新鴻基有限公司
SUN HUNG KAI & CO. LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 86)

ANNOUNCEMENT OF 2016 FINAL RESULTS

LETTER FROM THE CHAIRMAN

It gives me great pleasure to report to you that the Group delivered another strong set of results for 2016.

For the year ended 31 December 2016, profit attributable to owners of the Company was HK$1,109.6 million (2015: HK$3,896.5 million). Compared with HK$667.7 million achieved in 2015 from continuing operations, this represents a 66% increase year-on-year. We must be mindful that the 2015 profit included a one-off gain from the sale of a 70% equity interest in Sun Hung Kai Financial Group Limited as well as its 100% profit contribution up to the sale date. Basic earnings per share for 2016 was HK50.3 cents (2015: HK173.8 cents).

The Board of Directors has declared a second interim dividend of HK14 cents. Including the first interim dividend, the total dividend per share for 2016 was HK26 cents (2015: HK26 cents). During the year, the Company has also repurchased and subsequently cancelled approximately 36 million shares for a total consideration of HK$168.5 million. The book value per share gained 2% to HK$8.24 as at 31 December 2016.

The year 2016 was not without challenges but we are pleased that during this period, not only did we achieve a solid result, but our businesses are well positioned for the future.

In our Consumer Finance business, we took an important strategic decision in mid-2015 to shift our focus from small businesses to individual consumers and to reduce the average loan size in the Mainland. As a result of this change, the profitability of this business improved steadily throughout the year despite the still challenging economic backdrop. At the end of 2016, the majority of the loan portfolio in Mainland China consisted of individual consumer loans. Although the loan book is now smaller than previously, we believe that by focusing on this more diversified and resilient segment, UAF will grow in a more sustainable manner and the credit quality of the Mainland China loan business has started to recover steadily. UAF's market-leading Hong Kong business remained steady during the year. The segment's pre-tax contribution to the Group increased 19% year-on-year. In particular, the second half 2016 pre-tax contribution nearly tripled from the first half.

During the year, we have continued to increase our investment in loan businesses. The Mortgage Loan business operated under Sun Hung Kai Credit provides tailor-made funding solutions to home owners and investors in Hong Kong. It is already amongst the top three non-bank institutions for loan origination in this market segment.

LSS Financial Leasing (Shanghai), the Group's 40% owned joint venture, established a strong foothold in the Mainland car leasing market and started a number of strategic partnerships.

Both of these new businesses have become profitable in their first full year of operation and have aggressive expansion plans in place for the coming year.

Since 2015, the Group has started to build out its Principal Investments platform. Our investment model combines our financial strength with our network and experience from investing in market-leading financial services businesses to achieve long-term capital growth. This segment delivered a pleasing performance during 2016, achieving a 10% return on average assets before cost allocation despite continued market volatility during the start of the year in particular. Focussing on investments that leverage on our expertise and network, our strategy has paid off, particularly with private equity investments. Going forward, in order to allocate capital internally in the most efficient manner across the various asset classes in which we invest, the Structured Finance business will be grouped under Principal Investments segment to as another asset class sitting alongside our fixed income and other debt investments.

During the year, we have also strengthened the management and team structure with the appointment of an experienced Chief Investment Officer. We anticipate that with our expanded capabilities and an enhanced infrastructure in place, the Group will be in a good position to capture new investment opportunities from new alliances for our core businesses as situations arise.

Our aim is clear, to achieve long term value accretion for our shareholders through our financing and direct investments. I am pleased to report that after more than a year of implementation, post the partial sell down of our wealth management unit Sun Hung Kai Financial, we have established a solid platform with our core lending activities sitting alongside our Principal Investments platform to deploy capital across listed equities, fixed income and direct investments.

Critical to this strategy, we continue to maintain a prudent and flexible balance sheet, with a net debt-to-equity ratio of 20.3%. In May 2016, we also extended our debt maturity profile and lowered our cost of capital. We successfully issued the new 5-year 2021 4.75% US dollar notes and completed an exchange offer for the 2017 6.375% notes previously issued in 2012.

In addition to delivering sustainable capital growth, we are also committed to a balanced approach upholding the principles of transparency, good corporate governance and sustainability. In 2016, we were honoured with The Asset Corporate Awards – Gold Award for Excellence in Corporate Governance and Environmental Responsibility; The Best of Asia – Asia's Outstanding Company on Corporate Governance; as well as the Best Investor Relations Company Award at the 6th Asian Excellence Award, organised by the Corporate Governance Asia Magazine. The Company also received the Caring Company recognition, in addition to over ten years' recognition awarded to both UAF and our affiliate, Sun Hung Kai Financial.

In closing, I would like to express my gratitude to my fellow board members for their guidance and wisdom, to our stakeholders for their continued support and to my colleagues for their dedication and diligence throughout this transformational year.

GROUP RESULTS

The Board is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2016 as set out below:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016

	Notes	**2016** **HK$ Million**	2015 HK$ Million
Continuing operations			
Revenue		**3,511.3**	4,174.1
Other gains	*4*	**178.9**	71.6
Total income		**3,690.2**	4,245.7
Brokerage and commission expenses		**(51.0)**	(55.9)
Advertising and promotion expenses		**(120.3)**	(106.2)
Direct cost and operating expenses		**(37.0)**	(58.1)
Administrative expenses		**(1,158.3)**	(1,354.0)
Net gain on financial assets and liabilities	*5*	**749.9**	1,005.6
Net exchange gain		**9.7**	7.5
Bad and doubtful debts	*6*	**(895.7)**	(1,570.9)
Finance costs		**(488.3)**	(478.8)
Other losses		**(142.8)**	(702.5)
		1,556.4	932.4
Share of results of associates		**0.5**	2.4
Share of results of joint ventures		**(55.3)**	38.4
Profit before taxation	*7*	**1,501.6**	973.2
Taxation	*8*	**(131.9)**	(83.7)
Profit for the year from continuing operations		**1,369.7**	889.5
Discontinued operations			
Profit for the year from discontinued operations		–	3,228.8
		1,369.7	4,118.3
Profit attributable to:			
– Owners of the Company		**1,109.6**	3,896.5
– Non-controlling interests		**260.1**	221.8
		1,369.7	4,118.3
Earnings per share	*10*		
From continuing and discontinued operations			
– Basic (HK cents)		**50.3**	173.8
– Diluted (HK cents)		**50.2**	173.8
From continuing operations			
– Basic (HK cents)		**50.3**	29.8
– Diluted (HK cents)		**50.2**	29.8

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	HK$ Million	*HK$ Million*
Profit for the year	**1,369.7**	4,118.3
Other comprehensive income (expenses) that may be reclassified subsequently to profit or loss		
Available-for-sale investments		
– Net fair value changes during the year	**(0.7)**	12.8
– Reclassification adjustment to profit or loss on disposal	**–**	(19.0)
	(0.7)	(6.2)
Exchange differences arising on translating foreign operations	**(490.9)**	(347.0)
Reclassification adjustment to profit or loss on disposal/ liquidation of subsidiaries	**(0.1)**	(9.1)
Reclassification adjustment to profit or loss on liquidation of a joint venture	**–**	(1.1)
Share of other comprehensive (expenses) income of associates	**(4.9)**	0.4
Share of other comprehensive (expenses) income of joint ventures	**(1.5)**	2.5
	(498.1)	(360.5)
Other comprehensive income (expenses) that will not be reclassified subsequently to profit or loss		
Revaluation gain on properties transferred from self-owned properties to investment properties, net of tax	**–**	111.3
Other comprehensive expenses for the year	**(498.1)**	(249.2)
Total comprehensive income for the year	**871.6**	3,869.1
Total comprehensive income attributable to:		
– Owners of the Company	**811.1**	3,798.3
– Non-controlling interests	**60.5**	70.8
	871.6	3,869.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Non-current Assets			
Investment properties		**1,054.5**	1,027.3
Leasehold interests in land		**4.2**	4.6
Property and equipment		**421.9**	478.7
Intangible assets		**883.4**	884.5
Goodwill		**2,384.0**	2,384.0
Interest in associates		**1,086.5**	1,226.3
Interest in joint ventures		**227.1**	208.2
Available-for-sale investments		**109.5**	104.8
Financial assets at fair value through profit or loss		**3,632.9**	3,484.6
Deferred tax assets		**652.5**	543.4
Amounts due from associates and joint ventures		**248.8**	64.9
Loans and advances to consumer finance customers	*11*	**2,521.2**	2,741.3
Trade and other receivables	*12*	**359.9**	1,604.2
Deposits for acquisition of property and equipment		**44.8**	0.3
		13,631.2	14,757.1
Current Assets			
Financial assets at fair value through profit or loss		**2,979.1**	2,245.9
Taxation recoverable		**1.9**	9.6
Amounts due from associates and joint ventures		**64.5**	118.7
Loans and advances to consumer finance customers	*11*	**5,752.2**	6,080.7
Trade and other receivables	*12*	**3,679.8**	2,008.1
Bank deposits		**1,257.7**	1,501.4
Cash and cash equivalents		**5,194.5**	5,647.6
		18,929.7	17,612.0
Current Liabilities			
Financial liabilities at fair value through profit or loss		**115.3**	177.9
Bank and other borrowings		**2,092.6**	2,009.1
Trade and other payables	*13*	**239.1**	281.3
Amounts due to fellow subsidiaries and a holding company		**41.0**	–
Amounts due to associates		**1.9**	0.1
Provisions		**54.7**	31.8
Taxation payable		**135.3**	200.1
Notes		**2,264.5**	79.6
		4,944.4	2,779.9
Net Current Assets		**13,985.3**	14,832.1
Total Assets less Current Liabilities		**27,616.5**	29,589.2

	Notes	**31/12/2016** *HK$ Million*	31/12/2015 *HK$ Million*
Capital and Reserves			
Share capital		**8,752.3**	8,752.3
Reserves		**9,324.7**	9,255.3
Equity attributable to owners of the Company		**18,077.0**	18,007.6
Non-controlling interests		**3,578.8**	3,583.2
Total Equity		**21,655.8**	21,590.8
Non-current Liabilities			
Deferred tax liabilities		**195.4**	192.5
Bank and other borrowings		**2,717.7**	4,303.6
Provisions		**0.2**	0.2
Notes		**3,047.4**	3,502.1
		5,960.7	7,998.4
		27,616.5	29,589.2

Notes:

1. **DISCLOSURE IN ACCORDANCE WITH SECTION 436 OF THE HONG KONG COMPANIES ORDINANCE**

The financial information relating to the financial years ended 31st December 2016 and 2015 included in this announcement of annual results does not constitute the company's statutory annual financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31st December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31st December 2016 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 cycle

Except for the amendments to HKFRS 11, amendments to HKAS 16 and HKAS 38, amendments to HKAS 16 and HKAS 41, amendments to HKFRS10, HKFRS 12 and HKAS 28 and amendments included in the Annual Improvements to HKFRSs 2012-2014 cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below.

Amendments to HKAS 1 Disclosure initiative

The Group has applied the amendments to HKAS 1 Disclosure Initiative for the first time in the current year. The amendments to HKAS 1 clarify that an entity need not provide a specific disclosure required by an HKFRS if the information resulting from that disclosure is not material, and give guidance on the bases of aggregating and disaggregating information. However, the amendments reiterate that an entity should consider providing additional disclosures when compliance with the specific requirements in HKFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance.

In addition, the amendments clarify that an entity's share of the other comprehensive income of associates and joint ventures accounted for using the equity method should be presented separately from those arising from the Group, and should be separated into the share of items that, in accordance with other HKFRSs: (i) will not be reclassified subsequently to profit or loss; and (ii) will be reclassified subsequently to profit or loss when specific conditions are met.

As regards the structure of the financial statements, the amendments provide examples of systematic ordering or grouping of the notes.

The Group has applied these amendments retrospectively. The application of the amendments to HKAS 1 has not resulted in any material impact on the financial statements of the Group.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial instruments[2]
HKFRS 15	Revenue from contracts with customers and the related amendments[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and measurement of share-based payment transaction[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKAS 7	Disclosure initiative[1]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[1]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]

1 Effective for annual periods beginning on or after 1 January 2017.
2 Effective for annual periods beginning on or after 1 January 2018.
3 Effective for annual periods beginning on or after 1 January 2019.
4 Effective for annual periods beginning on or after a date to be determined.

Except as described below, the directors of the Company do not anticipate that the application of the new and amendments to HKFRSs will have material impact on the consolidated financial statements.

HKFRS 9 "Financial instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, which are currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfilment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost. Furthermore, additional disclosures are required under HKFRS 7 "*Financial Instruments: Disclosures*".

HKFRS 15 "Revenue from contracts with customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective. The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease. Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$198.7 million as disclosed in the notes to the financial statement. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Amendments to HKAS 7 Disclosure initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specially, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

3. 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 from continuing operations presented in these financial statements are as follows:

(a) Financial Services: provision of financial services.

(b) Consumer Finance: provision of consumer financing.

(c) Mortgage Loans: provision of mortgage loans financing.

(d) Principal Investments: portfolio investments.

(e) Group Management and Support: provision of supervisory and administrative functions to all business segments.

The Group has merged its "Structured Finance" and "Principal Investments" business segments into "Principal Investments" in the 2016 annual financial statements. Financial Services are separately disclosed from Principal Investments as a new segment called "Financial Services". There is no impact on the recognition of the amounts included in these business segments for both the current and prior years arising from these changes of business segments. The directors consider that these changes to segment reporting are in line with the changes of internal reporting reviewed by the chief operating decision maker in 2016. The comparative figures for Principal Investments segment and Financial Services segment were restated.

Segment assets and liabilities are not presented as they are not regularly reviewed by the chief operating decision maker.

	2016					
	Financial Services *HK$ Million*	Consumer Finance *HK$ Million*	Mortgage Loans *HK$ Million*	Principal Investments *HK$ Million*	Group Management and Support *HK$ Million*	Total *HK$ Million*
Segment revenue	**3.6**	**3,024.2**	**55.7**	**405.9**	**215.3**	**3,704.7**
Less: inter-segment revenue	**–**	**–**	**–**	**–**	**(193.4)**	**(193.4)**
Segment revenue from external customers	**3.6**	**3,024.2**	**55.7**	**405.9**	**21.9**	**3,511.3**
Segment profit or loss	**209.9**	**726.6**	**1.8**	**499.8**	**118.3**	**1,556.4**
Share of results of associates	**27.7**	**–**	**–**	**(27.2)**	**–**	**0.5**
Share of results of joint ventures	**(55.3)**	**–**	**–**	**–**	**–**	**(55.3)**
Profit before taxation	**182.3**	**726.6**	**1.8**	**472.6**	**118.3**	**1,501.6**
Included in segment profit or loss:						
Interest income	**–**	**2,961.0**	**55.7**	**336.2**	**19.6**	**3,372.5**
Other gains	**4.0**	**5.9**	**–**	**150.3**	**18.7**	**178.9**
Net gain on financial assets and liabilities	**345.0**	**–**	**–**	**400.3**	**4.6**	**749.9**
Net exchange gain (loss)	**–**	**38.9**	**–**	**(33.1)**	**3.9**	**9.7**
Bad and doubtful debts	**–**	**(928.5)**	**(3.0)**	**35.8**	**–**	**(895.7)**
Amortisation and depreciation	**–**	**(49.5)**	**(0.4)**	**–**	**(11.7)**	**(61.6)**
Impairment loss						
– Interest in an associate	**(141.5)**	**–**	**–**	**–**	**–**	**(141.5)**
Net loss on disposal/write-off of equipment	**–**	**(1.1)**	**–**	**–**	**–**	**(1.1)**
Finance costs	**–**	**(243.7)**	**(12.3)**	**(174.5)**	**(246.7)**	**(677.2)**
Less: inter-segment finance costs	**–**	**2.1**	**12.3**	**174.5**	**–**	**188.9**
Finance costs to external suppliers	**–**	**(241.6)**	**–**	**–**	**(246.7)**	**(488.3)**
Cost of capital income (charges)*	**–**	**–**	**–**	**(260.6)**	**260.6**	**–**

	2015					
	Financial Services *HK$ Million*	Consumer Finance *HK$ Million*	Mortgage Loans *HK$ Million*	Principal Investments *HK$ Million*	Group Management and Support *HK$ Million*	Total *HK$ Million*
Segment revenue	4.5	3,706.4	2.9	440.1	214.3	4,368.2
Less: inter-segment revenue	–	–	–	–	(194.1)	(194.1)
Segment revenue from external customers	4.5	3,706.4	2.9	440.1	20.2	4,174.1
Segment profit or loss	71.8	609.5	(8.3)	460.7	(201.3)	932.4
Share of results of associates	2.4	–	–	–	–	2.4
Share of results of joint ventures	38.4	–	–	–	–	38.4
Profit before taxation	112.6	609.5	(8.3)	460.7	(201.3)	973.2
Included in segment profit or loss:						
Interest income	–	3,671.8	2.9	404.8	14.1	4,093.6
Other gains	15.1	12.8	–	38.3	5.4	71.6
Net gain (loss) on financial assets and liabilities	596.0	–	–	411.9	(2.3)	1,005.6
Net exchange gain (loss)	–	28.7	–	–	(21.2)	7.5
Bad and doubtful debts	–	(1,463.3)	(1.2)	(103.6)	(2.8)	(1,570.9)
Amortisation and depreciation	–	(52.0)	–	–	(13.1)	(65.1)
Impairment loss						
– Available-for-sale investments	–	(13.8)	–	–	–	(13.8)
– Interest in an associate	(538.7)	–	–	–	–	(538.7)
– Amount due from a joint venture	(5.1)	–	–	–	–	(5.1)
Net loss on disposal/write-off of equipment	–	(3.1)	–	–	(0.3)	(3.4)
Finance costs	–	(285.0)	–	(189.5)	(193.9)	(668.4)
Less: inter-segment finance costs	–	2.4	–	189.5	(2.3)	189.6
Finance costs to external suppliers	–	(282.6)	–	–	(196.2)	(478.8)
Cost of capital income (charges) *	–	–	–	(100.1)	100.1	–

* Cost of capital income (charges) are intersegment transactions charged by Group Management and Support segment to other segments. The charges are determined by the internal capital consumed by the segments.

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

	2016	2015
	HK$ Million	*HK$ Million*
Revenue from external customers by location of operations		
– Hong Kong	**2,541.6**	2,438.8
– Mainland China	**958.4**	1,697.9
– Others	**11.3**	37.4
	3,511.3	4,174.1

	31/12/2016	31/12/2015
	HK$ Million	*HK$ Million*
Non-current assets other than interests in associates and joint ventures, financial assets and deferred tax assets by location of assets		
– Hong Kong	**4,372.4**	4,185.8
– Mainland China	**420.4**	593.6
	4,792.8	4,779.4

4. OTHER GAINS

	2016	2015
	HK$ Million	*HK$ Million*
Net realised gain on disposal of investments		
– Disposal of subsidiaries	**18.9**	–
– Disposal of an associate	**3.9**	–
– Disposal of a joint venture	**–**	5.7
– Disposal of available-for-sale investments	**–**	19.0
Increase in fair value of investment properties	**135.5**	38.2
Miscellaneous income	**20.6**	8.7
	178.9	71.6

5. NET GAIN ON FINANCIAL ASSETS AND LIABILITIES

The following is an analysis of the net gain on financial assets and liabilities at fair value through profit or loss:

	2016	2015
	HK$ Million	*HK$ Million*
Net realised and unrealised (loss)/gain on financial assets and liabilities		
– Held for trading	**(142.5)**	664.3
– Designated as at fair value through profit or loss	**892.4**	341.3
	749.9	1,005.6

6. BAD AND DOUBTFUL DEBTS

	2016	2015
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Impairment loss, net of reversal	**(876.6)**	(1,446.9)
Trade and other receivables		
– Impairment loss, net of reversal	**(19.1)**	(113.1)
– Bad debts written off	**–**	(10.9)
	(19.1)	(124.0)
Bad and doubtful debts recognised in profit or loss	**(895.7)**	(1,570.9)

The following are the amounts written off in allowance of impairment against the receivables and recoveries credited to allowance of impairment during the year:

	2016	2015
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Amounts written off in allowance of impairment	**(1,054.0)**	(1,363.7)
– Recoveries credited to allowance of impairment	**160.2**	129.5
Trade and other receivables		
– Amounts written off in allowance of impairment	**(72.4)**	(4.4)

7. PROFIT BEFORE TAXATION

	2016	2015
	HK$ Million	*HK$ Million*
Profit before taxation from continuing operations for the year has been arrived at after charging:		
Dividends from listed investments	**13.7**	11.4
Dividends from unlisted investments	**3.6**	3.5
Amortisation of leasehold interests in land	**(0.2)**	(0.2)
Depreciation of property and equipment	**(55.8)**	(57.3)
Amortisation of intangible assets		
– Intangible assets acquired in business combination included in direct cost and operating expenses	**(4.1)**	(6.3)
– Computer software (included in administrative expenses)	**(1.5)**	(1.3)
Net loss on disposal/write-off of equipment included in other losses	**(1.1)**	(3.4)

8. TAXATION

	2016 *HK$ Million*	2015 *HK$ Million*
Current tax		
– Hong Kong	**(186.0)**	(172.4)
– PRC	**(83.4)**	(214.5)
	(269.4)	(386.9)
Over provision in prior years	**0.7**	1.1
	(268.7)	(385.8)
Deferred tax	**136.8**	302.1
	(131.9)	(83.7)

Hong Kong profits tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2015: 25%). 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.

9. DIVIDENDS

	2016 *HK$ Million*	2015 *HK$ Million*
The aggregate amount of dividends declared and proposed:		
– 2016 interim dividend paid of HK12 cents (2015: HK12 cents) per share	**264.4**	269.3
– 2016 second interim dividend of HK14 cents per share declared after the reporting date (2015: 2015 second interim dividend of HK14 cents per share)	**306.6**	311.0
	571.0	580.3
Dividends recognised as distribution during the year:		
– 2015 second interim dividend paid of HK14 cents (2015: 2014 final dividend of HK14 cents) per share	**311.0**	314.1
– 2016 interim dividend paid of HK12 cents (2015: HK12 cents) per share	**264.4**	269.3
	575.4	583.4

10. EARNINGS PER SHARE

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

	2016	2015
	HK$ Million	*HK$ Million*
Earnings for the purposes of basic and diluted earnings per share		
Earnings from continuing operations and discontinued operations (profit for the year attributable to owners of the Company)	**1,109.6**	3,896.5
Less: earnings from discontinued operations (profit for the year from discontinued operations attributable to owners of the Company)	**–**	(3,228.8)
Earnings from continuing operations (profit for the year from continuing operations attributable to owners of the Company)	**1,109.6**	667.7

	2016	2015
	HK$ Million	*HK$ Million*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,207.8**	2,241.4
Effect of dilutive potential ordinary shares:		
– Impact of contingently issuable shares under the SHK Employee Ownership Scheme	**0.8**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,208.6**	2,241.4

There were no basic earnings per share and diluted earnings per share for the discontinued operations in the current period (2015: both HK144.0 cents per share).

11. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	31/12/2016	31/12/2015
	HK$ Million	*HK$ Million*
Loans and advances to consumer finance customers		
– Hong Kong	**6,989.8**	6,839.9
– Mainland China	**2,193.1**	2,932.3
Less: impairment allowance	**(909.5)**	(950.2)
	8,273.4	8,822.0
Analysed for reporting purposes as:		
– Non-current assets	**2,521.2**	2,741.3
– Current assets	**5,752.2**	6,080.7
	8,273.4	8,822.0

12. TRADE AND OTHER RECEIVABLES

	31/12/2016	31/12/2015
	HK$ Million	*HK$ Million*
Secured term loans	**2,618.0**	3,123.7
Unsecured term loans	**230.3**	301.0
Less: impairment allowance	**(0.4)**	(95.9)
	2,847.9	3,328.8
Receivable from brokers	**1,059.5**	146.5
Guarantee and consultancy fee receivables	**1.5**	1.7
Payments on behalf of customers*	**59.4**	21.3
Less: impairment allowance	**(56.1)**	(17.0)
	4.8	6.0
Other receivables		
– Deposits	**40.1**	74.5
– Others	**43.1**	20.1
	83.2	94.6
Trade and other receivables at amortised cost	**3,995.4**	3,575.9
Prepayments	**44.3**	36.3
Current portion of leasehold interests in land	**–**	0.1
	4,039.7	3,612.3
Analysed for reporting purposes as:		
– Non-current assets	**359.9**	1,604.2
– Current assets	**3,679.8**	2,008.1
	4,039.7	3,612.3

* Payments on behalf of customers represented payments made by the Group to reimburse the beneficiaries of the guarantees (the "Holders") for losses the Holders incurred because the customers failed to make payments when due in accordance with the term of the corresponding debt instruments.

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

	31/12/2016	31/12/2015
	HK$ Million	*HK$ Million*
Less than 31 days	**17.0**	0.1
31 – 60 days	**–**	0.5
	17.0	0.6
Term loans and trade and other receivables without ageing*	**4,034.9**	3,688.2
Less: impairment allowances	**(56.5)**	(112.9)
Trade and other receivables at amortised cost	**3,995.4**	3,575.9

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

13. TRADE AND OTHER PAYABLES

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

	31/12/2016	31/12/2015
	HK$ Million	*HK$ Million*
Less than 31 days	**40.0**	68.4
31 – 60 days	**8.4**	8.5
61 – 90 days	**8.3**	7.1
91 – 180 days	**1.7**	0.2
Over 180 days	**0.5**	0.1
	58.9	84.3
Accrued staff costs, other accrued expenses and other payables without ageing	**180.2**	197.0
	239.1	281.3

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The year 2016 saw a slow start but momentum picked up with the major earnings drivers of the Group all making significantly higher contributions to profit in the second half of 2016 as compared to the first half. For the full year 2016, the Group achieved a satisfactory performance with a 66% increase in profit attributable to owners of the Company from continuing operations.

One of the main reasons behind the strong increase in profit was the improvement in the credit quality in the Consumer Finance business. Total bad and doubtful debts of the Group were down 43% on 2015. During the year, the Group restructured the Consumer Finance loan book in Mainland China to focus on individual loans in order to improve credit quality.

The Group's revenue, mainly consisting of interest income, was HK$3,511.3 million, lower than the HK$4,174.1 million achieved in 2015. This was mainly a result of decline in loan balances arising from the restructuring of the Mainland China consumer finance loan book. Although the customer base has grown, it was more than offset by the decline in the average loan sizes.

Total operating expenses declined by 13% as a result of a decrease in general administrative expenses from the Mainland China restructuring. Finance costs amounted to HK$488.3 million (2015: HK$478.8 million).

The Group's pre-tax profit amounted to HK$1,501.6 million (2015: HK$973.2 million).

Profit attributable to the owners of the Company was HK$1,109.6 million (2015: HK$3,896.5 million). Based on continuing operations, this amount represented a 66% increase over 2015. It should be noted that the Group realised an exceptional gain from the sale of 70% equity interest in Sun Hung Kai Financial Group Limited ("Sun Hung Kai Financial") and had the benefit of 100% of its strong earnings up to the sale date, totalling HK$3,228.8 million out of the HK$3,896.5 million mentioned above.

BUSINESS REVIEW

Segment Information

Subsequent to the Group's sell down of the Sun Hung Kai Financial business, the Group has been gradually building up its Principal Investments business. Particularly in the area of private or direct investments, increasingly we are positioning ourselves as a provider of liquidity solutions for companies, across the entire capital structure including equity, debt, and mezzanine capital. The business has benefitted from synergies already in place in terms of deal sourcing between our private equity investments and the Structured Finance business.

To reflect this new approach to internal capital allocation, the Group's segment information has been revised. The Structured Finance corporate loan book is now grouped under Principal Investments, as part of the private debt portfolio. The re-defined Principal Investments segment now encompasses assets that will be actively managed for capital appreciation, across public and private investments in equity and debt securities, as well as real estate. We believe this composition is in line with other asset managers in the market and allows the Group to be well positioned for possible future opportunities.

In addition, a new Financial Services segment is separately displayed. This segment includes the Group's stakes in various financial services companies such as Sun Hung Kai Financial and LSS Financial Leasing (Shanghai) Co, Ltd. which were previously grouped under the Long Term Investment Portfolio in Principal Investments.

Analysis of Segment Pre-tax Contribution and Assets Employed

	2016				2015	
(HK$ Million)	Pre-tax Contribution	*Change*	Segment Assets*	*Change*	Pre-tax Contribution	Segment Assets*
Financial Services	182.3	*61.9%*	2,302.2	*4.8%*	112.6	2,197.5
Consumer Finance	726.6	*19.2%*	16,479.9	*-9.3%*	609.5	18,177.3
Mortgage Loans	1.8	*na*	639.7	*160.7%*	(8.3)	245.4
Principal Investments	472.6	*2.6%*	10,845.1	*21.6%*	460.7	8,918.2
GMS	118.3	*na*	2,294.0	*-19.0%*	(201.3)	2,830.7
Total	**1,501.6**	***54.3%***	**32,560.9**	***0.6%***	**973.2**	**32,369.1**

* As at year end

Group Management and Support ("GMS") reflects unallocated corporate support and treasury costs and income. Cost of capital and finance costs are charged to the Principal Investments segment to account for its capital usage and internal borrowings. The assets in GMS consist of the Group treasury portfolio as well as other unallocated Group assets.

Consumer Finance

United Asia Finance Limited ("UAF"), a 58% indirectly owned subsidiary, operates the Group's Consumer Finance business through online platforms and an extensive branch network in Hong Kong and Mainland China. It primarily offers unsecured loans to individual consumers and small businesses.

(HK$ Million)	**2016**	**2015**	***Change***
Revenue	**3,024.2**	**3,706.4**	***-18%***
Operating Costs	**(1,169.0)**	(1,373.2)	*-15%*
Cost to income (% Revenue)	*38.7%*	*37.0%*	
Finance costs	**(243.7)**	(285.0)	*-14%*
Bad and doubtful debts	**(928.5)**	(1,463.3)	*-37%*
Other income (expenses) – net	**4.7**	(4.1)	
Exchange gain	**38.9**	28.7	
Pre-tax Contribution	**726.6**	**609.5**	***19%***

Pre-tax contribution to the Group for 2016 amounted to HK$726.6 million, an increase of 19% over last year mainly because of the much improved credit quality from Mainland China business. Revenue decreased by 18% mainly from the decline in the Mainland China loan portfolio. A HK$38.9 million exchange gain was recorded during the year (2015: HK$28.7 million) which mainly arose from translating RMB denominated debts in Hong Kong dollar terms at a lower exchange value at end of 2016.

UAF's profit after tax attributable to shareholders increased to HK$623.8 million (2015: HK$530.4 million), generating an 8.4% annual return on its average shareholders' funds of HK$7,446.3 million during the year.

Since the middle of 2015, UAF has implemented a strategic restructuring of its Mainland China business in the wake of an economic downturn and its result has continued to recover with good momentum. Its six-month pre-tax contribution for the second half of 2016 increased 188% from the first half of 2016, and a hefty 288% increase against the corresponding period of last year. The cost savings from operational streamlining and revamping of underperforming branches have markedly brought down operating costs over the last two consecutive half yearly periods. An adjustment of marketing strategy to focus resources and effort to promote small consumer loans to salaried workers in the Mainland China as the prime customer segment has effectively diversified the underlying credit risk. As a consequence, bad debts expenses have reduced sharply since the second half of 2015

Trend Analysis on Half-yearly Key Profitability Metrics

(HK$ Million)	**Jul – Dec 2016**	**Jan – Jun 2016**	**Jul – Dec 2015**	**Jan – Jun 2015**
Revenue	1,517.7	1,506.5	1,759.9	1,946.5
Pre-tax Contribution	539.5	187.1	138.8	470.7
Operating Costs	(565.3)	(603.7)	(674.4)	(698.8)
Cost to income (% Revenue)	*37.2%*	*40.1%*	*38.3%*	*35.9%*
Charge Off	(335.1)	(570.4)	(683.4)	(550.8)
*Charge-off ratio**	*7.9%*	*12.7%*	*13.2%*	*9.4%*
Total Bad and doubtful debts	(328.0)	(600.5)	(820.0)	(643.3)

* Annualised on average gross loan balance

Key Operating Data	**2016**	**2015**	**Change**
Loan book data at year end:			
Net loan balance *(HK$ million)*	7,660.3	8,608.7	*-11%*
Gross loan balance *(HK$ million)*	8,566.6	9,557.7	*-10%*
– Hong Kong[1]	6,373.5	6,625.4	*-4%*
– Mainland China	2,193.1	2,932.3	*-25%*
Average gross balance per loan *(HK$)*	45,202	51,890	*-13%*
– Hong Kong[1] *(HK$)*	54,654	58,224	*-6%*
– Mainland China *(RMB)*	26,941	34,895	*-23%*
Ratios for the year:			
Total return on loans[2]	33.4%	34.2%	
– Hong Kong[1]	31.8%	29.4%	
– Mainland China	37.3%	42.3%	
Charge-off ratio[2]	10.0%	11.4%	
– Hong Kong[1]	5.6%	3.9%	
– Mainland China	21.2%	24.2%	

1 Hong Kong loan metrics include both unsecured lending, and property mortgage loans that UAF is phasing out

2 On average gross loan balance

At the current year end, the consolidated gross loan balance amounted to HK$8.6 billion, a 10% decrease year-on-year. The balances attributed to Hong Kong and Mainland China loans dropped by 4% and 25% year-on-year respectively. The loan book in the PRC at the current year end amounted to 26% (2015: 31%) of the consolidated gross loan balance.

Bad Debts and Delinquency

(HK$ Million)	**2016**	**2015**
Amounts written off	(1,065.7)	(1,363.7)
Recoveries	160.2	129.5
Charge off	(905.5)	(1,234.2)
As % of average gross loans	*10.0%*	*11.4%*
Charges to impairment allowance	(23.0)	(229.1)
Total charges for bad and doubtful debts	**(928.5)**	**(1,463.3)**
Impairment allowance at year end	906.3	949.0
As % of year end gross loans	*10.6%*	*9.9%*

Compared to last year, the total bad and doubtful debts expenses decreased by 37% to HK$928.5 million (2015: HK$1,463.3 million) during the year. The charges include the bad debts written off net of recoveries, as well as the charges to the impairment allowance (which is calculated based on the historical charge off rates and loan growth amount). During the year, bad debts written off, net of recoveries (the "Charge Off") amounted to HK$905.5 million (2015: HK$1,234.2 million). The charge to the impairment allowance during the year decreased from HK$229.1 million in 2015 to HK$23 million.

Aging analysis for loans and advances to consumer finance customers that were past due but not impaired (HK$ million):

No. of days of past due	**As at 31 Dec 2016**	*Note*	**As at 31 Dec 2015**	*Note*
Less than 31	499.6	*6.5%*	562.1	*6.5%*
31 – 60	91.8	*1.2%*	147.0	*1.7%*
61 – 90	55.2	*0.7%*	124.7	*1.5%*
91 – 180	139.8	*1.9%*	397.6	*4.6%*
Over 180	169.6	*2.2%*	103.5	*1.2%*
Total	**956.0**	**12.5%**	**1,334.9**	***15.5%***

Note: amount as a % of net loan balance.

Mainland China Business

In 2015, UAF's Mainland China business was affected by an abrupt downturn in economy. Thereafter, the results were affected by a sharp jump in delinquency and bad debts expenses. UAF reacted to such a difficult environment with a comprehensive revision of its marketing and credit strategy, together with an acceleration of debt collection processes and a cost rationalisation program. Credit to small businesses has since been tightened up to limit the underlying credit exposure.

The cost rationalisation program which started in the latter half of 2015 has almost been completed. During the year, UAF closed 51 underperforming branches in Mainland China leaving a total of 107 branches operating at the end of 2016. Significant cost savings were achieved following the launch of the branch closure exercise.

Marketing resources were re-allocated to promoting small consumer loans with salaried workers as the prime customer segment and despite the reduction in branches, loan origination transaction numbers increased to 87,965 (2015: 74,209). At the end of 2016, the average loan outstanding balance per account was RMB26,941 (2015: RMB34,895). The proportion of the portfolio relating to loans to salaried workers has increased to the level targeted by management.

Although the economic sentiment has improved, UAF will continue to adopt a prudent credit strategy. It will closely monitor the credit risk and adjust its loan origination criteria as necessary as market conditions evolve over time. In addition, UAF will strengthen its sales and marketing capabilities to reach out to different customer segments. We continue to explore potential business cooperation opportunities with various internet portals and financial institutions with a view to expanding our customer base. UAF believes that once the economic conditions settle down and recover, it will be in a competitive position to deliver future growth.

Branch Network

City/Province	Closed during 2016	Number as at 31 Dec 2016
Hong Kong	–	50
Shenzhen	(15)	28
Shenyang	(3)	9
Chongqing	(4)	6
Tianjin	(3)	3
Chengdu	(8)	4
Yunnan province	(6)	7
Dalian	(1)	6
Beijing	(3)	4
Wuhan	(4)	7
Shanghai	(2)	8
Fuzhou	(1)	5
Harbin	(1)	4
Nanning	–	5
Qingdao	–	4
Jinan	–	2
Guangzhou*	–	3
Foshan*	–	1
Dongguan*	–	1
Total	**(51)**	**157**

* Loan marketing branches

Hong Kong Business

UAF has achieved a satisfactory result for its Hong Kong operations in 2016. Market competition continued to stay keen. However, equipped with an experienced management team and a well-established brand, UAF was able to strengthen its leadership position and increase its market share. The advertising commercials launched in 2016 on the "online-to-offline" theme had good appeal to our potential customers and loan transactions completed online have increased over time. UAF continued to innovate its on-line service platform including the launch of "One Click to Loan" mobile app that caters for the changing habits of our customers.

In 2016, UAF continued to phase out of the property mortgage business and focused primarily on the unsecured personal loan business. The gross loan balance dropped marginally at the end of the year because of the winding down of this part of the portfolio. The increased amount and proportion of unsecured loans generated a higher weighted average return yield. Whilst the charge off has increased, it was within the range of prior expectations and was more than compensated by the higher return yield.

UAF should continue to benefit from a healthy and steady Hong Kong economy, supported by a favorable job market domestically and a gradual recovery of the economy in Mainland China. However, the approach to growth will still be prudent, as uncertainties remain with external factors such as weak tourist arrivals and spending, a potential rate hike in the United States (US), and the outcome of policy changes in particular, as related to the trade in the region adopted by new administration in the US. Management will closely watch the market developments and the risks associated with such, and take appropriate measures as they see fit.

Mortgage Loans

Sun Hung Kai Credit Limited ("Sun Hung Kai Credit") is an 86% owned subsidiary of the Group. It commenced business in October 2015, providing mortgage services and funding solutions to home owners and property investors in Hong Kong. In its first full year of operation, it has already made a positive profit contribution of HK$1.8 million (2015: loss of HK$8.3 million).

As at 31 December 2016, total Mortgage Loans outstanding was HK$613.0 million (2015: HK$213.3 million) with total bad and doubtful debts of HK$3.0 million (2015: HK$1.2 million), equivalent to approximately 0.5% of the period end loan balance. This is a very solid performance for the start-up phase, both in terms of loan growth as well as the credit quality. Based on estimates from the Land Registry data, currently Sun Hung Kai Credit is ranked in the top 3 in terms of new mortgage loan origination amongst non-bank institutions. With this achievement, we are optimistic about growth prospects and target establishing Sun Hung Kai Credit as the market leader in Hong Kong. The second phase expansion is about to be launched, with a new marketing campaign as well as an extension of our services to the prime borrowers' market in order to expand the addressable customer base.

Financial Services

This segment consists of the Group's associated companies and joint ventures in the financial services sector, previously part of the Long Term Investments Portfolio in Principal Investments. The businesses are complementary to our loan and investment strategy.

Sun Hung Kai Financial is a 30% owned associate of the Group and accounts for the majority of the assets in the segment. The business performance compared unfavourably against last year as the strong market condition in 2015 declined sharply toward the end of that year. For the year 2016, the Hong Kong market daily turnover declined by 37% year-on-year but owing to a well-diversified product mix and capital markets opportunities, Sun Hung Kai Financial has fared better than the market. Cross-selling and cooperation with its major shareholder, Everbright Securities also led to additional revenue opportunities. The net effect of valuation change on the Group's 30% stake in Sun Hung Kai Financial resulted in an accounting gain of HK$203.5 million for the year. An impairment loss of HK$141.5 million was recorded as Other Expenses. On the other hand, a gain of HK$345.0 million was recognised as profit from Financial Assets from our put option right.

LSS Financial Leasing (Shanghai) Co., Ltd. ("LSS Leasing"), in which the Group has a 40% equity interest, commenced business in January 2016. The business first started with car finance leasing opportunities introduced by its shareholders. New partnerships and alliances then followed quickly, such as 58.com, Everbright Financial Leasing Co., Ltd, (光大金融租賃股份有限公司) as well as other international and local enterprises. The business launched its consumer car leasing business in the 4Q and this will be further expanded with more product offerings in the coming year. The business' leasing assets surpassed RMB700 million and it is already profitable with good growth momentum. Portfolio quality is good and stable.

The Group divested its 25% stake in China Xin Yongan Futures Company Limited ("China Xin Yongan") and realised total proceeds of HK$57.9 million including interest on principal. A gain on disposal of HK$3.9 million was recognised as Other Gains.

Apart from the above, the Group also holds minority stakes in an Indonesian consumer finance company as well as a Hong Kong based securities trading firm.

The segment assets totalled HK$2,302.2 million as at 31 December 2016 (2015: HK$2,197.5 million) and contributed HK$182.3 million to pre-tax profit (2015: HK$112.6 million).

Principal Investments

Principal Investments is an important driver of the Group's growth strategy. It allows us to seek potentially higher returns from a diversified asset portfolio. It is also highly complementary to our loan businesses.

The Principal Investment portfolio invests across public and private investments, in credit and equity opportunities as well as real estate, with an aim of achieving attractive, risk-adjusted investment returns over the medium to long term. The segment's sub-portfolio presentation has been re-organised based on these asset classes: Equities, Debt and Fixed Income and Real Estate.

The assets are managed both internally by our investment team as well as externally through our partner funds. Our partner funds are chosen based on their long to medium term track records, strategic fit, and access to co-investment opportunities for us.

	2016				**2015**			
(HK$ Million)	**Year end value[3]**	**Average value[3]**	**Gain**	**Return[2]**	**Year end value[3]**	**Average value[3]**	**Gain**	**Return[2]**
Equities	4,392.1	3,734.9	202.1	*5.4%*	3,322.4	1,582.2	420.9	*26.6%*
Debt and Fixed Income	4,705.1	3,975.2	550.1	*13.8%*	4,191.7	4,047.9	310.1	*7.7%*
Real Estate	1,632.9	1,562.8	179.8	*11.5%*	1,226.2	1,146.4	55.7	*4.9%*
	10,730.1	**9,272.9**	**932.0**	***10.1%***	**8,740.3**	**6,776.5**	**786.7**	***11.6%***
Operating costs			(24.3)				(36.4)	
Cost of capital and finance costs[1]			(435.1)				(289.6)	
Pre-tax contribution			**472.6**				**460.7**	

1 Credit to Group Management and Support
2 Return on average value
3 Net of financial liabilities

The segment achieved a 10.1% return on average assets and the year end value amounted to HK$10,730.1 million as at 31 December 2016 (2015: 11.6% return; year end value: HK$8,740.3 million).

After operating costs, cost of capital and finance allocation and finance costs, the segment made pre-tax profit of HK$472.6 million, as compared to HK$460.7 million last year. Cost of capital and finance costs are allocated to the segment and credited to the Group Management and Support segment. The increase in 2016 is a result of increased capital deployed in the Equities portfolio.

During 2016, in light of the global market volatility and valuation concerns, we took a more conservative and selective investment approach. We closed only a few transactions in sectors and themes that we are positive on for the long term. We are confident about the investment quality and upside potential of the portfolio.

Equities

Overall, 2016 was a volatile year for investors globally. Particularly during the first half of 2016, investors were challenged with market concerns about the Mainland China economy, the timing of US interest rate hikes, as well as political and economic uncertainties in Europe. The second half of the year was characterised by improving investor sentiment, particularly after the presidential election in the US. In Mainland China, the Shanghai Composite Index and the Shenzhen Composite Index dropped 12.3% and 14.7% respectively during 2016. In Hong Kong, the Hang Seng Index rose 0.4% and the Hang Seng China Enterprises Index dropped 2.8%. In the US, the S&P 500 rose 9.5% and the Dow Jones Industrial Index rose 13.4% during the year.

Our public equity securities portfolio (27% of total) consists of both externally and internally managed funds. This portfolio experienced mark-to-market losses during the year, particularly in its small cap portfolio. After consideration of our investment strategy in this space, senior management determined to discontinue the previous small-cap investment strategy in the public portfolio. This has been a positive change to the portfolio, which has traded well during the second half of 2016 and into 2017.

During the year, we have increased the net allocation to private equity, which now represents approximately 73% of the Equities portfolio as at year end 2016 (2015: 55%). These unlisted investments generated satisfactory gains and reflect our positive view on the health care, consumer, and financials sectors, with the last also having potential synergies with our finance businesses. Special situation investments are also attractive to the Group especially when we can add value using our industry expertise and connections.

In December 2015, we invested in the privatisation of WuXi PharmaTech (Cayman) Inc. together with a group of investors. Since then, the company has continued to expand its business and a re-listing is being planned. The investment is performing very well resulting in a valuation adjustment as of 31 December 2016 to 1.9x cost.

During the year, we realised our minority investment in Sinolending Ltd., the operator of dianrong.com, an investment that contributed significantly to value appreciation of the portfolio in 2015. The sale proceeds amounted to US$34.5 million and the investment was a highly successful one where we were able to draw upon our industry knowledge and also explore business opportunities for UAF.

Debt and Fixed Income

This portfolio returned 13.8% in 2016 and includes both public and private debt.

The public debt portfolio mainly consists of listed fixed income securities. Our strategy is to identify and invest in fixed income instruments including bonds, loans, and structured credits in global markets. Global markets have shown high volatility over the past 12 months partly due to low oil prices, Brexit, the US presidential election, and terrorist attacks. We have continued to identify companies with relatively solid fundamentals where market volatility has caused short term price dislocations which provided attractive entry points. Looking to the next 12 months, we expect the market to remain volatile in view of macro and geo-political risks as well as interest rate risk.

The private debt portfolio represents the Group's Structured Finance business which offers tailor-made funding solutions to corporates as well as their shareholders. Total loans amounted to HK$2,847.9 million as at 31 December 2016 (2015: HK$3,328.8 million). The average loan balance was lower during the year as certain loans were repaid and new loans were not written until towards the end of 2016. Interest income of HK$336.2 million was generated from the loans (2015: HK$404.8 million), implying a return of approximately 12%. 57% of the portfolio consists of loans to investment holding companies whilst the remainder are business related loans for other corporate purposes. 92% of the loan book is secured and 88% is due within one year. An amount of HK$35.8 million was written back from a bad debt provision made last year.

Market competition for private corporate debt has intensified but with the Group's experience, network as well as its market position, we remain confident in our ability to seek profitable financing opportunities. Our comprehensive approach in positioning ourselves as a provider of liquidity solutions for different parts of the capital structure has also created opportunities to other portfolios of the Principal Investments segment.

Real Estate

This portfolio consists of the Group's real estate assets:

– Hong Kong commercial real estate

– Minority interest in two residential development projects, in Hong Kong and Australia

– Special situation investments in the hospitality sector, currently including interests in two hotels in London and Paris.

In May 2016, a joint venture with three other investors was formed. The Group invested EUR43.2 million for an effective 50% stake in Sofitel Paris Le Faubourg, a hotel situated in a prime district in Paris. This is a special situation investment as we took an opportunity to acquire a prime asset at an attractive price. The hotel has been recently renovated that should help increase its revenue as well as offer good capital appreciation potential in the longer term. Some of the non-US dollar investments are hedged to cover currency fluctuation risks.

In May 2016, the Group divested its commercial office space in Tian An Centre, Shanghai, and recorded a gain of HK$18.9 million.

During the year the Real Estate Portfolio returned 11.5% on average assets, mainly driven by the revaluation of the Hong Kong commercial real estate.

OUTLOOK

Management is cautiously optimistic on the outlook for 2017 earnings. The Consumer Finance business seems to have turned around satisfactorily in Mainland China and Hong Kong is expected to remain solid barring any rapid deterioration in the economy. The Sun Hung Kai Credit business is expected to contribute to overall growth as it expands. However, risks are still abound given the likelihood of a rate rise as well as other uncertainties in the macroeconomic environment.

For the investment business, the market portion of the portfolio is exposed to mark-to-market volatility. However, we are confident with the long term prospects of our current projects and positions and have already seen synergies between the investment and finance businesses.

The Group will continue to maintain a prudent and balanced approach to position our loan and investment assets for long term growth, as well as a strict oversight in costs.

Financial Review

Key Performance Indicators, Financial Resources, Liquidity and Capital Structure

As at 31 December (HK$ Million)	2016	2015	*Change*
Equity attributable to owners of the Company	18,077.0	18,007.6	–
Total cash	6,452.2	7,149.0	*-11%*
Total borrowings	10,122.2	9,894.4	*2%*
Net debt	3,670.0	2,745.4	*34%*
Net debt to equity ratio	20.3%	15.2%	
Key Performance Indicators (for the year)			
Book value per share *(HK$)*	8.24	8.08	*2%*
Dividend per share *(HK cents)*	26.0	26.0	–

The Group maintained a conservative balance sheet during the year.

In May 2016, the Company launched an exchange offer (the "Exchange") for its US$350 million 2017 6.375% US dollar notes ("2017 Notes") and issued new 2021 4.75% US dollar notes ("New Notes"). US$115.5 million of the principal amount of the 2017 Notes were exchanged for the New Notes. Based on an exchange ratio of 1.05375, US$121.6 million New Notes were issued in the exchange offer. Additional New Notes of US$240 million were also issued.

The aggregate principal amount of the New Notes amounted to US$361.6 million (including US$33.3 million intra-group holdings). These notes will mature on 31 May 2021 and are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

Following the Exchange, US$234.5 million (including US$8.6 million intra-group holdings) of the 2017 Notes remain outstanding and will mature on 26 September 2017. An amount of US$60 million 3% notes also remain outstanding and will mature on 28 December 2017.

As at 31 December 2016, total borrowings of the Group amounted to HK$10,122.2 million (31 December 2015: HK$9,894.4 million). Of this amount, 43% is repayable within one year (2015: 21%). The Group maintains a balanced mix of funding from various sources. Fixed coupon US dollar denominated notes amounted to HK$4,754.1 million and RMB-denominated notes equivalent to HK$557.8 million were outstanding at the end of the year. Bank borrowings are at floating interest rates and these are denominated in Hong Kong dollars, US dollars and RMB. There are no known seasonal factors in the Group's borrowing profiles.

The Group maintained foreign currency positions to cater for its present and potential investment and operating activities. Any exchange risks are closely monitored by the Group and held within appropriate limits.

For the year 2016, the Company repurchased and cancelled approximately 36.0 million shares involving a total consideration (including expenses) of approximately HK$168.5 million.

As a finance and investment firm, the Group aims to deliver long term share capital growth and returns to our shareholder. The annual return to shareholders is reflected by dividends as well as increase in the book value per share and used as the Key Performance Indicator.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

The following transactions reflect a repositioning of assets in the Principal Investments business in the year 2016.

In February, the Group divested its 25% stake in China Xin Yongan and realised total proceeds of HK$57.9 million including interest on principal. A gain on disposal of HK$3.9 million was recognised as Other Gains.

In March, the sale of the Group's minority interest in Sinolending Ltd. was completed for a consideration of US$34.5 million. Sinolending is a peer-to-peer lending service company and operates under the name dianrong.com in Mainland China. As the sale price is in line with the revised carrying value as at 31 December 2015, there was no material effect on profit or loss from the sale for the year.

In May, the Group disposed of its commercial office space in Tian An Centre, Shanghai for a total consideration of RMB84.3 million (equivalent to HK$100.7 million). The transaction was carried out through the sale of two wholly-owned subsidiaries of the Group, Hing Yip Holdings Limited and Sing Hing Investment Limited, and the assignment of the respective shareholder's loans to the purchaser, a subsidiary of Tian An China Investments Company Limited. Further details are included in the Company's announcement dated 6 May 2016. A gain of HK$18.9 million was booked from the sale.

In May, the Group formed a joint venture, which is classified as an interest in an associate in the consolidated financial statements, with three partners to acquire the holding company of the Sofitel Paris Le Faubourg, a hotel located in the 8th district of Paris near major tourist attractions such as the Louvre Museum. The acquisition consideration was agreed at EUR118.9 million and the enterprise value for the holding company was EUR162.3 million. Taking into account debt financing, deal expenses and pre-funded interest reserves, the amount invested by the Group was approximately EUR43.2 million (approximately HK$382.0 million) for its 50% interest in the joint venture.

In August, the Group exercised its conversion rights for an approximately 4.55% equity stake in CM International Holdings Pte. Ltd, an investment firm. The conversion rights were attached to the US$100 million convertible notes previously issued to the Group. Further details are included in the Company's announcement dated 9 August 2016.

Charges on Group Assets

Properties of the Group with a total book value of HK$873.0 million were pledged by subsidiaries to banks for facilities granted to them. HK$38.8 million was drawdown as at 31 December 2016.

Contingent Liabilities

At the end of the reporting period, the Group had guarantees as follows:

	31/12/2016	31/12/2015
	HK$ Million	*HK$ Million*
Indemnities on banking facility made available to joint venture	**104.7**	–
Financial guarantees under loan guarantee business*	**81.9**	139.2
	186.6	139.2

* The Group had provided guarantees to lenders of its loan guarantee customers to guarantee the repayment of debts owed by the loan guarantee customers to their lenders. At 31 December 2016, the outstanding guarantee amount was HK$81.9 million (31/12/2015: HK$139.2 million).

Human Resources

As at 31 December 2016, the Group's total staff was 4,317 (31 December 2015: 5,850). This net decrease in headcount reflects mainly the reduction in the number of branches in Mainland China. Staff costs based on continuing operations (including Directors' emoluments), contributions to retirement benefit schemes and expenses recognised for the SHK Employee Ownership Scheme amounted to approximately HK$756.8 million (2015: HK$845.0 million).

The Group operates various compensation schemes to reflect job roles within the organisation. For sales staff/sales consultants, remuneration packages consist of a base pay and sales commission/incentives/performance based bonus as appropriate. For non-sales staff, the compensation comprises either a base salary with performance based bonus/incentives or base salary, as appropriate.

SECOND INTERIM DIVIDEND

The Board has declared a second interim dividend of HK14 cents per share (in lieu of a final dividend) for the year ended 31 December 2016 to shareholders of the Company whose names appear on the register of members of the Company on 11 April 2017, making a total dividend for the year 2016 of HK26 cents (2015: HK26 cents) per share. Dividend warrants for the second interim dividend is expected to be despatched on 25 April 2017.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company (the "2017 AGM") is scheduled to be held on Thursday, 25 May 2017. The Notice of the 2017 AGM will be published on the website of the Company (www.shkco.com) and the website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk), and dispatched to the shareholders around middle of April 2017.

CLOSURES OF REGISTER OF MEMBERS

The register of member of the Company will be closed on the following time periods during which no transfer of shares of the Company will be registered:

Events		Book close period
For entitlement to the second interim dividend	:	10 April 2017 and 11 April 2017 (Ex-dividend date being 6 April 2017) (Record date being 11 April 2017)
For attendance to 2017 AGM	:	19 May 2017 – 25 May 2017 inclusive (Record date being 25 May 2017)

In order to qualify for entitlement to the second interim dividend or/and attendance to the 2017 AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrar, Tricor Secretaries Limited, for registration not later than 4:30 p.m. on the following dates:

Events		Last date of lodgment of transfer documents
For entitlement to the second interim dividend	:	7 April 2017
For attendance to 2017 AGM	:	18 May 2017

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2016, the Company has applied the principles of, and complied with, the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, except for certain deviations which are summarised below:

(a) Code Provision A.2.1

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 Group Deputy Chief Executive Officer, Mr. Simon Chow Wing Charn. The Group Executive Chairman oversees the Group's Principal Investments which are managed by the Chief Investment Officer as well as its interest in UAF whose day-to-day management lies with its designated Managing Director. Mr. Simon Chow assists the Group Executive Chairman in driving the performance of Mortgage Loans and the other operating businesses of the Group as well as exploring new areas of growth.

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 the decision-making process 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 business and operational issues of the Group.

(b) Code Provisions B.1.2 and C.3.3

Code provisions B.1.2 and C.3.3 of the CG Code stipulate that the terms of reference of the remuneration committee and audit committee should include, as a minimum, those specific duties as set out in the respective code provisions.

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with the code provision B.1.2 of the CG Code, except that the Remuneration Committee should 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).

The terms of reference of the Audit Committee adopted by the Company are in compliance with the code provision C.3.3 of the CG Code, except that the Audit Committee should (i) recommend (as opposed to implement under the code provision) the policy on the engagement of the external auditor to supply non-audit services; (ii) scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have effective risk management and internal control systems; (iii) promote (as opposed to ensure under the code provision) co-ordination between the internal audit and external auditor; and (iv) check (as opposed to ensure under the code provision) whether the internal audit function is adequately resourced and has appropriate standing within the Company.

The reasons for the above deviations had been set out in the Corporate Governance Report contained in the Company's annual report for the financial year ended 31 December 2016. The Board considers that the Remuneration Committee and the Audit Committee should continue to operate according to their respective terms of reference as adopted by the Company. The Board will review the terms of reference at least annually and would make appropriate changes if considered necessary.

Further information on the Company's corporate governance practices during the year under review will be set out in the Corporate Governance Report to be contained in the Company's 2016 annual report which will be issued before end of April 2017.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2016, the Company repurchased a total of 36,504,000 shares on the Hong Kong Stock Exchange at an aggregate consideration (before expenses) of HK$167,941,740. All the repurchased shares were subsequently cancelled.

Particulars of the repurchases are as follows:

Month	Number of Shares repurchased	Purchase price Highest	Lowest	Aggregate consideration (before expenses)
		(HK$)	*(HK$)*	*(HK$)*
January	7,278,000	5.00	4.20	32,883,720
February	114,000	4.44	4.30	500,140
March	269,000	4.65	4.52	1,231,390
April	324,000	4.65	4.41	1,474,620
May	12,015,000	4.60	4.48	54,444,050
June	2,519,000	4.65	4.31	11,315,580
July	599,000	4.65	4.52	2,738,010
August	2,053,000	4.80	4.63	9,732,660
September	3,219,000	4.95	4.67	15,411,430
October	1,447,000	5.00	4.85	7,137,040
November	3,826,000	4.76	4.59	17,814,070
December	2,841,000	4.80	4.59	13,259,030
	36,504,000			167,941,740

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 2016.

AUDIT COMMITTEE REVIEW

The Audit Committee has reviewed with management of the Company the Group's financial statements for the year ended 31 December 2016, including the accounting principles and practices adopted by the Group.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu ("Deloitte"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Deloitte in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements, or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Deloitte on the preliminary announcement.

On behalf of the Board
Sun Hung Kai & Co. Limited
Lee Seng Huang
Group Executive Chairman

Hong Kong, 22 March 2017

As at the date of this announcement, the Board comprises:

Executive Directors:
Messrs. Lee Seng Huang *(Group Executive Chairman)*, Simon Chow Wing Charn and Peter Anthony Curry

Non-Executive Director:
Mr. Jonathan Andrew Cimino

Independent Non-Executive Directors:
Mr. David Craig Bartlett, Mr. Alan Stephen Jones, Ms. Jacqueline Alee Leung and Mr. Peter Wong Man Kong