011: 16.5%)	**(278.5)**	(262.7)
Over (under) provision in prior years	**5.1**	(12.9)
Tax effect of non-taxable income	**45.7**	53.6
Tax effect of non-deductible expenses	**(26.9)**	(28.7)
Tax effect of unrecognised deductible temporary difference and tax losses	**9.5**	(13.6)
Countries subject to different tax rates	**(30.9)**	(14.5)
	(276.0)	(278.8)

There was no deferred tax recognised in other comprehensive income during the year (2011: Nil).

15. DIVIDENDS

	2012 HK$ Million	2011 HK$ Million
The aggregate amount of dividends paid and proposed:		
— 2012 interim dividend paid of HK10 cents (2011: HK10 cents) per share	**213.1**	211.7
— 2012 final dividend of HK12 cents (2011: HK10 cents) per share proposed after the end of the reporting period	**256.8**	210.8
Adjustment to 2011 final dividend	**(1.0)**	—
	468.9	422.5

	2012 HK$ Million	2011 HK$ Million
Dividends recognised as distribution during the year:		
— 2011 final dividend of HK10 cents (2010: HK18 cents) per share	**210.8**	319.6
— 2012 interim dividend paid of HK10 cents (2011: HK10 cents) per share	**213.1**	211.7
Adjustment to 2011 final dividend	**(1.0)**	—
	422.9	531.3

The 2012 final dividend is subject to approval by the shareholders at the forthcoming annual general meeting. The 2012 final dividend will be paid in the form of scrip, with the shareholders being given an option to elect cash in respect of part or all of such dividend.

16. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following information:

	2012 HK$ Million	2011 HK$ Million
Earnings		
Earnings for the purpose of basic earnings per share and diluted earnings per share (profit for the year attributable to owners of the Company)	**1,036.4**	1,032.4

	2012 Million Shares	2011 Million Shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	**2,120.1**	2,113.7

As the exercise price of the warrants and the fair value of service to be rendered of shares held for the SHK Employee Ownership Scheme are above the average share price of the Company, there is no effect of dilutive potential ordinary shares for both years.

17. INVESTMENT PROPERTIES

	Group	
	2012 HK$ Million	2011 HK$ Million
Fair value		
At 1 January	**714.0**	288.4
Exchange adjustments	**1.3**	5.6
Transfer from leasehold interests in land and property and equipment	**—**	255.1
Transfer to property and equipment	**—**	(27.7)
Increase in fair value recognised in the consolidated income statement	**45.6**	192.6
At 31 December	**760.9**	714.0
Analysed as:		
— Medium-term lease properties in Hong Kong	**630.0**	589.0
— Medium-term lease properties outside Hong Kong	**130.9**	125.0
	760.9	714.0

17. INVESTMENT PROPERTIES *(CONTINUED)*

(a) The investment properties were valued at the reporting dates by Norton Appraisals Limited, an independent qualified professional valuer, not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. Particulars of the investment properties at 31 December 2012 were:

Location	Classification	Term of lease
11/F, Tian An Centre, No. 338 Nanjing Road West, Huangpu District, Shanghai, the PRC	Commercial	2044
Room 1901, 19/F, Tian An Centre, No. 338 Nanjing Road West, Huangpu District, Shanghai, the PRC	Commercial	2044
2001 in Eastern Block and 2002 in Western Block, Phase II, Shenzhen Tian An Cyber Park, Futian District, Shenzhen, the PRC	Industrial	2052
2201, 2201A and 2202, 22/F, Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong	Commercial	2053
8/F, Tower II, Admiralty Centre, 18 Harcourt Road, Hong Kong	Commercial	2053
11/F, Tower II, Admiralty Centre, 18 Harcourt Road, Hong Kong	Commercial	2053

(b) At the end of the reporting period, investment properties with a total carrying value of HK$478.0 million (31/12/2011: HK$668.9 million) was pledged as security for the Group's bank loans.

18. LEASEHOLD INTERESTS IN LAND

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Leasehold land outside Hong Kong		
— Medium-term lease	**10.0**	10.2
— Short-term lease	**0.1**	0.2
	10.1	10.4
Analysed for reporting purposes as:		
— Non-current assets	**9.8**	10.0
— Current assets (Note 32)	**0.3**	0.4
	10.1	10.4

The leasehold interests in land are amortised over the remaining term of the leases ranged from 1 to 40 years.

19. PROPERTY AND EQUIPMENT

	Group		
	Property	**Furniture and equipment**	**Total**
	HK$ Million	HK$ Million	HK$ Million
Cost			
At 1 January 2011	186.6	282.1	468.7
Exchange adjustments	2.7	2.7	5.4
Additions	—	85.0	85.0
Transfer from investment properties	27.7	—	27.7
Transfer to investment properties	(123.2)	—	(123.2)
Disposals/written off	—	(57.6)	(57.6)
At 31 December 2011	93.8	312.2	406.0
Exchange adjustments	0.9	1.0	1.9
Additions	22.3	51.7	74.0
Disposals/written off	—	(2.1)	(2.1)
At 31 December 2012	117.0	362.8	479.8
Accumulated depreciation and impairment			
At 1 January 2011	26.2	167.9	194.1
Exchange adjustments	0.2	1.3	1.5
Depreciation provided for the year	1.8	47.6	49.4
Transfer to investment properties	(14.1)	—	(14.1)
Eliminated on disposals/written off	—	(45.5)	(45.5)
At 31 December 2011	14.1	171.3	185.4
Exchange adjustments	—	0.4	0.4
Depreciation provided for the year	2.6	52.9	55.5
Eliminated on disposals/written off	—	(2.0)	(2.0)
At 31 December 2012	16.7	222.6	239.3
Carrying amount at 31 December 2012	100.3	140.2	240.5
Carrying amount at 31 December 2011	79.7	140.9	220.6

19. PROPERTY AND EQUIPMENT *(CONTINUED)*

Analysis of the carrying amount of the properties:

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Medium-term lease in Hong Kong	**9.9**	10.1
Medium-term lease outside Hong Kong	**90.3**	69.3
Short-term lease outside Hong Kong	**0.1**	0.3
	100.3	79.7

The properties are depreciated over the remaining term of the leases ranged from 1 to 41 years.

20. INTANGIBLE ASSETS

	Group							
			Computer software					
	Club membership	Exchange participation rights	Acquired	Internally developed	Trade mark	Customer relationship	Web domain	Total
	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million
Cost								
At 1 January 2011	5.0	2.6	113.6	35.0	875.0	1,154.0	78.0	2,263.2
Additions	—	—	10.3	26.3	—	—	—	36.6
Disposals/written off	—	—	(9.2)	—	—	—	—	(9.2)
At 31 December 2011	5.0	2.6	114.7	61.3	875.0	1,154.0	78.0	2,290.6
Additions	—	—	5.9	19.9	—	—	—	25.8
Disposals/written off	—	—	(0.1)	—	—	—	—	(0.1)
At 31 December 2012	5.0	2.6	120.5	81.2	875.0	1,154.0	78.0	2,316.3
Accumulated amortisation and impairment								
At 1 January 2011	1.2	1.1	44.8	4.0	7.0	978.5	39.9	1,076.5
Amortisation charged for the year	—	—	19.8	4.7	—	167.7	6.7	198.9
Eliminated on disposals/written off	—	—	(8.3)	—	—	—	—	(8.3)
At 31 December 2011	1.2	1.1	56.3	8.7	7.0	1,146.2	46.6	1,267.1
Amortisation charged for the year	—	—	18.8	10.8	—	7.8	6.8	44.2
Impairment loss	—	—	1.0	1.1	—	—	1.6	3.7
Eliminated on disposals/written off	—	—	(0.1)	—	—	—	—	(0.1)
At 31 December 2012	1.2	1.1	76.0	20.6	7.0	1,154.0	55.0	1,314.9
Carrying amount at 31 December 2012	3.8	1.5	44.5	60.6	868.0	—	23.0	1,001.4
Carrying amount at 31 December 2011	3.8	1.5	58.4	52.6	868.0	7.8	31.4	1,023.5

20. INTANGIBLE ASSETS *(CONTINUED)*

The intangible assets of the Company are as follows:

	Company	
	2012	2011
	HK$ Million	HK$ Million
Club membership, at cost		
At 1 January and 31 December	**2.1**	2.1
Accumulated impairment		
At 1 January and 31 December	**(1.0)**	(1.0)
Carrying amount at 31 December	**1.1**	1.1

Other than the club membership, exchange participation rights and the trade mark, which have indefinite useful lives, the intangible assets are amortised on a straight-line basis over the following periods:

Acquired computer software	3 – 5 years
Internally developed computer software	5 – 10 years
Customer relationship	5.4 years
Web domain	10 years

21. GOODWILL

	Group	
	2012	2011
	HK$ Million	HK$ Million
Cost		
At 1 January and 31 December	**2,384.0**	2,384.0

22. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For impairment testing, goodwill and intangible assets with indefinite useful lives at 31 December 2012 were allocated as follows:

	Goodwill		Trade Mark	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million	**31/12/2012 HK$ Million**	31/12/2011 HK$ Million
United Asia Finance Limited ("UAF") in "Consumer Finance" segment	**2,384.0**	2,384.0	**868.0**	868.0

The recoverable amount of UAF, a cash-generating unit, represents the value in use at 31 December 2012 based on a business valuation report on the UAF group prepared by an independent qualified professional valuer, Norton Appraisals Limited. The valuation used the discount cash flow approach and is based on a five-year performance projection and certain key assumptions (updated with latest market data) including an average growth rate of 12.5% from 2013 to 2017 (2011: 10.1% from 2012 to 2016), a sustainable growth rate of 3.0% beyond 2017 (2011: 3.0% beyond 2016), and a discount rate of 14.1% (2011: 15.4%). The recoverable amount of UAF was determined to be in excess of its net carrying amount.

The management believes that possible changes in any of the above assumptions would not cause the carrying amount of UAF to exceed its recoverable amount.

23. INTEREST IN SUBSIDIARIES

	Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Unlisted shares, at cost	**4,067.3**	4,039.0
Less: impairment	**(56.3)**	(48.1)
	4,011.0	3,990.9

Particulars of the principal subsidiaries at 31 December 2012 are shown in Note 48.

24. INTEREST IN ASSOCIATES

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Carrying amount of unlisted associates	**62.1**	60.7
Less: impairment	**(1.7)**	(4.0)
	60.4	56.7

(a) The summarised financial information of associates at 31 December 2012 was as follows:

	2012 HK$ Million	2011 HK$ Million
Total revenue	**382.3**	470.1
Total profit for the year	**44.3**	82.5
Group's share of profit or loss of associates for the year	**10.9**	17.1

	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Total assets	**1,275.9**	1,231.7
Total liabilities	**(1,248.9)**	(1,214.0)
Group's share of net assets of associates	**60.4**	56.7

(b) Particulars of the principal associates at 31 December 2012 are shown in Note 49.

25. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Carrying amount of unlisted jointly controlled entities	**123.8**	122.1
Less: impairment	**(2.3)**	—
	121.5	122.1

Particulars of the principal jointly controlled entities at 31 December 2012 are shown in Note 50.

The summarised financial information in respect of the Group's interest in the jointly controlled entities which are accounted for using equity method is set out as follows:

	2012 HK$ Million	2011 HK$ Million
Income	**18.1**	19.8
Expenses	**(17.0)**	(14.0)
Other comprehensive income	**—**	—

	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Current assets	**169.9**	126.9
Non-current assets	**8.0**	8.0
Current liabilities	**(51.0)**	(11.6)
Non-current liabilities	**(0.8)**	—

26. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Listed equity investments issued by corporate entities, at quoted price		
— Listed outside Hong Kong	**0.5**	31.0
Unlisted equity investments issued by corporate entities, at fair value		
— Macau shares	**43.6**	42.3
— Shares in overseas investment funds	**25.1**	31.2
	68.7	73.5
Unlisted equity investments issued by corporate entities, at cost less impairment		
— Hong Kong shares	**0.4**	0.4
— Overseas shares	**50.8**	211.3
	51.2	211.7
	120.4	316.2

Available-for-sale investments are intended to be held for a continuing strategic or long-term purpose.

As there are no sufficient market comparables as input to measure the fair value reliably, some of the unlisted equity investments are measured at cost less impairment. The fair value of the Macau shares was established by using the discounted cash flow method using a discount rate of the prevailing prime interest rate. The fair value of shares in overseas investment funds are established by reference to the prices quoted by respective fund administrators as these equity securities may be redeemed at the request of the holders based on such quoted prices.

During the year, the Group disposed of certain unlisted equity investments measured at cost less impairment with a carrying value of HK$161.2 million at a total consideration of HK$210.8 million.

Further details on financial risk management of available-for-sale investments are disclosed in Note 54.

27. DEFERRED TAXATION

The following are the major deferred tax assets and liabilities of the Group recognised and movements thereon during the current and prior years:

	Group						
	Accelerated depreciation	**Provisions and impairment**	**Revaluation of assets**	**Unrealised profit**	**Undistributed earnings and others**	**Tax losses**	**Total**
	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million
At 1 January 2011	(21.6)	100.0	(201.7)	(6.6)	(6.8)	6.8	(129.9)
Exchange adjustments	(0.1)	0.9	(1.0)	(0.4)	—	0.5	(0.1)
Recognised in consolidated income statement (Note 14)	(4.1)	(1.6)	24.5	(6.8)	0.6	5.5	18.1
At 31 December 2011	(25.8)	99.3	(178.2)	(13.8)	(6.2)	12.8	(111.9)
Exchange adjustments	—	0.6	(0.3)	(0.4)	—	—	(0.1)
Recognised in consolidated income statement (Note 14)	1.6	31.9	0.5	(15.8)	0.1	(10.7)	7.6
At 31 December 2012	(24.2)	131.8	(178.0)	(30.0)	(6.1)	2.1	(104.4)

For reporting purposes, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances of the Group for financial reporting purposes:

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Deferred tax assets	**106.0**	92.7
Deferred tax liabilities	**(210.4)**	(204.6)
	(104.4)	(111.9)

At the end of the reporting period, the Group had unrecognised deductible temporary differences of HK$1.4 million (31/12/2011: HK$1.6 million) and unrecognised tax losses of HK$750.3 million (31/12/2011: HK$820.1 million) available to offset against future profits. The deductible temporary difference and tax losses have not been recognised as it is uncertain that there will be sufficient future taxable profits available for the utilisation of these temporary differences. The unrecognised tax losses included a sum of HK$10.3 million that will expire from 2014 to 2017 (31/12/2011: HK$3.7 million from 2012 to 2015).

The Group also had unrecognised taxable temporary differences arising from investment in PRC subsidiaries of HK$512.0 million at the end of the reporting period (31/12/2011: HK$277.4 million). The taxable temporary differences have not been recognised as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

28. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Amounts due from subsidiaries	**7,316.9**	7,255.5
Less: allowance for impairment	**(543.3)**	(318.1)
	6,773.6	6,937.4
Less: current portion	**(329.0)**	(684.4)
Non-current portion*	**6,444.6**	6,253.0

* After taking into account the expected settlement period, the amounts due from subsidiaries are not expected to be repayable within twelve months from the end of the reporting period and the balance is therefore shown as non-current.

The amounts due from subsidiaries are unsecured, repayable on demand, and non-interest bearing except for an amount of HK$3.2 million bearing annual interest rate at 0.01% (31/12/2011: a sum of HK$1,381.3 million bearing annual interest rates ranging from 2% to HIBOR plus 2%). The Company assesses at year-end whether there is objective evidence that the amounts due from subsidiaries are impaired. The impairment is made if and only if there is objective evidence of impairment as a result of one or more loss events including unsustainable operating losses occurring and having an impact in the estimated future cash flows of subsidiaries that can be reliably estimated. The movements in the allowance for impairment were as follows:

	Company	
	2012 HK$ Million	2011 HK$ Million
At 1 January	**(318.1)**	(357.3)
Amounts recognised in profit or loss	**(225.2)**	39.2
At 31 December	**(543.3)**	(318.1)

	Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Gross amount of impaired advances to subsidiaries	**1,708.6**	788.2
Less: allowance for impairment	**(543.3)**	(318.1)
Net carrying amount of impaired advances to subsidiaries	**1,165.3**	470.1

The amounts due to subsidiaries are unsecured, repayable on demand and non-interest bearing.

29. AMOUNTS DUE FROM ASSOCIATES

	Group		Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million	**31/12/2012 HK$ Million**	31/12/2011 HK$ Million
Amounts due from associates	**88.3**	94.0	**60.4**	60.2
Less: allowance for impairment	**(31.3)**	(30.2)	**(6.0)**	(4.9)
	57.0	63.8	**54.4**	55.3
Less: current portion	**(5.6)**	(12.5)	**—**	(0.9)
Non-current portion	**51.4**	51.3	**54.4**	54.4

Further details of amounts due from associates are disclosed in Note 37.

The impairment is recognised when there is objective evidence of impairment (such as unsustainable operating loss) after the Group's evaluation of the collectibility of amounts due from associates. Movements of the impairment during the year are as follows:

	Group		Company	
	2012 HK$ Million	2011 HK$ Million	**2012 HK$ Million**	2011 HK$ Million
At 1 January	**(30.2)**	(25.3)	**(4.9)**	—
Amounts recognised in profit or loss	**(1.1)**	(4.9)	**(1.1)**	(4.9)
At 31 December	**(31.3)**	(30.2)	**(6.0)**	(4.9)

	Group		Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million	**31/12/2012 HK$ Million**	31/12/2011 HK$ Million
Gross amount of impaired advances to associates	**82.7**	82.5	**60.4**	59.3
Less: allowance for impairment	**(31.3)**	(30.2)	**(6.0)**	(4.9)
Net carrying amount of impaired advances to associates	**51.4**	52.3	**54.4**	54.4

30. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Loans and advances to consumer finance customers	**8,753.5**	7,961.8
Less: impairment allowance	**(459.7)**	(405.7)
	8,293.8	7,556.1
Analysed for reporting purposes as:		
— Non-current assets	**3,057.6**	2,972.6
— Current assets	**5,236.2**	4,583.5
	8,293.8	7,556.1

Movements of allowance for impairment during the year were as follows:

	Group	
	2012 HK$ Million	2011 HK$ Million
At 1 January	**(405.7)**	(458.7)
Exchange adjustments	**(0.8)**	(1.4)
Amounts written off	**366.7**	273.3
Amounts recognised in consolidated income statement	**(350.8)**	(164.5)
Amounts recovered	**(69.1)**	(54.4)
At 31 December	**(459.7)**	(405.7)

Certain loans and advances are secured by properties. All the loans and advances bear interest at market interest rates.

The loans and advances to consumer finance customers have been reviewed by the Consumer Finance division to assess impairment allowances which are based on the evaluation of collectibility, ageing analysis of accounts and on management's judgement, including the current creditworthiness and the past collection statistics of individually significant accounts or a portfolio of accounts on a collective basis.

30. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS *(CONTINUED)*

The following is an ageing analysis for the loans and advances to consumer finance customers that were past due at the end of the reporting period but not impaired:

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Less than 31 days past due	**461.4**	437.8
31 – 60 days	**112.0**	98.4
61 – 90 days	**71.7**	119.4
91 – 180 days	**111.1**	60.1
Over 180 days	**24.3**	—
	780.5	715.7

The loans and advances to consumer finance customers categorised as unsecured and secured, are as follows:

At the reporting date, loans and advances to consumer finance customers consisted of HK$7,439.7 million unsecured (31/12/2011: HK$6,205.2 million) and HK$854.1 million secured (31/12/2011: HK$1,350.9 million). The table below summarises its credit quality:

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Credit quality		
Neither past due nor impaired	**7,513.0**	6,839.3
Past due or individually impaired	**780.8**	716.8
	8,293.8	7,556.1

The amount and type of collateral required depend on an assessment of the credit risk of the customer or counterparty.

The main types of collateral and credit enhancement obtained are as follows:

— for personal lending, mortgages over residential properties; and

— for commercial lending, corporate guarantees, charges over real estate properties, pledge of shares or debentures over the borrower's assets.

In general, the loans and advances which are granted on a secured basis, are made to the consumer finance customers with sufficient amount of collateral provided by them. Management requests additional collateral as appropriate in accordance with the underlying agreements, and monitors the market value of collateral during its review of the adequacy of the allowance for impairment losses.

30. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS *(CONTINUED)*

Estimate of fair value of collateral are based on the fair value of collateral determined using valuation techniques commonly used for the corresponding assets at the time of borrowing.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to repay or reduce the outstanding loan balances. In general, the Group does not retained repossessed properties for business purpose.

For the secured loans and advances to consumer finance customers with the carrying amount of HK$686.1 million (2011: HK$760.5 million), the fair values of the collaterals of such can be objectively ascertained to cover the outstanding amount of the loan balances.

The carrying amounts of the loans and advances to consumer finance customers approximate their fair values.

31. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Held for trading investments, at quoted price		
Equity securities listed in Hong Kong		
— Issued by corporate entities	**178.3**	173.5
— Issued by banks	**14.7**	94.7
— Issued by public utility entities	**2.3**	1.2
Equity securities issued by corporate entities listed outside Hong Kong	**55.7**	124.1
Warrants, futures and options listed in Hong Kong	**0.2**	1.3
Unlisted bonds	**8.2**	23.8
	259.4	418.6
Held for trading investments, at fair value		
Equity securities issued by corporate entities listed outside Hong Kong under a sale restriction period of one year	**41.1**	—
Equity over the counter derivatives	**1.6**	1.5
Unlisted overseas warrants and options	**0.1**	0.1
Unlisted bonds	**120.3**	33.8
	163.1	35.4
Investments designated as at fair value through profit or loss issued by corporate entities, at fair value		
Unlisted overseas redeemable convertible securities	**50.0**	50.0
Equity securities in unlisted overseas investment funds	**282.6**	268.7
	332.6	318.7
	755.1	772.7
Analysed for reporting purposes as:		
— Non-current assets	**286.1**	236.7
— Current assets	**469.0**	536.0
	755.1	772.7

Further information of the fair values of financial assets at fair value through profit or loss is disclosed in Note 53.

32. TRADE AND OTHER RECEIVABLES

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Trade receivables — accounts receivable from exchanges, brokers and clients	**988.7**	843.3
Less: impairment allowance	**(29.0)**	(19.3)
	959.7	824.0
Secured term loans	**1,869.8**	1,021.4
Less: impairment allowance	**(132.9)**	(56.6)
	1,736.9	964.8
Margin loans	**3,419.3**	4,343.0
Less: impairment allowance	**(132.6)**	(66.0)
	3,286.7	4,277.0
Other receivables		
— Deposits	**43.1**	66.8
— Dividend receivable on behalf of clients	**15.5**	51.9
— Claims from counter parties, receivable from sale proceeds and others	**190.3**	149.1
	248.9	267.8
Trade and other receivables at amortised cost	**6,232.2**	6,333.6
Less: non-current portion	**(720.0)**	(7.8)
Current portion of trade and other receivables at amortised cost	**5,512.2**	6,325.8
Prepayments	**12.5**	19.5
Current portion of leasehold interests in land (Note 18)	**0.3**	0.4
	5,525.0	6,345.7

32. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The following is an ageing analysis of trade and other receivables based on date of invoice/contract note at the reporting date:

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Less than 31 days	**947.2**	761.4
31 – 60 days	**4.6**	2.8
61 – 90 days	**4.0**	94.0
91 – 180 days	**0.8**	13.9
Over 180 days	**45.7**	18.4
	1,002.3	890.5
Term loans, margin loans and trade and other receivables without ageing*	**5,524.4**	5,585.0
Impairment allowances	**(294.5)**	(141.9)
Trade and other receivables at amortised cost	**6,232.2**	6,333.6

* No ageing analysis is disclosed for margin loans and term loans financing, as, in the opinion of Directors, the ageing analysis does not give additional value in view of the nature of the margin loans and term loans financing business.

The movement of impairment allowances during the year were as follows:

	Trade receivables	**Secured term loans**	**Margin loans**	**Other receivables**	**Total**
	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million
At 1 January 2011	(2.8)	(56.6)	(87.8)	(1.3)	(148.5)
Amounts written off	—	—	26.3	1.3	27.6
Amounts recognised in the consolidated income statement	(16.5)	—	(4.5)	—	(21.0)
At 31 December 2011	(19.3)	(56.6)	(66.0)	—	(141.9)
Amounts written off	0.3	—	—	—	0.3
Amounts recognised in the consolidated income statement	(10.0)	(76.3)	(66.6)	—	(152.9)
At 31 December 2012	(29.0)	(132.9)	(132.6)	—	(294.5)

Impairment loss on trade receivables, margin loans, term loans and other receivables is recognised in the consolidated income statement after proper review by the Credit Control Department or the Credit and Executive Committees of the Company, based on the latest status of trade receivables, margin loans, term loans and other receivables, and the latest announced or available information about the underlying collateral held.

32. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The carrying amounts of the trade and other receivables at amortised cost approximate their fair values.

	Group					
	31/12/2012			31/12/2011		
	Gross amount of impaired advances HK$ Million	**Individually assessed allowances HK$ Million**	**Net carrying amount of impaired advances HK$ Million**	Gross amount of impaired advances HK$ Million	Individually assessed allowances HK$ Million	Net carrying amount of impaired advances HK$ Million
Impaired trade and other receivables under individual assessment						
— Trade receivables	**39.4**	**(29.0)**	**10.4**	101.7	(19.3)	82.4
— Secured term loans	**184.4**	**(132.9)**	**51.5**	58.1	(56.6)	1.5
— Margin loans	**183.5**	**(132.6)**	**50.9**	178.8	(66.0)	112.8
	407.3	**(294.5)**	**112.8**	338.6	(141.9)	196.7

The following is an ageing analysis of trade receivables and secured term loans that were past due at the end of the reporting period but not impaired:

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Less than 31 days	**14.5**	11.4
31 – 60 days	**0.8**	1.8
61 – 90 days	**0.2**	300.5
91 – 180 days	**0.3**	172.7
Over 180 days	**14.7**	60.8
	30.5	547.2

Listed securities, unlisted securities and properties of clients are held as collateral against secured margin loans and term loans.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to repay or reduce the outstanding loan balances. In general, the Group does not retain repossessed properties for business purpose.

Further details on financial risk management of trade and other receivables are disclosed in Note 54.

33. BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	Group		Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million	**31/12/2012 HK$ Million**	31/12/2011 HK$ Million
Bank balances and cash	**2,901.5**	893.6	**31.2**	1.4
Fixed deposits with banks with a term within 3 months	**1,666.0**	901.5	**—**	—
Cash and cash equivalents	**4,567.5**	1,795.1	**31.2**	1.4
Fixed deposits with banks with a term between 4 to 12 months	**467.8**	940.9	**—**	—
	5,035.3	2,736.0	**31.2**	1.4

The Group maintains trust and segregated accounts with licensed banks to hold clients' deposits arising from normal business transactions. At 31 December 2012, trust and segregated accounts not dealt with in these consolidated financial statements totalled HK$5,808.5 million (31/12/2011: HK$5,019.5 million).

The carrying amounts of bank deposits, cash and cash equivalents approximate their fair values.

Further details on financial risk management of bank deposits, cash and cash equivalents are disclosed in Note 54.

34. BANK AND OTHER BORROWINGS

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Bank loans		
— Secured term loans	**—**	241.0
— Unsecured term loans	**4,198.2**	4,431.0
	4,198.2	4,672.0
— Secured instalment loans	**110.9**	146.1
Total bank borrowings	**4,309.1**	4,818.1
Other borrowings	**31.9**	31.8
	4,341.0	4,849.9
Analysed for reporting purposes as:		
— Current liabilities	**3,166.6**	1,646.4
— Non-current liabilities	**1,174.4**	3,203.5
	4,341.0	4,849.9

34. BANK AND OTHER BORROWINGS *(CONTINUED)*

At 31 December 2012, bank and other borrowings were repayable as follows:

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Bank borrowings		
— Within one year	**3,023.8**	1,432.9
— In the second year	**1,174.4**	2,355.5
— In the third to fifth year	**—**	848.0
Bank borrowings with a repayment on demand clause		
— Within one year	**8.5**	70.9
— In the second year	**46.0**	8.5
— In the third to fifth year	**56.4**	102.4
	4,309.1	4,818.2
Other borrowings		
— Within one year	**8.7**	8.6
Other borrowings with a repayment on demand clause		
— Within one year	**23.2**	23.1
	4,341.0	4,849.9

The secured instalment bank loans are repayable by instalments up to December 2015. Interest is charged on the outstanding balances at market rates.

All the bank loans and other borrowings are in Hong Kong dollars except for equivalent amounts of HK$440.4 million which was in Renminbi (31/12/2011: HK$138.9 million). Further details related to financial risk management of such balances are disclosed in Note 54.

The carrying amounts of the bank and other borrowings approximate their fair values.

35. TRADE AND OTHER PAYABLES

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Accounts payable to exchanges, brokers and clients	**983.2**	688.2
Dividend receivable on behalf of clients	**15.5**	51.9
Other accounts payable	**161.3**	137.2
Amounts due to investee companies	**—**	0.1
Trade and other payables at amortised cost	**1,160.0**	877.4
Accrued staff costs and other accrued expenses	**177.6**	146.3
	1,337.6	1,023.7

35. TRADE AND OTHER PAYABLES *(CONTINUED)*

The following is an ageing analysis of the trade and other payables based on the date of invoice/contract note at the reporting date:

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Less than 31 days	**1,054.6**	779.4
31 – 60 days	**11.8**	10.6
61 – 90 days	**9.2**	7.0
91 – 180 days	**26.9**	12.0
Over 180 days	**19.6**	45.1
	1,122.1	854.1
Accrued staff costs, other accrued expenses and other payables without ageing	**215.5**	169.6
	1,337.6	1,023.7

The carrying amounts of the trade and other payables at amortised cost approximate their fair values.

The trade and other payables of the Company include financial guarantee contracts with an aggregate carrying value of HK$27.1 million (2011: HK$0.6 million) for borrowings by subsidiaries.

36. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Held for trading		
Futures and options listed in Hong Kong, at quoted price	**0.2**	1.7
Equity over the counter derivatives, at fair value	**32.4**	13.2
	32.6	14.9
Dual currency notes designated as at fair value through profit or loss	**20.1**	—
	52.7	14.9

Further information of the fair values of financial liabilities at fair value through profit or loss is disclosed in Note 53.

37. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following material transactions with related parties:

	Group	
	2012	2011
	HK$ Million	HK$ Million
Associates of a holding company		
Insurance premiums received from associates of a holding company in the course of provision of insurance brokerage services*	**1.6**	1.4
Loan due to a listed associate of a holding company repaid	**(24.2)**	(22.5)
Finance costs to a listed associate of a holding company	**(1.0)**	(2.5)
Service fee to a listed associate of a holding company	**(0.9)**	(2.0)
Jointly controlled entities		
Management fees received from a jointly controlled entity	**3.5**	3.5
Holding company and its subsidiaries		
Brokerage received from fellow subsidiaries	**1.5**	1.4
Insurance premiums received from a holding company and fellow subsidiaries in the course of provision of insurance brokerage services*	**3.0**	2.8
Short-term loan due to a fellow subsidiary (repaid) raised	**(1,250.0)**	500.0
Finance costs to fellow subsidiaries	**(13.5)**	(27.8)
Management fees paid to a holding company*	**(3.6)**	(3.2)
Repayment of bonds	**—**	(500.0)

* The transactions also constituted continuing connected transactions. The details are disclosed under the Directors' Report section.

Compensation of Key Management Personnel

The remuneration of Directors and other members of key management during the year were as follows:

	2012	2011
	HK$ Million	HK$ Million
Short-term benefits	**78.3**	56.7
Post-employment benefits	**1.6**	1.3
	79.9	58.0

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

During the year, 1,041,000 shares were granted under the SHK Employee Ownership Scheme to key management personnel. In addition, a total amount of HK$1.4 million represents 355,000 shares which vested for key management personnel during the year. The total dividend expenses paid to the key management personnel during the year were HK$0.4 million (2011: HK$0.7 million).

In addition to the above, the Group had year-end trading account balance of HK$2.9 million (2011: HK$3.5 million) payable to key management personnel. Brokerage and service fees received from the key management personnel during the year amounting to HK$0.3 million (2011: HK$0.1 million).

At the extraordinary general meeting of the Company held on 23 July 2012, it was resolved that a director's service agreement entered between the Group and a director of a subsidiary for a term of ten years be approved. Subject to the terms and conditions of the agreement, the Group has granted the director an option ("Option") to subscribe for or purchase up to 20% of the issued capital of a new company ("Newco") to be established to hold all equity interests in subsidiaries incorporated or to be incorporated in the PRC for money lending businesses in the PRC ("PRC Subsidiaries") at an exercise price which is determined based on the aggregate carrying amount of shareholders equity and shareholders loans proportional to the shareholding to be taken up by the director at the time of exercise of the Option. Prior to the period before the Option becomes vested, the director is also entitled a bonus calculated based on the performance of PRC Subsidiaries. The transaction constituted a very substantial disposal and a connected transaction and its details were disclosed in the Company's circular dated 29 June 2012.

The fair value of the Option on grant date of 23 July 2012 was HK$255.1 million which was calculated using The Black-Scholes pricing model and carried out by Norton Appraisals Limited, a firm of independent and qualified professional valuers not connected with the Group. The inputs into the model include an underlying asset value of PRC Subsidiaries as at the grant date of HK$1,018.1 million, risk free rate of 2.74%, volatility of 39.25% and expected option life of 5 years. No share based payment expense is recognised in the consolidated financial statements for the year ended 31 December 2012 since one of the vesting conditions for the Option is the successful completion of the establishment of the Newco, the date of which, in the opinion of the management, could not yet be estimated with reasonable certainty.

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

At the end of the reporting period, the Group had the following material balances with related parties:

	Notes	Group 31/12/2012 HK$ Million	Group 31/12/2011 HK$ Million
Associates			
Amounts due from associates	(a)	**57.0**	63.8
Amounts due to associates	(a)	**(0.1)**	(2.2)
		56.9	61.6
Associates of a holding company			
Trade receivable due from a listed associate of a holding company		**1.8**	1.6
Amount due to a listed associate of a holding company		**—**	(24.7)
		1.8	(23.1)
Jointly controlled entities			
Guarantees for banking facilities granted to a jointly controlled entity		**(5.8)**	(5.8)
Holding company and fellow subsidiaries			
Short-term loans due to fellow subsidiaries	(b)	**—**	(1,252.4)
Trade payable due to a holding company		**(0.9)**	(0.8)
Trade payable due to fellow subsidiaries		**(8.0)**	(3.0)
		(8.9)	(1,256.2)
Notes held by a fellow subsidiary		**(194.6)**	—
		(203.5)	(1,256.2)

(a) The amounts due from (to) associates are unsecured, non-interest bearing and repayable on demand.

(b) There is a revolving loan facility of HK$600.0 million (2011: HK$1,750.0 million) granted by a fellow subsidiary to the Group. The facility will expire on 3 March 2014. Any loans drawn under the facility carry interest at 2.9% above HIBOR per annum.

The carrying amounts of the amounts due from (to) related parties approximate their fair values.

After the reporting date, the Group provided a secured term loan facility of HK$600.0 million to a substantial shareholder for a term of 48 months from the drawdown date. Interest on loan under the facility is charged at a rate of 6.5% per annum. The transaction constituted a connected transaction and its details were disclosed in the Company's circular of 23 January 2013. A loan of HK$600.0 million was drawn under the facility on 15 February 2013.

38. PROVISIONS

	Group		
	Employee benefits HK$ Million	**Others** HK$ Million	**Total** HK$ Million
At 1 January 2012	42.8	16.0	58.8
Transfer from accounts payable	0.4	—	0.4
Additional provisions for the year	27.0	1.1	28.1
Amount written back	(2.1)	(0.2)	(2.3)
Amount utilised during the year	(9.0)	(0.5)	(9.5)
Amount paid during the year	(32.1)	(0.3)	(32.4)
At 31 December 2012	27.0	16.1	43.1

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Analysed for reporting purposes as:		
— Current liabilities	**33.0**	46.5
— Non-current liabilities	**10.1**	12.3
	43.1	58.8

39. SHARE CAPITAL

	Number of shares		Share capital	
	2012 Million Shares	2011 Million Shares	**2012 HK$ Million**	2011 HK$ Million
Ordinary shares of HK$0.2 each				
Authorised				
Balance at 1 January and 31 December	**15,000.0**	15,000.0	**3,000.0**	3,000.0
Issued and fully paid				
Balance at 1 January	**2,109.4**	1,775.4	**421.9**	355.1
Shares issued for scrip dividends	**68.7**	3.4	**13.7**	0.7
Conversion of mandatory convertible notes	—	341.6	—	68.3
Shares cancelled after repurchase	**(16.0)**	(11.0)	**(3.2)**	(2.2)
Balance at 31 December	**2,162.1**	2,109.4	**432.4**	421.9

39. SHARE CAPITAL *(CONTINUED)*

(a) During the year, 68.7 million shares of the Company were issued and allotted under the 2011 final and 2012 interim scrip dividend schemes for HK$253.4 million.

(b) During the year, the Company repurchased its own shares through purchases on The Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	Number of shares Million Shares	Price per share Highest HK$	 Lowest HK$	Aggregate considera-tion paid (including expenses) HK$ Million
January 2012	0.9	4.09	3.97	3.4
April 2012	10.6	4.00	3.90	41.8
July 2012	0.1	3.75	3.74	0.4
October 2012	0.8	4.40	4.03	3.6
November 2012	3.5	4.99	4.46	16.7
	15.9			65.9
2011 repurchase settled in 2012	0.1			0.3
	16.0			66.2

All the above shares were cancelled after they were repurchased.

(c) During the year, the trustee of the SHK Employee Ownership Scheme (the "EOS") acquired 2.4 million shares of the Company (2011: 2.6 million shares) through purchases on The Stock Exchange of Hong Kong Limited for the Awarded Shares of the EOS. The total amount paid to acquire the shares during the year was HK$10.0 million (2011: HK$14.7 million), which has been deducted from the owners' equity.

(d) The Company had outstanding warrants in an aggregate face value of HK$427.0 million on the reporting date. The holders of the warrants have the right to subscribe for the shares of the Company by paying a subscription price of HK$6.25 per share at any time up to 13 July 2013. No warrants were exercised during the year.

40. ANALYSIS OF OTHER COMPREHENSIVE INCOME

	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings	Non-controlling interests	Total
	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million	HK$ Million
For the year ended 31 December 2012						
Available-for-sale investments	**—**	**(49.6)**	**—**	**—**	**—**	**(49.6)**
Exchange differences arising on translating foreign operations	**27.3**	**—**	**—**	**—**	**18.3**	**45.6**
Reclassification adjustment on liquidation of subsidiaries	**(0.4)**	**—**	**—**	**—**	**—**	**(0.4)**
Share of other comprehensive income (expenses) of associates	**—**	**—**	**0.1**	**(0.1)**	**—**	**—**
	26.9	**(49.6)**	**0.1**	**(0.1)**	**18.3**	**(4.4)**
For the year ended 31 December 2011						
Available-for-sale investments	—	(23.5)	—	—	—	(23.5)
Exchange differences arising on translating foreign operations	65.7	—	—	—	43.6	109.3
Reclassification adjustment on liquidation of a jointly controlled entity	(0.3)	—	—	—	—	(0.3)
Revaluation gain on properties	—	146.0	—	—	—	146.0
Share of other comprehensive income (expenses) of associates	—	—	0.2	(0.1)	—	0.1
	65.4	122.5	0.2	(0.1)	43.6	231.6

41. NOTES AND BONDS

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
US dollar denominated notes	**2,693.4**	—
Renminbi denominated bonds	**500.9**	555.8
	3,194.3	555.8

On 26 September 2012, the Group issued US$350 million 6.375% US dollar denominated notes, under a US$2 billion guaranteed medium term note programme. The notes are listed on The Stock Exchange of Hong Kong Limited and are issued to professional investors only as described in the pricing supplement dated 17 September 2012 and the offering circular dated 13 June 2012. The notes will mature on 26 September 2017 and are guaranteed by the Company. After deducting the discount on issue of 0.316% and transaction costs, the net proceeds received by the Group was US$345.5 million (equivalent to HK$2,678.5 million).

During the year, the Group purchased part of the notes with a total nominal value of US$4 million from the market at a consideration of HK$31.2 million. The nominal value of the notes outstanding after deducting the purchased notes was US$346.0 million (equivalent to HK$2,681.8 million) at the reporting date. The fair value of the notes based on the quoted price at the reporting date was HK$2,680.7 million.

The Renminbi denominated bonds will mature in April 2014 and are unsecured, guaranteed by another non-wholly owned subsidiary and carry an interest rate of 4% per annum.

During the year, the Group cancelled part of the bonds that were repurchased from the market with a total nominal value of RMB49.0 million at a consideration of HK$56.0 million. At the reporting date, the nominal value of the bonds issued to third parties was RMB401.0 million or equivalent to HK$498.8 million (2011: RMB450.0 million or equivalent to HK$553.8 million). The fair value of the bonds at the reporting date, calculated by discounted cash flows at prevailing market rate, approximate to HK$482.2 million (2011: HK$476.7 million).

42. RESERVES OF THE COMPANY

	Company	
	2012	2011
	HK$ Million	HK$ Million
Share premium account		
Balance at 1 January	**6,995.6**	5,422.6
Issue of shares	**239.7**	1,573.0
Balance at 31 December	**7,235.3**	6,995.6
Capital redemption reserve		
Balance at 1 January	**60.5**	58.3
Transfer from retained earnings on repurchase of shares	**3.2**	2.2
Balance at 31 December	**63.7**	60.5
Equity element of convertible notes and warrants		
Balance at 1 January	**57.6**	1,616.5
Conversion of mandatory convertible notes	**—**	(1,558.9)
Balance at 31 December	**57.6**	57.6
Retained earnings		
Balance at 1 January	**3,329.9**	439.0
Profit attributable to owners of the Company	**90.6**	3,466.4
Cash and scrip dividends paid	**(422.9)**	(531.3)
Premium on shares repurchased	**(63.0)**	(42.0)
Transfer to capital redemption reserve on repurchase of shares	**(3.2)**	(2.2)
Balance at 31 December	**2,931.4**	3,329.9
Total balance at 31 December	**10,288.0**	10,443.6

The distributable reserves of the Company at 31 December 2012 amounted to HK$377.4 million (31/12/2011: HK$545.9 million), being its net realised profits calculated under Section 79B of the Hong Kong Companies Ordinance.

43. CAPITAL COMMITMENTS

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Contracted for but not provided in the consolidated financial statements	**35.9**	3.8
Authorised but not contracted for	**—**	—
	35.9	3.8

44. OPERATING LEASES

(a) The Group as lessee

At the end of the reporting period, the Group had commitments for future aggregate minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Within one year	**169.7**	146.1
In the second to fifth year inclusive	**273.6**	232.5
Over five years	**88.6**	121.9
	531.9	500.5

The lease payments represent rentals payable by the Group for its office premises and office equipment under operating lease arrangements. The lease terms and rentals of properties are fixed at one to ten years.

(b) The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Within one year	**19.5**	18.0
In the second to fifth year inclusive	**14.6**	31.3
	34.1	49.3

The Group has properties leased to tenants for rental. The lease terms and rentals are fixed at two to four years.

45. CONTINGENT LIABILITIES

(a) At the end of the reporting period, the Group had guarantees as follows:

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Guarantees for banking facilities granted to a jointly controlled entity	**5.8**	5.8
Indemnities on banking guarantees made available to a clearing house and regulatory body	**4.5**	4.5
Other guarantees	**3.0**	3.0
	13.3	13.3

(b) In 2001 an order was made by the Hubei Province Higher People's Court in China ("the 2001 Order") enforcing a CIETAC award of 19 July 2000 ("the Award") by which Sun Hung Kai Financial Limited (formerly known as Sun Hung Kai Securities Limited) ("SHKF") was required to pay US$3 million to Chang Zhou Power Development Company Limited ("the JVC"), a mainland PRC joint venture. SHKF had disposed of all of its beneficial interest in the JVC to Tian An China Investments Company Limited ("Tian An") in 1998 and disposed of any and all interest it might hold in the registered capital of the JVC to Long Prosperity Industrial Limited ("LPI") in October 2001. Subsequent to those disposals, SHKF's registered interest in the JVC in the amount of US$3 million was frozen further to the 2001 Order. SHKF is party to the following litigation relating to the JVC:

(i) On 29 February 2008, Global Bridge Assets Limited ("GBA"), LPI and Walton Enterprises Limited ("WE") commenced a legal action in the High Court of Hong Kong against SHKF ("HCA 317/2008"). The Court of Appeal struck out the claims of GBA and LPI in February 2010. Subsequently, GBA, LPI and WE sought to amend their claims which was on 3 August 2012 rejected by the Court of Appeal which ordered that all of GBA's, LPI's and WE's claims against SHKF be dismissed. While a provision has been made for legal costs, the Company does not consider it presently appropriate to make any other provision with respect to HCA 317/2008.

(ii) On 20 December 2007, a writ was issued by Cheung Lai Na 張麗娜 ("Ms. Cheung") against Tian An and SHKF and was accepted by the Intermediate People's Court of Wuhan City, Hubei Province ("IPC") (湖北省武漢市中級人民法院)[(2008)武民商外初字第8號] (the "Mainland Proceedings"), claiming the transfer of a 28% shareholding in the JVC, and RMB19,040,000 plus interest thereon for the period from January 1999 to the end of 2007, together with related costs and expenses. Judgment was awarded by the IPC in Tian An and SHKF's favour on 16 July 2009. Ms. Cheung appealed against the said judgment and on 24 November 2010, the Higher People's Court of Hubei Province (湖北省高級人民法院) ordered that the case be remitted back to the IPC for retrial. The IPC subsequently ordered upon Ms. Cheung's unilateral application that the liquidator of Changjiang Power Development (H.K.) Co. Ltd. which acquired the interests in the JVC from Tian An in 1998 be joined as a third party to the Mainland Proceedings. After the substantive retrial hearing took place on 29 March 2012 and on 14 August 2012, the IPC dismissed Ms. Cheung's claim against Tian An and SHKF. Ms. Cheung is presently appealing the retrial decision of the IPC. While a provision has been made for legal costs, the Company does not consider it presently appropriate to make any other provision with respect to this writ.

46. ASSETS PLEDGED

At the end of the reporting period, the carrying amount of assets pledged to banks and financial institutions as security for facilities granted to the Group were as follows:

	Group	
	31/12/2012	31/12/2011
	HK$ Million	HK$ Million
Assets belonging to the Group		
— Listed securities pledged for banking facilities granted to the Group, at fair value	**49.9**	125.9
— Investment properties (Note 17)	**478.0**	668.9
	527.9	794.8
Assets belonging to clients*		
— Listed securities, at fair value	**927.6**	1,554.2
	1,455.5	2,349.0

* Based on the agreement terms, the Group is able to repledge clients' securities for margin financing arrangements with other financial institutions under governance of the Securities and Futures Ordinance. Securities belonging to clients are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the amount of receivable outstanding exceeds the eligible margin value of securities deposited. The fair value of the listed securities at 31 December 2012 was HK$13,817.6 million (31/12/2011: HK$12,622.5 million). The collateral held can be sold at the Group's discretion to settle any outstanding amounts owed by the margin clients. Margin clients receivable are repayable on demand and bear interest at commercial rates.

47. MATURITY PROFILE OF ASSETS AND LIABILITIES

	At 31 December 2012					
	On demand HK$ Million	**Within 3 months HK$ Million**	**3 months to 1 year HK$ Million**	**1 year to 5 years HK$ Million**	**After 5 years HK$ Million**	**Total HK$ Million**
Assets						
Loans and advances to consumer finance customers	**836.6**	**1,271.5**	**3,128.1**	**2,363.3**	**694.3**	**8,293.8**
Bonds included in financial assets at fair value through profit or loss	**—**	**—**	**6.9**	**42.7**	**78.9**	**128.5**
Fixed deposits with banks	**—**	**1,728.2**	**405.6**	**—**	**—**	**2,133.8**
Secured term loans	**59.3**	**222.4**	**743.1**	**712.1**	**—**	**1,736.9**
Liabilities						
Bank and other borrowings	**(12.0)**	**(1,347.4)**	**(1,704.8)**	**(1,276.8)**	**—**	**(4,341.0)**
Notes and Bonds	**—**	**—**	**—**	**(3,194.3)**	**—**	**(3,194.3)**

	At 31 December 2011					
	On demand HK$ Million	Within 3 months HK$ Million	3 months to 1 year HK$ Million	1 year to 5 years HK$ Million	After 5 years HK$ Million	Total HK$ Million
Assets						
Loans and advances to consumer finance customers	746.5	992.0	2,845.0	2,231.0	741.6	7,556.1
Bonds included in financial assets at fair value through profit or loss	—	—	—	57.6	—	57.6
Fixed deposits with banks	—	1,101.4	741.0	—	—	1,842.4
Secured term loans	446.0	221.2	297.6	—	—	964.8
Liabilities						
Bank and other borrowings	(12.0)	(1,469.3)	(54.2)	(3,314.4)	—	(4,849.9)
Amount due to an associate of a holding company	—	—	(24.7)	—	—	(24.7)
Amounts due to fellow subsidiaries	—	(1,252.4)	—	—	—	(1,252.4)
Bonds	—	—	—	(555.8)	—	(555.8)

The above tables list out the assets and liabilities based on the contractual maturity and the assumption that the repayment on demand clause will not be exercised. Overdue assets are reported as on demand.

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2012 and 2011 were as follows:

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Group effective equity interest 2012	Group effective equity interest 2011	Principal activities
Boneast Assets Limited *	British Virgin Islands	US$1	**100%**	100%	Investment holding
Dynamic Force Investments Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
First Asian Holdings Limited	Hong Kong	HK$2	**58%**	58%	Asset holding
Hing Yip Holdings Limited	British Virgin Islands	US$1	**100%**	100%	Property investment
I-Market Limited *	British Virgin Islands	US$1	**100%**	100%	Investment holding
Itso Limited	Hong Kong	HK$2	**100%**	100%	Securities trading and provision of loan finance
Lexshan Nominees Limited	Hong Kong	HK$2	**100%**	100%	Nominee services
Oakfame Investment Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Onspeed Investments Limited	British Virgin Islands	US$1	**58%**	58%	Investment holding
Plentiwind Limited	Hong Kong	HK$2	**100%**	100%	Investment holding and trading
Ranbridge Finance Limited *	Hong Kong	HK$20,000,000	**100%**	100%	Financial services
Scienter Investments Limited	Hong Kong	HK$20	**100%**	100%	Securities trading
Shipshape Investments Limited *	British Virgin Islands	US$1	**100%**	100%	Investment holding
SHK Absolute Return Managers Ltd	Cayman Islands	US$10	**100%**	100%	Investment holding
SHK Alpha Managers Ltd.	Cayman Islands	US$10	**100%**	100%	Funds management
SHK Alternative Managers Limited	Cayman Islands	US$1	**100%**	100%	Funds management
SHK Capital Management Limited	Cayman Islands	US$10	**100%**	100%	Investment holding
SHK Dynamic Managers Ltd.	Cayman Islands	US$10	**100%**	100%	Funds management

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Group effective equity interest 2012	Group effective equity interest 2011	Principal activities
SHK Finance Limited	Hong Kong	HK$150,000,000	**58%**	58%	Money lending
SHK Financial Data Limited	Hong Kong	HK$100	**51%**	51%	Financial information services
SHK Fund Management Limited	Hong Kong	HK$67,000,000	**100%**	100%	Funds marketing and investment advising
SHK Global Managers Limited	British Virgin Islands	US$5,000	**100%**	100%	Funds management
SHK Income Fund Manager	Cayman Islands	US$100	**100%**	100%	Investment holding
SHK Investment Services Limited	Hong Kong	HK$1,000,000	**100%**	100%	Asset holding and leasing
SHK Online (Securities) Limited	Hong Kong	HK$40,000,000	**100%**	100%	Online securities broking and margin financing
SHK Online Limited	Hong Kong	HK$20,000,000	**100%**	100%	Investment holding
SHK Pearl River Delta Investment Company Limited	Hong Kong	HK$75,000,000	**100%**	100%	Investment holding
SHK Private Equity Managers Ltd.	Cayman Islands	US$10	**100%**	100%	Funds management and investment holding
SHK Private Limited	Hong Kong	HK$100,000	**100%**	100%	Business marketing and promotion
SHK Quant Managers Ltd	Cayman Islands	US$10	**100%**	100%	Funds management
Shun Loong Forex Company Limited	Hong Kong	HK$32,000,000	**100%**	100%	Leveraged foreign exchange dealing and broking
Shun Loong Futures Limited	Hong Kong	HK$15,000,000	**100%**	100%	Futures and options dealing
Shun Loong Holdings Limited	Hong Kong	HK$200,000,000	**100%**	100%	Investment holding
Shun Loong Securities Company Limited	Hong Kong	HK$50,000,000	**100%**	100%	Securities broking and share margin financing

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Group effective equity interest 2012	Group effective equity interest 2011	Principal activities
Sing Hing Investment Limited	British Virgin Islands	US$1	**100%**	100%	Property investment
Sun Hing Bullion Company Limited	Hong Kong	HK$5,000,000	**100%**	100%	Bullion trading
Sun Hung Kai (China) Investment Management Company Limited	People's Republic of China	RMB50,000,000	**100%**	100%	Corporate marketing and investment consultancy
Sun Hung Kai (Nominees) Limited	Hong Kong	HK$200	**100%**	100%	Nominee services
Sun Hung Kai & Co. (BVI) Limited *	British Virgin Islands	US$1	**100%**	—	Financing
Sun Hung Kai Bullion Company Limited	Hong Kong	HK$30,000,000	**100%**	100%	Bullion trading and investment holding
Sun Hung Kai Commodities Limited	Hong Kong	HK$80,000,600	**100%**	100%	Commodities broking
Sun Hung Kai Financial Group Limited *	British Virgin Islands	US$50,000	**100%**	100%	Investment holding
Sun Hung Kai Financial Limited	Hong Kong	HK$124,898,589	**100%**	100%	Investment holding
Sun Hung Kai Insurance Consultants Limited	Hong Kong	HK$21,000,000	**100%**	100%	Insurance broking and consultancy services
Sun Hung Kai International Bank [Brunei] Limited	Brunei Darussalam	SGD10,000,000	**100%**	100%	International banking business
Sun Hung Kai International Limited	Hong Kong	HK$10,000,000	**100%**	100%	Corporate finance services
Sun Hung Kai International Commodities Limited	Hong Kong	HK$25,000,000	**100%**	100%	Securities, futures and options trading
Sun Hung Kai Investment Services (Macau) Limited	Macau	MOP48,900,000	**100%**	100%	Property holding
Sun Hung Kai Investment Services Limited	Hong Kong	HK$450,000,000	**100%**	100%	Investment holding, share broking and margin financing

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Group effective equity interest 2012	Group effective equity interest 2011	Principal activities
Sun Hung Kai Securities (Bermuda) Limited	Bermuda	US$12,000	**100%**	100%	Investment holding
Sun Hung Kai Securities (Overseas) Limited	Hong Kong	HK$60,000	**100%**	100%	Investment holding
Sun Hung Kai Securities (Trustees) Limited	Hong Kong	HK$3,000,000	**100%**	100%	Provision of trustee services
Sun Hung Kai Strategic Capital Limited	Hong Kong	HK$2	**100%**	100%	Investment holding and securities trading
Sun Hung Kai Structured Finance Limited	Hong Kong	HK$137,500,000	**100%**	100%	Provision of loan finance
Sun Hung Kai Structured Products Limited	Hong Kong	HK$2	**100%**	100%	Issuing structured notes
Sun Hung Kai Venture Capital Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Sun Hung Kai Wealth Management Limited	Hong Kong	HK$5,000,000	**100%**	100%	Investment advisory services, financial planning and wealth management
Sun Tai Cheung Finance Company Limited	Hong Kong	HK$25,000,000	**100%**	100%	Financial services
Sun Yi Company Limited	Hong Kong	HK$15,000,000	**100%**	100%	Futures trading
Swan Islands Limited *	British Virgin Islands	US$503,000,001	**100%**	100%	Investment holding
Texgulf Limited	Hong Kong	HK$20	**100%**	100%	Property investment
Tung Wo Investment Company, Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
UA Finance (BVI) Limited	British Virgin Islands	US$1	**58%**	58%	Financing
UAF Holdings Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
United Asia Finance Limited	Hong Kong	HK$171,875,000	**58%**	58%	Consumer financing

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Group effective equity interest 2012	Group effective equity interest 2011	Principal activities
Upper Selection Investments Limited *	British Virgin Islands	US$1	**100%**	100%	Investment holding
Wah Cheong Development Company, Limited *	Hong Kong	HK$25,100,000	**100%**	100%	Investment holding
Wineur Secretaries Limited	Hong Kong	HK$2	**100%**	100%	Secretarial services
Yee Li Ko Investment Limited	Hong Kong	HK$58,330,000	**100%**	100%	Property investment
Zeal Goal International Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
上海浦東新區亞聯財小額貸款有限公司#	People's Republic of China	RMB200,000,000	**41%**	—	Money lending
大連亞聯財信息諮詢有限公司	People's Republic of China	RMB1,000,000	**58%**	—	Financial consultancy
大連保稅區亞聯財小額貸款有限公司	People's Republic of China	US$40,000,000	**58%**	58%	Money lending
天津亞聯財小額貸款有限公司	People's Republic of China	HK$250,000,000	**58%**	58%	Money lending
北京亞聯財小額貸款有限公司#	People's Republic of China	RMB500,000,000	**46%**	46%	Money lending
成都亞聯財小額貸款有限公司	People's Republic of China	HK$350,000,000	**58%**	58%	Money lending
哈爾濱市亞聯財小額貸款有限公司	People's Republic of China	RMB200,000,000	**58%**	—	Money lending
武漢亞聯財小額貸款有限公司	People's Republic of China	RMB200,000,000	**58%**	—	Money lending
亞聯財信息諮詢(深圳)有限公司	People's Republic of China	RMB25,000,000	**58%**	58%	Financial consultancy
重慶市渝中區亞聯財小額貸款有限責任公司	People's Republic of China	US$50,000,000	**58%**	58%	Money lending

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Group effective equity interest 2012	Group effective equity interest 2011	Principal activities
重慶亞聯財信息諮詢有限公司	People's Republic of China	RMB1,000,000	**58%**	—	Financial consultancy
深圳亞聯財小額貸款有限公司	People's Republic of China	RMB600,000,000	**58%**	58%	Money lending
深圳亞聯財行銷顧問有限公司	People's Republic of China	RMB10,000,000	**58%**	58%	Money lending
雲南省亞聯財小額貸款有限公司	People's Republic of China	HK$350,000,000	**58%**	58%	Money lending
新鴻基(上海)投資顧問有限公司	People's Republic of China	HK$22,300,000	**100%**	100%	Investment advisory and consultancy
新鴻基(天津)股權投資基金管理有限公司	People's Republic of China	RMB50,000,000	**100%**	100%	Asset management
福州市亞聯財小額貸款有限公司	People's Republic of China	RMB100,000,000	**58%**	—	Money lending
廣州市新鴻基投資顧問有限公司	People's Republic of China	HK$6,000,000	**100%**	100%	Corporate marketing and investment consultancy
瀋陽金融商貿開發區亞聯財小額貸款有限公司	People's Republic of China	RMB300,000,000	**58%**	58%	Money lending
瀋陽亞聯財卓越信息諮詢有限公司	People's Republic of China	RMB1,000,000	**58%**	—	Financial consultancy

* These subsidiaries are directly held by the Company.

The companies are non-wholly owned subsidiaries of a non-wholly owned subsidiary.

The above tables list the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

49. PARTICULARS OF PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates at 31 December 2012 and 2011 were as follows:

Principal Associates	Place of incorporation and operation	Equity interest held by Group 2012	Group 2011	Company 2012	Company 2011	Principal activities
China Xin Yongan Futures Company Limited	Hong Kong	**25%**	25%	**—**	—	Futures dealing
Chronicle Gain Limited	Hong Kong	**45%**	45%	**—**	—	Property holding
Drinkwater Investment Limited	Hong Kong	**22%**	22%	**—**	—	Property holding
Eurasia Mattress & Furniture Co. Ltd.	People's Republic of China	**25%**	25%	**—**	—	Manufacture of mattresses and bedsteads
Omicron International Limited	British Virgin Islands	**44%**	44%	**38%**	38%	Investment holding
Real Estate Investments (N.T.) Limited	Hong Kong	**40%**	40%	**—**	—	Property development
Silver York Development Limited	Hong Kong	**42%**	42%	**—**	—	Investment holding
Start Hold Limited	Hong Kong	**33%**	33%	**—**	—	Investment holding
Tianjin Eurasia Mattress & Furniture Co. Ltd.	People's Republic of China	**25%**	25%	**—**	—	Manufacture of mattresses and bedsteads

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

50. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the Group's principal jointly controlled entities at 31 December 2012 and 2011 were as follows:

Jointly controlled entities	Form of business structure	Place of incorporation and principal place of operation	Principal activities	Proportion of nominal value of issued capital and voting rights 2012	2011
Fast Track Holdings Limited	Incorporated	Hong Kong	Investment holding	**49%**	49%
Look's Holding Limited	Incorporated	Cayman Islands	Investment holding	**30%**	30%
Shenzhen Oriental Venture Capital Management Co., Ltd	Incorporated	People's Republic of China	Venture capital investment management	**49%**	49%
Sun Hung Kai Forex Limited*	Incorporated	Hong Kong	Foreign exchange dealing	**51%**	51%
中山市中基投資咨詢有限公司	Incorporated	People's Republic of China	Corporate investment, providing management and product marketing consultancy services	**34%**	34%
新鴻基保險經紀(上海)有限公司	Incorporated	People's Republic of China	Insurance broking and consultancy services	**25%**	—

* Although the proportion of the nominal value of issued capital and shareholders' voting rights of Sun Hung Kai Forex Limited held by the Group are 51% and 81% respectively, the company is classified as a jointly controlled entity because the Group and other shareholder appoint pre-determined number of board representation to jointly control the company in accordance with the Shareholders' Deed.

51. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support the Group's growth and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities.

In order to maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in objectives, policies and processes during the years ended 31 December 2012 and 31 December 2011.

The Group monitors capital using a gearing ratio, which is net debts divided by the equity. Net debts represents the total of bank and other borrowings, amount due to an associate of a holding company, loans due to fellow subsidiaries, notes and bonds less bank deposits, cash and cash equivalents. The equity comprises all components of equity attributable to the owners of the Company. In the current year, the Group included the bank deposits, cash and cash equivalents as a component of the debts. Accordingly, the comparative figures were restated to conform to current year presentation. The gearing ratio at the reporting date was as follows:

	Group	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million
Bank and other borrowings	**4,341.0**	4,849.9
Amount due to an associate of a holding company	—	24.7
Short-term loans due to fellow subsidiaries	—	1,252.4
Notes and bonds	**3,194.3**	555.8
	7,535.3	6,682.8
Less: bank deposits, cash and cash equivalents	**(5,035.3)**	(2,736.0)
Net debts	**2,500.0**	3,946.8
Equity attributable to owners of the Company	**12,863.0**	12,087.5
Gearing ratio	**19.4%**	32.7%

52. FINANCIAL ASSETS AND LIABILITIES

The carrying amounts of the Group's financial assets at the end of the reporting period were as follows:

	Group		Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million	**31/12/2012 HK$ Million**	31/12/2011 HK$ Million
Financial assets at fair value through profit or loss (Note 31)				
— Held for trading investments	**422.5**	454.0	**—**	—
— Investments designated as at fair value through profit or loss	**332.6**	318.7	**—**	—
	755.1	772.7	**—**	—
Loans and receivables under non-current assets				
— Amounts due from subsidiaries (Note 28)	**—**	—	**6,444.6**	6,253.0
— Amounts due from associates (Note 29)	**51.4**	51.3	**54.4**	54.4
— Loans and advances to consumer finance customers (Note 30)	**3,057.6**	2,972.6	**—**	—
— Trade and other receivables (Note 32)	**720.0**	7.8	**—**	—
Loans and receivables under current assets				
— Amounts due from subsidiaries (Note 28)	**—**	—	**329.0**	684.4
— Amounts due from associates (Note 29)	**5.6**	12.5	**—**	0.9
— Loans and advances to consumer finance customers (Note 30)	**5,236.2**	4,583.5	**—**	—
— Trade and other receivables (Note 32)	**5,512.2**	6,325.8	**—**	—
— Bank deposits, cash and cash equivalents (Note 33)	**5,035.3**	2,736.0	**31.2**	1.4
	19,618.3	16,689.5	**6,859.2**	6,994.1
Available-for-sale investments (Note 26)	**120.4**	316.2	**—**	—
	20,493.8	17,778.4	**6,859.2**	6,994.1

52. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

The carrying amounts of Group's financial liabilities at the end of the reporting period were as follows:

	Group		Company	
	31/12/2012 HK$ Million	31/12/2011 HK$ Million	**31/12/2012 HK$ Million**	31/12/2011 HK$ Million
Financial liabilities measured at amortised cost				
— Bank and other borrowings (Note 34)	**4,341.0**	4,849.9	**—**	—
— Amounts due to subsidiaries	**—**	—	**117.5**	111.0
— Trade and other payables (Note 35)	**1,160.0**	877.4	**4.2**	4.5
— Amount due to an associate of a holding company (Note 37)	**—**	24.7	**—**	—
— Amounts due to fellow subsidiaries and a holding company (Note 37)	**8.9**	1,256.2	**0.9**	0.8
— Amounts due to associates (Note 37)	**0.1**	2.2	**—**	—
— Notes and bonds (Note 41)	**3,194.3**	555.8	**—**	—
	8,704.3	7,566.2	**122.6**	116.3
Financial liabilities at fair value through profit or loss (Note 36)	**52.7**	14.9	**—**	—
	8,757.0	7,581.1	**122.6**	116.3

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped from Level 1 to 3 based on the degree to which the fair value is observable.

— Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

— Level 2 fair value measurements are those derived from input other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3 fair value measurements are those derived from valuation techniques that include input for the assets or liabilities that are not based on observable market data.

52. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

	At 31 December 2012			
	Level 1 HK$ Million	**Level 2 HK$ Million**	**Level 3 HK$ Million**	**Total HK$ Million**
Financial assets at fair value through profit or loss (Note 31)				
— Held for trading investments	**259.4**	**155.3**	**7.8**	**422.5**
— Investments designated as at fair value through profit or loss	**—**	**—**	**332.6**	**332.6**
Available-for-sale investments (Note 26)	**0.5**	**—**	**68.7**	**69.2**
	259.9	**155.3**	**409.1**	**824.3**
Financial liabilities at fair value through profit or loss (Note 36)	**(0.2)**	**(20.1)**	**(32.4)**	**(52.7)**

	At 31 December 2011			
	Level 1 HK$ Million	Level 2 HK$ Million	Level 3 HK$ Million	Total HK$ Million
Financial assets at fair value through profit or loss (Note 31)				
— Held for trading investments	418.6	26.4	9.0	454.0
— Investments designated as at fair value through profit or loss	—	—	318.7	318.7
Available-for-sale investments (Note 26)	31.0	—	73.5	104.5
	449.6	26.4	401.2	877.2
Financial liabilities at fair value through profit or loss (Note 36)	(1.7)	—	(13.2)	(14.9)

There were no transfers between Level 1 and 2 during the year (2011: Nil). The fair value of Level 3 financial assets and liabilities are mainly derived from an unobservable range of data.

52. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

The reconciliation of financial assets and liabilities under Level 3 fair value measurements is as follows:

	Held for trading investments HK$ Million	**Investments designated as at fair value through profit or loss** HK$ Million	**Available-for-sale investments** HK$ Million	**Financial liabilities at fair value through profit or loss** HK$ Million
Balance at 1 January 2011	35.3	138.6	70.8	(1.5)
Total gains or losses				
— In consolidated income statement	(4.5)	(74.1)	—	1.5
— In other comprehensive income	—	—	(7.9)	—
Purchase	7.0	298.0	10.6	(13.2)
Disposal	(28.8)	(43.8)	—	—
Balance at 31 December 2011	9.0	318.7	73.5	(13.2)
Total gains or losses				
— In consolidated income statement	(1.4)	15.4	—	—
— In other comprehensive income	—	—	2.2	—
Purchase	0.2	66.4	—	(32.4)
Disposal	—	(67.9)	(7.0)	13.2
Balance at 31 December 2012	7.8	332.6	68.7	(32.4)

53. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and financial liabilities at fair value through profit or loss are determined as follows:

— The fair value of financial assets and financial liabilities (including derivative instruments and stock borrowings) with standard terms and conditions and traded on active markets are determined with reference to quoted market bid prices and ask prices respectively or the quoted market ask prices of the underlying financial assets for stock borrowings.

— The fair value of unlisted bonds is established by using discount cash flows method based on discount rates ranging from 5% to 29%.

— The fair value of unlisted equity convertible securities is established by using the market comparable approach with a discount for lack of marketability of 20%.

— The fair value of equity shares listed outside Hong Kong measured at fair value is determined with reference to the quoted market price and a discount for lack of marketability of 13% is applied for the sale restriction periods which are inherent in the contractual terms of the shares issued.

— The fair value of unlisted equity securities in investment funds are established by reference to the prices quoted by respective fund administrators as these equity securities may be redeemed at the request by the holders based on such quoted prices.

54. FINANCIAL RISK MANAGEMENT

Risk is inherent in the financial service business and sound risk management is a cornerstone of prudent and successful financial practice. That said, the Group acknowledges that a balance must be achieved between risks control and business growth. The principal financial risks inherent in the Group's business are market risk (includes equity risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Group's risk management objective is to enhance shareholders' value while retaining exposure within acceptable thresholds.

The Group's risk management governance structure is designed to cover all business activities and to ensure all relevant risk classes are properly managed and controlled. The Group has adopted a sound risk management and organisational structure equipped with comprehensive policies and procedures which are reviewed regularly and enhanced when necessary in response to changes in markets, the Group's operating environment and business strategies. The Group's independent control divisions, e.g. Internal Audit and Compliance, play an important role in the provision of assurance to the Board and senior management that a sound internal risk management mechanism is implemented, maintained and adhered to.

(a) Market Risk

(i) Equity Risk

There are many asset classes available for investment in the marketplace. One of the Group's key business undertakings is investing in equity. Market risk arising from any equity investments is driven by the daily fluctuations in market prices or fair values. The ability to mitigate such risk depends on the availability of any hedging instruments and the diversification level of the investment portfolios undertaken by the Group. More importantly, the knowledge and experience of the trading staff managing the risk are also vital to ensure exposure is being properly hedged and rebalanced in the most timely manner. Trading activities, including market-making and proprietary trading, across the Group are subject to limits approved by the Risk Management Committee ("RMC"). Valuation of these instruments is measured on a "mark-to-market" and "mark-to-fair value" basis depending on whether they are listed or unlisted. Value at Risk ("VaR") and stress tests are employed in the assessment of risk. Meanwhile other non-VaR limits such as "maximum loss" and "position" limits are also set out to restrict excessive risk undertakings. VaR and stress tests are approaches which are widely used in the financial industry as tools to quantify risk by combining the size of a position and the extent of a potential market movement into a potential financial impact.

The Group's market-making and proprietary trading positions and their financial performance are reported daily to senior management for review. Internal Audit also performs regular checks to ensure there is adequate compliance in accordance with the established market risk limits and guidelines.

54. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Market Risk *(continued)*

(i) Equity Risk (continued)

The table below summarises the overall financial impact on the Group arising from market movements in global equity indices. The analysis is based on the assumption that equity indices move ±20% with all other variables being held constant and all equity instruments undertaken by the Group moving simultaneously. Declines in the indices are expressed as negatives.

	At 31 December 2012				At 31 December 2011			
	Potential impact on profit or loss for the year		**Potential impact on other components of equity**		Potential impact on profit or loss for the year		Potential impact on other components of equity	
	20%	**-20%**	**20%**	**-20%**	20%	-20%	20%	-20%
	HK$ Million	**HK$ Million**	**HK$ Million**	**HK$ Million**	HK$ Million	HK$ Million	HK$ Million	HK$ Million
Local Index	**(11.9)**	**(68.9)**	**—**	**—**	98.9	(84.4)	—	—
Overseas Index	**87.3**	**(87.3)**	**13.8**	**(13.8)**	100.1	(100.1)	20.9	(20.9)

There is no material financial impact in the form of profit before tax for the year for the Group arising from market movements in the global equity indices. Futures, options and knock-out options are hedged by other derivatives in view of the volatile markets and wide trading ranges.

At 31 December 2012, the Group had underwriting commitment of HK$146.1 million (2011: Nil) in respect of open offer and rights issue which may expose to equity risk but the exposure is considered insignificant.

(ii) Interest Rate Risk

Interest rate risk is the risk of loss due to changes in interest rates. The Group's interest rate risk exposure arises predominantly from margin financing, term financing and loans and advances to consumer finance customers. The financial assets and liabilities that may have exposures to interest rates could be referred to Note 52. The Group possesses the legal capacity to initiate recalls efficiently which enables the timely re-pricing of margin loans to appropriate levels, in which those particularly large sensitive positions can readily be identified. Interest spreads are managed with the objective of maximising spreads to ensure consistency with liquidity and funding obligations.

At 31 December 2012, assuming that market interest rates moved by ±50 basis points (31/12/2011: ±50 basis points), the profit before tax for the year for the Group would have been HK$1.1 million or HK$4.8 million higher (2011: HK$9.4 million higher or HK$5.9 million lower respectively). Assets and liabilities bearing interest below 50 basis points are excluded from 50 basis points downward movement.

54. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Market Risk *(continued)*

(ii) Interest Rate Risk (continued)

The exposures of the Group's financial assets (liabilities) bearing variable interest rate to cash flow interest rate risks and the earlier of their contractual repricing dates and contractual maturity dates are as follows:

	On demand or less than 3 months HK$ Million	3 months to 1 year HK$ Million	1 year to 5 years HK$ Million	Over 5 years HK$ Million	Total HK$ Million
At 31 December 2012					
Loans and advances to consumer finance customers	**914.2**	**—**	**—**	**—**	**914.2**
Secured term loans	**101.9**	**—**	**—**	**—**	**101.9**
Bank deposits, cash and cash equivalents	**2,676.5**	**—**	**—**	**—**	**2,676.5**
Bank and other borrowings	**(4,098.4)**	**—**	**—**	**—**	**(4,098.4)**
At 31 December 2011					
Loans and advances to consumer finance customers	945.7	—	—	—	945.7
Bank deposits, cash and cash equivalents	479.1	—	—	—	479.1
Bank and other borrowings	(4,782.4)	—	—	—	(4,782.4)
Amount due to fellow subsidiaries	(1,252.4)	—	—	—	(1,252.4)

As the analysis of the contractual repricing dates or contractual maturity dates is not meaningful in view of the nature of the business of margin financing, margin loans bearing variable interest rate of HK$3,286.7 million (2011: HK$4,277.0 million) are excluded from the above table.

54. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Market Risk *(continued)*

(ii) Interest Rate Risk (continued)

The exposures of the Group's financial assets (liabilities) bearing fixed interest rate to fair value interest rate risks and the earlier of their contractual repricing dates and contractual maturity dates are as follows:

	On demand or less than 3 months HK$ Million	3 months to 1 year HK$ Million	1 year to 5 years HK$ Million	Over 5 years HK$ Million	Total HK$ Million
At 31 December 2012					
Loans and advances to consumer finance customers	**2,007.5**	**3,058.1**	**2,111.2**	**202.8**	**7,379.6**
Bonds included in financial assets at fair value through profit or loss	**—**	**6.9**	**42.7**	**78.9**	**128.5**
Secured term loans	**183.2**	**739.7**	**712.1**	**—**	**1,635.0**
Bank deposits, cash and cash equivalents	**1,731.3**	**405.6**	**—**	**—**	**2,136.9**
Bank and other borrowings	**(27.0)**	**(215.6)**	**—**	**—**	**(242.6)**
Notes and bonds	**—**	**—**	**(3,194.3)**	**—**	**(3,194.3)**
At 31 December 2011					
Loans and advances to consumer finance customers	1,678.7	2,775.6	1,981.3	174.8	6,610.4
Bonds included in financial assets at fair value through profit or loss	—	—	57.6	—	57.6
Secured term loans	751.8	213.0	—	—	964.8
Bank deposits, cash and cash equivalents	1,101.4	741.0	—	—	1,842.4
Bank and other borrowings	(44.1)	(23.4)	—	—	(67.5)
Amount due to an associate of a holding company	—	(24.7)	—	—	(24.7)
Bonds	—	—	(555.8)	—	(555.8)

(iii) Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from movements in foreign exchange rates.

The Group's foreign exchange risk primarily arises from currency exposures originating from proprietary trading positions, and loans and advances denominated in foreign currencies, mainly in Australian dollars and Renminbi. Foreign exchange risk is managed and monitored by the respective businesses in accordance with the limits approved by the Board and RMC. The risk arises from open currency positions are subject to management approved limits and are monitored and reported daily. The other source of foreign exchange risk arises from clients' inability to meet margin calls following a period of substantial currency turbulence.

At 31 December 2012, assuming that the foreign exchange rates moved ±5% (2011: ±5%) with all other variables held constant, the profit before tax for the year for the Group would have been HK$0.1 million (2011: HK$30.5 million) lower/higher. The Group's exposure to foreign exchange risk is immaterial.

54. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit Risk

Credit risk arises from the failure of a customer or counterparty to meet settlement obligations. As long as the Group lends, trades and deals with third parties, there will be credit risk exposure.

The Group's credit policy, governed by the Credit Committee ("Credco"), sets out the credit approval processes and monitoring procedures, which are established in accordance with sound business practices, the requirements and provisions of the relevant ordinances, and where applicable, the codes or guidelines issued by the Securities and Futures Commission.

Day-to-day credit management is performed by the Credit Division with reference to the aforementioned criteria including creditworthiness, type and amount of collateral pledged, and risk concentration of the counterparties. Decisions are made daily by Credit Division and are reported to and reviewed by the Executive Directors, senior management and Credco at its regular meetings.

The table below shows the maximum exposure to and concentration of credit risk. The maximum exposure is shown in gross value before the effect of mitigation through the use of collateral agreements. The percentage figure next to the gross value reflects its concentration.

	Group			
	31/12/2012 HK$ Million	**%**	31/12/2011 HK$ Million	%
Maximum credit exposure				
Loans and advances to consumer finance customers	**8,293.8**	**40%**	7,556.1	44%
Trade and other receivables	**6,232.2**	**30%**	6,333.6	37%
Bank deposits, cash and cash equivalents	**5,035.3**	**25%**	2,736.0	16%
Loan commitments	**643.7**	**3%**	565.5	3%
Underwriting commitments for open offer and rights issue	**146.1**	**1%**	—	0%
Bonds included in financial assets at fair value through profit or loss	**128.5**	**1%**	57.6	0%
Amounts due from associates	**57.0**	**0%**	63.8	0%
Guarantees (Note 45)	**13.3**	**0%**	13.3	0%
	20,549.9	**100%**	17,325.9	100%

54. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit Risk *(continued)*

	Company			
	31/12/2012		31/12/2011	
	HK$ Million	**%**	HK$ Million	%
Maximum credit exposure				
Amounts due from subsidiaries	**6,773.6**	**71%**	6,937.4	98%
Guarantees for notes issued by a subsidiary	**2,712.8**	**28%**	—	0%
Amounts due from associates	**54.4**	**1%**	55.3	1%
Cash and cash equivalents	**31.2**	**0%**	1.4	0%
Guarantees for banking facilities granted to subsidiaries	**—**	**0%**	58.3	1%
	9,572.0	**100%**	7,052.4	100%

The maximum credit exposure at Group level is spread evenly between "trade and other receivables" and "loans and advances to consumer finance customers", which represented more than two thirds of the total exposure. "Trade and other receivables" consist of amount receivables from exchanges, brokers and clients, secured term loans, margin loans and other receivables items. The breakdown and its ageing analysis are disclosed in Note 32 to the consolidated financial statements. There are no major concerns on margin loans, as margin calls for equity trading have been tightened. Most clients have cut off their positions. The margin loan book of the Group remains at a low gearing level.

Loans with strategic clients are all properly authorised by the Credit Committee and with other controls in place to monitor their performance. As at 31 December 2012, any default of an individual loan will not be greater than 8% of the total loan portfolio and management considers that controls are adequate to monitor the performance of these loans.

(c) Liquidity Risk

The goal of liquidity management is to enable the Group, even under adverse market conditions, to actively manage and match funds inflow against all maturing repayment obligations to achieve maximum harmony on cash flow management.

The Group manages its liquidity position to ensure a prudent and adequate liquidity ratio, in strict accordance with statutory requirements. This is achieved by a transparent and collective monitoring approach across the Group involving Executive Directors, the Director of Banking & Treasury, the Chief Financial Officer and other relevant senior managers on a daily basis to ensure the availability of sufficient liquid funds to meet all obligations while in compliance with statutory requirements such as the Hong Kong Financial Resources Rules.

54. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(c) Liquidity Risk *(continued)*

The exposure of the Group's contractual undiscounted cash flow for financial liabilities and their contractual maturity dates are as follows:

	On demand or less than 31 days HK$ Million	31 days to 90 days HK$ Million	91 days to 1 year HK$ Million	1 year to 5 years HK$ Million	Over 5 years HK$ Million	Total HK$ Million
At 31 December 2012						
Bank and other borrowings+	**134.2**	**1,351.9**	**1,707.0**	**1,226.1**	**—**	**4,419.2**
Trade and other payables	**1,160.0**	**—**	**—**	**—**	**—**	**1,160.0**
Amounts due to fellow subsidiaries and a holding company	**8.9**	**—**	**—**	**—**	**—**	**8.9**
Amounts due to associates	**0.1**	**—**	**—**	**—**	**—**	**0.1**
Notes and bonds	**—**	**85.5**	**105.4**	**3,874.4**	**—**	**4,065.3**
Guarantees*	**13.3**	**—**	**—**	**—**	**—**	**13.3**
Financial liabilities at fair value through profit or loss	**52.7**	**—**	**—**	**—**	**—**	**52.7**
At 31 December 2011						
Bank and other borrowings+	671.4	985.4	—	3,322.2	—	4,979.0
Trade and other payables	877.4	—	—	—	—	877.4
Amount due to an associate of a holding company	—	—	25.6	—	—	25.6
Amounts due to fellow subsidiaries and a holding company	1,256.2	—	—	—	—	1,256.2
Amounts due to associates	2.2	—	—	—	—	2.2
Bonds	—	—	22.4	587.6	—	610.0
Guarantees*	13.3	—	—	—	—	13.3
Financial liabilities at fair value through profit or loss	14.9	—	—	—	—	14.9

+ Bank and other borrowings with repayment on demand clause are classified as on demand in the above analysis although the demand clause has not been exercised.

* The amounts included above for guarantees are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantees. None of the banking facilities related to the guarantees has been drawn down at the end of the reporting period. Based on expectations at the end of the reporting period, the Group considers that the amount will not be payable under the arrangement.

At the end of the reporting period, the Group had outstanding loan commitments of HK$643.7 million (31/12/2011: HK$565.5 million) and underwriting commitment of HK$146.1 million (31/12/2011: Nil) which fall due within one year.

The Company's exposure to financial risks at the end of the reporting period is immaterial. Financial risk exposure at the Company level is mainly contributed by the amount due from its subsidiaries and associates and is managed by assessing the recoverability of the repayment from those subsidiaries and associates. The management monitors on a regular basis the availability of funds among the Group and the assets held by subsidiaries and associates are considered sufficient to cover the amount due from them. Hence, the Company's exposure to financial risks at the end of the reporting period is considered immaterial.

BRANCH AND OFFICE NETWORK

Sun Hung Kai & Co. Limited has an extensive branch and office network of about 150 locations in Hong Kong, Mainland China and Macau.

For address and contact details, please visit:
www.shkco.com
www.shkf.com
www.uaf.com.hk
www.uaf.com.cn

新鴻基有限公司
SUN HUNG KAI & CO. LIMITED

MIX
Paper from responsible sources
FSC™ C007234
FSC
www.fsc.org