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

ANNUAL REPORT 2016

EXCELLENCE INTEGRITY INNOVATION PRUDENCE PROFESSIONALISM

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Lee Seng Huang
(Group Executive Chairman)
Simon Chow Wing Charn
Peter Anthony Curry

Non-Executive Director

Jonathan Andrew Cimino

Independent Non-Executive Directors

David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
Peter Wong Man Kong

EXECUTIVE COMMITTEE

Lee Seng Huang *(Chairman)*
Simon Chow Wing Charn
Peter Anthony Curry

NOMINATION COMMITTEE

Lee Seng Huang *(Chairman)*
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
Peter Wong Man Kong

REMUNERATION COMMITTEE

Peter Wong Man Kong *(Chairman)*
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung

AUDIT COMMITTEE

Alan Stephen Jones *(Chairman)*
David Craig Bartlett
Jacqueline Alee Leung
Peter Wong Man Kong

RISK MANAGEMENT COMMITTEE

Simon Chow Wing Charn
(Chairman)
Lee Seng Huang
Peter Anthony Curry

COMPANY SECRETARY

Hester Wong Lam Chun

INVESTOR RELATIONS

investor.relations@shkco.com

AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

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

BANKERS

Standard Chartered Bank
(Hong Kong) Limited
The Bank of East Asia, Limited
Bank of China (Hong Kong)
Limited
Oversea-Chinese Banking
Corporation Limited,
Hong Kong Branch
OCBC Wing Hang Bank Limited
China Construction Bank (Asia)
Corporation Limited
China CITIC Bank International
Limited
Fubon Bank (Hong Kong) Limited
Public Bank (Hong Kong) Limited
Dah Sing Bank, Limited
Taipei Fubon Commercial Bank
Co. Ltd., Hong Kong Branch
Chong Hing Bank Limited
Wing Lung Bank Limited
Mizuho Bank, Ltd.,
Hong Kong Branch
Taishin International Bank Co.,
Ltd.
Mega International Commercial
Bank Co., Ltd., Offshore Banking
Branch
Far Eastern International Bank,
Hong Kong Branch
Bank of China Limited Macau
Branch
Industrial and Commercial Bank of
China (Macau) Limited
Tai Fung Bank Limited

REGISTRAR

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Hong Kong

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www.shkcredit.com.hk
www.uaf.com.hk
www.uaf.com.cn

Corporate Profile

Sun Hung Kai & Co. Limited (the "Company", together with its subsidiaries, the "Group") is an investment and finance firm with a focus on Greater China.

Since its foundation in ***1969***, the Group has owned and operated market-leading businesses in financial services, striving to generate ***long-term capital growth*** for its shareholders. Leveraging on its heritage and operational experience, the Group invests across a ***diverse*** yet ***complementary*** portfolio of ***investment and finance*** businesses. Through on-line platforms as well as an extensive branch and office network across Hong Kong and Mainland China, the finance business provides funding solutions to individuals, small businesses and corporates.

The Group currently has about HK$18 billion* in shareholders' equity. It is the major shareholder of leading consumer finance firm ***United Asia Finance Limited*** and a substantial shareholder of ***Sun Hung Kai Financial Group Limited***.

*As of 31 December 2016

Financial Highlights

Key Data

(HK$ Million)	2016	2015	Change
Revenue	3,511.3	4,174.1	-16%
Profit attributable to owners of the Company	1,109.6	3,896.5	-72%
– From continuing operations	1,109.6	667.7	66%
Per Share Data			
Earnings per share			
– Basic (HK cents)	50.3	173.8	
– Diluted (HK cents)	50.2	173.8	
Dividend per share (HK cents)	26.0	26.0	
Book value per share (HK$)	8.2	8.1	
Financial Ratios			
Return on assets	4.2%	12.7%	
Return on shareholders' equity	6.1%	21.6%	
Net gearing	20.3%	15.2%	

Revenue Analysis

(HK$ Million)	2016	2015	Change
Revenue	3,511.3	4,174.1	-16%
Breakdown by Geography			
– Hong Kong	2,541.6	2,438.8	4%
– Mainland China	958.4	1,697.9	-44%
– Others	11.3	37.4	-70%
Breakdown by Type			
– Interest income	3,372.5	4,093.6	-18%
– Service and commission income	99.2	42.7	132%
– Others	39.6	37.8	5%

Profit or Loss Analysis

(HK$ Million)	2016	2015	Change
Revenue	3,511.3	4,174.1	-16%
Operating expenses	(1,366.6)	(1,574.2)	-13%
As % of revenue ("cost to income")	*39%*	*38%*	
– Brokerage and commission expenses	(51.0)	(55.9)	-9%
– Advertising and promotion expenses	(120.3)	(106.2)	13%
– Direct cost and operating expenses	(37.0)	(58.1)	-36%
– Administrative expenses	(1,158.3)	(1,354.0)	-14%
Finance costs	(488.3)	(478.8)	2%
Bad and doubtful debts	(895.7)	(1,570.9)	-43%
Other income	178.9	71.6	
Other non operating expenses	(142.8)	(702.5)	
Net exchange gain	9.7	7.5	
Net profit on financial assets and liabilities	749.9	1,005.6	75%
Associates	0.5	2.4	
Joint ventures	(55.3)	38.4	
Profit Before Taxation	**1,501.6**	**973.2**	54%
Taxation	(131.9)	(83.7)	58%
Non-controlling interests	(260.1)	(221.8)	17%
Profit attributable to Owners of the Company from continuing operations	**1,109.6**	**667.7**	66%
Profit from discontinued operations	0.0	3,228.8	-100%
Profit attributable to Owners of the Company	**1,109.6**	**3,896.5**	-72%

Financial Highlights

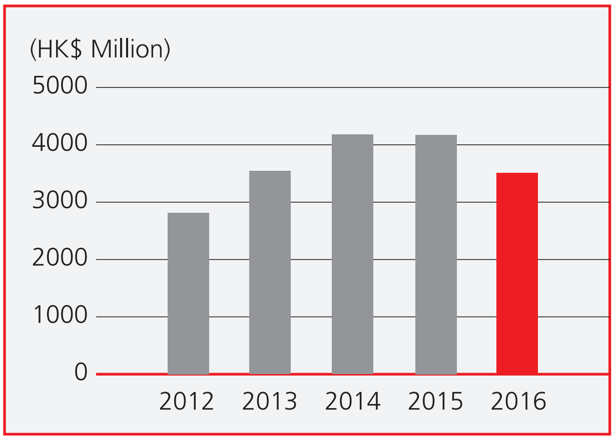
Statement of Financial Position Highlights

As at 31 December (HK$ Million)	2016	2015	Change
Assets (by Segment)	32,560.9	32,369.1	1%
– Consumer Finance	16,479.9	18,177.3	-9%
– Principal Investments	10,845.1	8,918.2	22%
– Financial Services	2,302.2	2,197.5	5%
– Mortgage Loans	639.7	245.4	161%
– Group Management and Support	2,294.0	2,830.7	-19%
Total Borrowings	10,122.2	9,894.4	2%
– Current	4,357.1	2,088.7	109%
– Long term	5,765.1	7,805.7	-26%
Bank deposits, cash and cash equivalents	6,452.2	7,149.0	-10%
Total assets	32,560.9	32,369.1	1%
Shareholders' equity	18,077.0	18,007.6	0%

Share Information

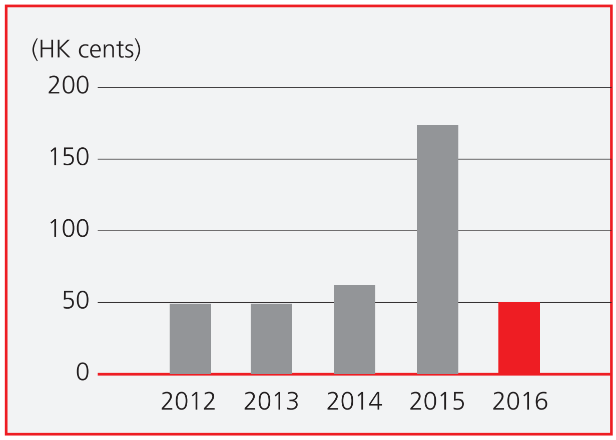
(HK$ Million)	2016	2015
No of shares in issue at year end (million)	2,193.0	2,229.0
Weighted average number of shares (million)	2,207.8	2,241.4
Earnings per share		
– Basic (HK cents)	50.3	173.8
– Diluted (HK cents)	50.2	173.8
Dividend per share (HK cents)	26.0	26.0
– Second interim	14.0	14.0
– Interim	12.0	12.0
Share price (HK$)		
– High	5.12	8.60
– Low	4.18	4.50
– Close	4.80	5.10
Market capitalisation (HK$ million)	10,526.4	11,367.9

Revenue*

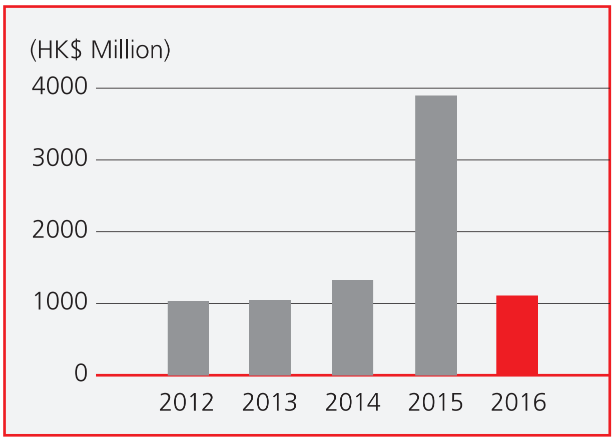


* Restated for operations discontinued in 2015

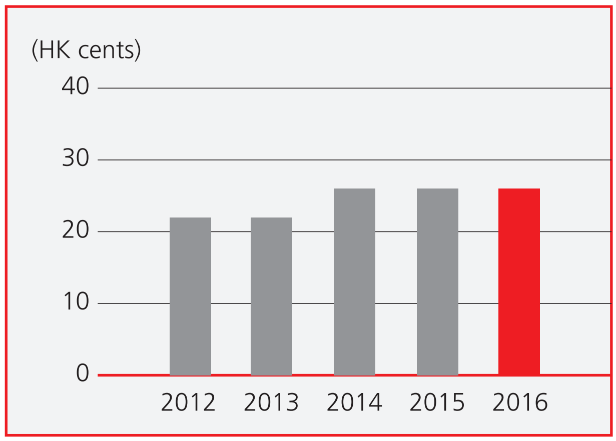
Basic Earnings per Share



Profit Attributable to Owners of the Company



Dividend per Share



Five-Year Financial Summary

For the year ended 31 December (HK$ Million)	2012	2013	2014	2015	2016
Results					
Revenue *	2,815.8	3,544.2	4,177.9	4,174.1	3,511.3
Profit attributable to owners of the Company	1,036.4	1,051.6	1,328.4	3,896.5	1,109.6
Retained earnings carried forward	4,518.5	4,925.9	5,545.2	8,724.0	9,097.2

At 31 December (HK$ Million)	2012	2013	2014	2015	2016
Assets And Liabilities					
Current assets	16,288.7	17,550.7	21,746.8	17,612.0	18,929.7
Total assets	25,255.6	27,804.1	32,760.8	32,369.1	32,560.9
Current liabilities	4,701.1	4,942.1	7,047.2	2,779.9	4,944.4
Total liabilities	9,290.3	10,984.8	14,093.5	10,778.3	10,905.1

* The comparative figures of revenue in 2012 to 2014 have been restated for the operations discontinued in 2015.

Letter from the Chairman

“I am pleased to report that during 2016, not only did we achieve a solid result, but our businesses are well positioned for the future.”

Lee Seng Huang

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.

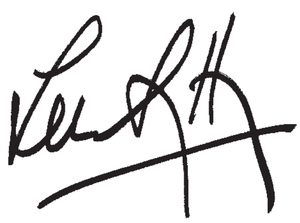
During the year, we have also strengthened the management and team structure with the appointment of an experienced Chief Investment Officer. We anticipate that with our expanded capabilities and an enhanced infrastructure in place, the Group will be in a good position to capture new investment opportunities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



Lee Seng Huang
Group Executive Chairman

Hong Kong, 22 March 2017

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 a 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 size.

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 a 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. ("LSS Leasing") which were previously grouped under the Long Term Investment Portfolio in Principal Investments.

Analysis of Segment Pre-tax Contribution and Assets Employed

(HK$ Million)	2016 Pre-tax Contribution	2016 Change	2016 Segment Assets*	2016 Change	2015 Pre-tax Contribution	2015 Segment Assets*
Financial Services	182.3	62%	2,302.2	5%	112.6	2,197.5
Consumer Finance	726.6	19%	16,479.9	-9%	609.5	18,177.3
Mortgage Loans	1.8	n/a	639.7	161%	(8.3)	245.4
Principal Investments	472.6	3%	10,845.1	22%	460.7	8,918.2
GMS	118.3	n/a	2,294.0	-19%	(201.3)	2,830.7
Total	**1,501.6**	**54%**	**32,560.9**	**1%**	**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.

Consumer Finance Segment Results

(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.

Management Discussion and Analysis

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

No. of days of past due (HK$ Million)	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.

Management Discussion and Analysis

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 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 its property mortgage business and focused primarily on its 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 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 fourth quarter 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 with a year end value amounting 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 a 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 decided 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 financial 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.

Management Discussion and Analysis

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 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
Capital Structure			
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

Details regarding the contingent liabilities are set out in Note 40 to the consolidated financial statements.

HUMAN RESOURCES AND TRAINING

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 ("EOS") 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.

Under the EOS, selected employees or directors of the Group (the "Selected Grantees") were awarded shares of the Company. Following management's recommendation, a total of 834,000 shares were granted to Selected Grantees during the year subject to various terms including, amongst other things, the vesting scale whereby awarded shares will vest and become unrestricted in various vesting periods. As at 31 December 2016, the outstanding awarded shares under the EOS (excluding shares awarded, but subsequently forfeited) amounted to 1,430,000 (including 1,062,000 under the Company and 368,000 under Sun Hung Kai Financial Limited), out of which 893,000 shares were awarded to Directors.

The Group values its people as the greatest asset and believes that a competent and motivated workforce is integral to the sustainable growth of its business. In line with its business strategies and on-going development, the Group promotes a culture of continuous learning and provides multi-faceted training and development programmes in areas such as:

Compliance and regulatory – general compliance, market and regulatory updates, prevention of bribery, bankruptcy laws, data privacy, the Money Lender's Ordinance

Management skills and personal – leadership skills, supervisory skills, KPI setting, communication and interpersonal skills, creative thinking and problem solving skills, self-development skills, well-being

Job skills – language skills, computer skills, debt collection skills, customer service skills

LONG TERM CORPORATE STRATEGIES

To achieve long term value accretion for shareholders through our financing and investments strategy.

To maintain a balanced approach towards risks and returns on Group assets.

To seek new business opportunities that can broaden the Group's future earnings base.

PRINCIPAL RISKS, RELEVANT LAWS AND REGULATIONS

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

Financial Risk

Financial risk is designed to manage market risk, credit risk and liquidity risk. Market risk concerns that the value of an investment will change due to movements in market factors and which can be further divided into equity risk, interest rate risk and foreign exchange risk. Further discussion on financial risk management is outlined in Note 42 to the consolidated financial statements.

Credit risk is the risk of losses arising from clients or counterparties failing to make payments as contracted. Total loans and advances to customers amounted to HK$11,121.2 million as at 31 December 2016. Total bad and doubtful expenses in 2016 was HK$895.7 million.

Liquidity risk concerns that a given security or asset cannot be traded readily in the market to prevent a loss or make the required profit.

Operational Risk

Operational risk is concerned with possible losses caused by inadequate or failed internal processes, people, systems or external events.

Operational risk is mitigated and controlled through establishing robust internal controls, setting out 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 the operational risks of their business units on a day-to-day basis.

Independent monitoring and reviews are conducted by the Group's Internal Auditor which reports regularly to the Group's senior management and the Audit Committee of the Board.

Relevant Laws and Regulations

The Group is highly committed to comply with laws and regulations that govern our businesses. As a listed company, we abide to the Listing Rules of the Hong Kong Stock Exchange.

Our loan businesses in Hong Kong are governed by the Money Lenders Ordinance. The lending businesses in the PRC are operated in accordance with the regional guidelines announced by the provincial governments under the Guiding Opinions of the China Banking Regulatory Commission and the People's Bank of China on the Pilot Operation of Small-sum Loan Companies.

Profiles of Directors and Senior Management

Back row (from left to right): Alan Stephen Jones, Jonathan Andrew Cimino, Simon Chow Wing Charn, Peter Anthony Curry
Front row (from left to right): David Craig Bartlett, Jacqueline Alee Leung, Lee Seng Huang, Peter Wong Man Kong

EXECUTIVE DIRECTORS

Lee Seng Huang, aged 42, 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 is currently the executive chairman of Mulpha International Berhad (a Malaysian listed conglomerate with operations in Malaysia, Australia and the United Kingdom) as well as Mulpha Australia Limited, and the non-executive chairman of Aveo Group, a leading retirement group listed on the Australian Securities Exchange. He was previously 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 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. Mr. Lee is also a director of United Asia Finance Limited, a subsidiary of the Company.

Simon Chow Wing Charn, aged 62, was appointed as an Executive Director of the Company on 3 June 2015. He joined the Company as the Group Deputy Chief Executive Officer of the Company on 1 December 2014. Mr. Chow has more than 25 years' experience in the banking and financial services industry. Prior to joining the Group, he has been with Citibank for 18 years and his last position was the country manager for China consumer bank of Citibank. Before that, he held senior roles with UBS, Lehman Brothers, British Columbia Hydro and Power Authority and PricewaterhouseCoopers. He is a member of the Institute of the Chartered Accountants of Canada. Mr. Chow holds a Bachelor of Science Degree and a Licentiate in Accounting Degree from the University of British Columbia. He also holds directorships in various subsidiaries of the Company.

Profiles of Directors and Senior Management

Peter Anthony Curry, aged 64, was appointed as an Executive Director of the Company on 1 January 2011. He joined the Company as the Group Chief Financial Officer in November 2010. Mr. Curry has over 40 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. 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 holds with a Bachelor Degree of Commerce and a Bachelor Degree of Laws from the University of New South Wales. He became a chartered accountant and a barrister (non-practising) in Australia in 1978, and was elected as a fellow of The Institute of Directors in Australia in 1989. Mr. Curry was previously an alternate director to Mr. Lee Seng Hui (a non-executive director of APAC Resources Limited, a company listed on The Stock Exchange of Hong Kong Limited). He also holds directorships in various subsidiaries of the Company.

NON-EXECUTIVE DIRECTOR

Jonathan Andrew Cimino, aged 64, was appointed as a Non-execution Director of the Company on 25 January 2016. He is currently the chief executive officer of Dubai Group LLC (the "Dubai Group") and was formerly the chief operating officer and the managing director of Finance of Dubai Group since 2008. As at the date of this report, the Dubai Group, through its subsidiary Dubai Ventures LLC, is interested in 166,000,000 shares of the Company. Mr. Cimino is experienced in financial management, debt restructuring and asset management and has been an investment banker and stockbroker having spent a large part of his career as head of investment banking, chief executive officer and country head of SBC Warburg and UBS in New Zealand. He had worked extensively on privatisation mandates for the New Zealand Government. Upon leaving UBS in 2001, he formed his own boutique investment bank Cimino Partners which undertook various M&A and capital market transactions including being the lead manager for the IPO of the New Zealand Stock Exchange. He had formerly been a public company director in New Zealand for listed companies in the transportation, environmental, biotechnology and private equity sectors. He was previously a non-executive director of EFG-Hermes Holdings SAE (a company listed on Egyptian Stock Exchange). He holds a Bachelor of Finance and Administration Degree from Victoria University of Wellington, New Zealand and completed the Advanced Management Program at Harvard Business School.

INDEPENDENT NON-EXECUTIVE DIRECTORS

David Craig Bartlett, aged 51, was appointed as 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, Mr. Bartlett is also an independent non-executive director of each of Allied Group Limited and Allied Properties (H.K.) Limited, the holding companies of the Company and the shares of which are listed on The Stock Exchange of Hong Kong Limited.

Alan Stephen Jones, aged 73, was appointed as 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 Allied Group Limited and Allied Properties (H.K.) Limited, the holding companies of the Company, and the shares of which are listed on The Stock Exchange of Hong Kong Limited. Mr. Jones is also an independent non-executive director of Mount Gibson Iron Limited, a company listed on the Australian Securities Exchange and a non-executive chairman of Air Change International Limited, a company listed on the National Stock Exchange of Australia Limited, as well as a non-executive director of Mulpha Australia Limited.

Jacqueline Alee Leung, aged 56, was appointed as an Independent Non-Executive Director of the Company on 1 November 2014. Ms. Leung is currently the president and managing director of Leighton Investments Limited and Leighton Textiles Company Limited. She was with Deloitte Touche Tohmatsu from February 2001 to August 2014. Prior to that, she worked at the mergers and acquisitions department of Oppenheimer & Co. Inc. in New York City. Ms. Leung is an active community leader and volunteer and has served as a member of the Vetting Committee for the Allocation of Sites and Start-up Loan for Post-secondary Education Providers under the Education Bureau of the Government of HKSAR since 2010. Over the years, she held various positions in charitable organisations in Hong Kong, such as the fundraising chairman for the Hong Kong Cancer Fund and a director at Po Leung Kuk. On 1 January 2016, she was appointed as a member of the Exchange Fund Advisory Committee (EFAC) Financial Infrastructure Sub-Committee of the Hong Kong Monetary Authority. Ms. Leung holds a Bachelor of Arts Degree in Economics and a Bachelor of Science Degree with honours in Engineering from Brown University in the United States.

Peter Wong Man Kong, *BBS, JP*, aged 68, was appointed as an Independent Non-Executive Director of the Company on 30 May 2001. Mr. Wong has over 40 years of experience in industrial, commercial and public services. He is currently 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, 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, Sino Hotels (Holdings) Limited, New Times Energy Corporation Limited and MGM China Holdings Limited, all being companies listed on The Stock Exchange of Hong Kong Limited. Mr. Wong holds a Bachelor of Science Degree in Mechanical Engineering (Naval Architecture) from the University of California at Berkeley, U.S.A.. He is also a deputy to the 12th National People's Congress of The People's Republic of China.

SENIOR MANAGEMENT

Akihiro Nagahara

Managing Director and Chief Executive Officer, United Asia Finance Limited

Mr. Nagahara, aged 76, is the Managing Director and CEO of United Asia Finance Limited ("UAF"). 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. Mr. Nagahara 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 also a director of various subsidiaries of UAF and Sun Hung Kai Credit Limited, a subsidiary of the Company.

Sebastiaan Cornelis Van Den Berg

Chief Investment Officer and Head of the Principal Investments

Mr. Van Den Berg, aged 45, is the Chief Investment Officer and Head of the Principal Investments business of the Company. He has an in-depth experience in private equity funds management and investment, and was previously the managing director of HarbourVest Partners (Asia) Limited, a leading global private equity fund-of-funds manager. Prior to that, Mr. Van Den Berg held various senior positions with H&Q Asia Pacific, Hong Kong, AlpInvest Partners N.V., Netherlands and Goldman Sachs in both London and Hong Kong. He holds a Master of Science Degree in Economics from the London School of Economics and Political Science and a Doctorandus Degree in International Financial Economics from the University of Amsterdam.

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's value.

CORPORATE GOVERNANCE CODE AND CORPORATE GOVERNANCE REPORT

In the light of the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2016, 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 eight directors ("Directors") in total, with three Executive Directors, one Non-Executive Director (the "NED") and four Independent Non-Executive Directors (the "INEDs"):

Executive Directors:	Lee Seng Huang *(Group Executive Chairman)* Simon Chow Wing Charn Peter Anthony Curry
Non-Executive Director:	Jonathan Andrew Cimino
Independent Non-Executive Directors:	David Craig Bartlett Alan Stephen Jones Jacqueline Alee Leung Peter Wong Man Kong

The brief biographical details of the Directors are set out in the section of "Profiles of Directors and Senior Management" on pages 23 to 26.

BOARD PROCESS

During the year, the NEDs (four of whom were independent) provided the Company and its subsidiaries (collectively the "Group") 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 ("Shareholders").

Throughout the year and up to the date of this report, 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/her 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 operations 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. Relevant senior executives are invited to attend Board meetings to make presentations and answer the Board's enquiries.

During the year, six 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 the annual general meeting of the Company ("AGM") during the year ended 31 December 2016 are set out as follows:

	Number of meetings attended/held				
Name of Directors	**Board**	**Remuneration Committee**	**Audit Committee**	**Risk Management Committee**	**AGM**
Executive Directors:					
Lee Seng Huang	6/6			0/4	yes
Simon Chow Wing Charn	6/6			4/4	yes
Peter Anthony Curry	6/6			4/4	yes
Non-Executive Director:					
Jonathan Andrew Cimino	6/6				yes
Independent Non-Executive Directors:					
David Craig Bartlett	2/6	1/1	3/3		yes
Alan Stephen Jones	6/6	1/1	3/3		yes
Jacqueline Alee Leung	5/6	1/1	3/3		no
Peter Wong Man Kong	4/6	0/1	2/3		no

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 operations 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 for 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 that 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 date of a 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 the 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 will be dealt with by the Board at a duly convened Board meeting. The articles of association of the Company (the "Articles") stipulate that save for the exceptions as provided therein, a Director shall abstain from voting on the relevant resolution 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/her close 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 organised a briefing session on "Environmental, Social and Governance ("ESG") Reporting" 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 following activities:

Participation in Continuous Professional Development Activities

Name of Directors	Reading regulatory updates	Attending trainings/ briefings/seminars/ conferences relevant to Directors' duties
Executive Directors:		
Lee Seng Huang	✓	✓
Simon Chow Wing Charn	✓	✓
Peter Anthony Curry	✓	✓
Non-Executive Directors:		
Jonathan Andrew Cimino	✓	✓
Joseph Kamal Iskander *(alternate to Mr. Jonathan Andrew Cimino) (resigned on 22 March 2017)*	✓	✓
Independent Non-Executive Directors:		
David Craig Bartlett	✓	✓
Alan Stephen Jones	✓	✓
Jacqueline Alee Leung	✓	✓
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 Group Deputy Chief Executive Officer, Mr. Simon Chow Wing Charn. The Group Executive Chairman oversees the Group's Principal Investments ("PI") which are managed by the Chief Investment Officer as well as its interest in United Asia Finance Limited ("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.

The Group Executive Chairman is responsible for the leadership of the Board, ensuring that 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 the Directors receive in a timely manner, adequate information which is accurate, clear, complete and reliable.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The terms of reference of the Nomination Committee include a nomination procedure specifying the process and criteria for selection and recommendation of candidates for directorships of the Company.

New Directors, upon appointment, will be given an induction package containing the relevant requirements of the Listing Rules and other key applicable rules and regulations, 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 provide the new Directors with detailed information on the Group's businesses and activities.

The NEDs (including the INEDs) of the Company are appointed for a specific term of two years, but subject to the relevant provisions of the Articles or any other applicable laws whereby the Directors shall vacate or retire from their offices but are eligible for re-election. The term of appointment of the NEDs (including the INEDs) has been renewed for two years commencing from 1 January 2017.

According to Article 94 of 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 hold office only until the next following AGM of the Company and shall be eligible for re-election at that meeting. Furthermore, 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.

BOARD DIVERSITY

The Company recognises and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining an effective Board to enhance the quality of its performance. The Board has adopted the Board Diversity Policy on 1 September 2013 with an aim to promote broad experience and diversity on the Board.

The objectives of the Board Diversity Policy include:

(i) the Board should possess a balance of skills and experience appropriate for the requirements of the businesses of the Company. The Directors should have a mix of finance, legal and management qualifications with considerable experience in diversified businesses;

(ii) selection of candidates for directorship will be based on a broad range of perspectives, including but not limited to gender, age, cultural, educational background or professional experience; and

(iii) Directors (especially the NEDs) are encouraged to participate in Board meetings to bring an independent judgment, to promote critical review and to bring a wide range of business and financial experience to the Board which contributes to the effective direction of the Company.

Appointments to the Board should be made in the context of complementing and expanding the skills, knowledge and experience of the Board as a whole and candidates will be considered against measureable objectives, taking into account the Company's business and needs.

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 include:

(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 manuals (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.

In 2016 and up to the date of this report, the Board has performed the corporate governance duties in accordance with its terms of reference.

BOARD COMMITTEES

The Board has established various committees, including the Nomination Committee, Remuneration Committee, Audit Committee, Executive 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 since April 2012 and currently consists of one Executive Director and four INEDs, including Messrs. Lee Seng Huang (chairman), David Craig Bartlett, Alan Stephen Jones, Peter Wong Man Kong and Ms. Jacqueline Alee Leung. 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 duties and authorities of the Nomination Committee are contained in its terms of reference, which fully comply with 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 will meet as and when necessary in accordance with its terms of reference and may also deal with matters by way of circulation of written resolutions. In 2016, no Nomination Committee meeting was held while the committee dealt with matters by way of circulation of written resolutions. The work performed by the Nomination Committee in 2016 and up to the date of this report is summarised as follows:

(i) review of the structure, size, composition and diversity of the Board;

(ii) assess the independence of the INEDs; and

(iii) review of the proposed re-election of Directors at the 2016 AGM and 2017 AGM, with a recommendation to the Board for proposal to the shareholders for approval at each meeting.

Remuneration Committee

The Remuneration Committee has been established since April 1985 and currently consists of four INEDs including Messrs. Peter Wong Man Kong (chairman), David Craig Bartlett, Alan Stephen Jones and Ms. Jacqueline Alee Leung. The Remuneration Committee is provided with sufficient resources to perform its duties, and, where necessary, to seek independent professional advice, at the Company's expense, to perform its responsibilities.

The duties and authorities of the Remuneration Committee are contained in its terms of reference which are available on the websites of the Hong Kong Stock Exchange and the Company.

The terms of reference of the Remuneration Committee adopted by the Company are in compliance with code provision B.1.2 of the CG Code but with a deviation from the code provision 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 reasons for the above derivations are summarised as below:

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

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

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

The Remuneration Committee shall meet at least once a year in accordance with its terms of reference. One Remuneration Committee meeting was held in 2016 and the attendance of each member at the meeting is set out in the section headed "Board Process" of this report. The committee also dealt with some matters by way of circulation of written resolutions.

The work performed by the Remuneration Committee during 2016 is summarised as follows:

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

(ii) review of the remuneration packages of the Executive Directors, with a recommendation to the Board for approval of an increase in the monthly salary of each of the three Executive Directors commencing from January 2016;

(iii) review of the bonuses for the year ended 31 December 2015 for the three Executive Directors, with a recommendation to the Board for approval;

(iv) review of the remuneration of all Directors (including the NED and INEDs) and the consultancy fees of the INEDs; and

(v) review of the provision of a residence to Mr. Lee Seng Huang under a new tenancy agreement as part of his remuneration package.

Pursuant to Article 97 of the Articles, each Director shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Board. 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. In addition, the annual remuneration payable to members of the senior management by band and of the five highest paid individuals in the Group 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 page 21.

After the end of the reporting period, a Remuneration Committee meeting was held to review the policy and structure of the Directors' remuneration, and the remuneration packages of the Directors. The Remuneration Committee recommended to the Board for approval the following:

(i) the payment of discretionary bonuses for the year 2016 to the three Executive Directors:

- HK$30,500,000 in cash to Mr. Lee Seng Huang ("Mr. Lee");
- HK$2,500,000 in cash and such number of shares of the Company to be awarded under the EOS equivalent of HK$2,500,000 to Mr. Simon Chow Wing Charn ("Mr. Chow");
- HK$1,650,000 in cash and such number of shares of the Company to be awarded under the EOS equivalent of HK$1,100,000 to Mr. Peter Anthony Curry ("Mr. Curry");

(ii) an increase of 2% to the monthly salary for each of Mr. Lee, Mr. Chow and Mr. Curry commencing from January 2017;

(iii) an increase of HK$20,000 to the consultancy fee of the four INEDs commencing from the year 2017; and

(iv) the director's fee to all the Directors was increased to HK$20,000 per annum commencing from the year 2017.

The Board subsequently approved these recommendations put forward by the Remuneration Committee.

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

Audit Committee

The Audit Committee has been established since April 1985 and currently consists of four INEDs. 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), David Craig Bartlett, Peter Wong Man Kong and Ms. Jacqueline Alee Leung. 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 responsibilities and duties of the Audit Committee are contained in its terms of reference which are available on the websites of the Hong Kong Stock Exchange and the Company.

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, 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 risks management and internal control systems;

(iii) ensure co-ordination between the internal and external auditors; and

(iv) ensure that the internal audit function 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 under the code provision) the policy on the engaging 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 the policy and follow up implementation of the same on a day-to-day basis.

Furthermore, the Board considers that the Audit Committee only possesses the effective ability to scrutinise (as opposed to ensure under the code provision) whether management has performed its duty to have an effective risk management and internal control systems. 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 co-ordination between the internal audit and external auditor, but it can promote the same. Similarly, the Audit Committee cannot ensure that the internal audit function 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 Audit Committee shall meet at least three times a year in accordance with its terms of reference. Three Audit Committee meetings were held in 2016 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 also deals with matters by way of circulation of written resolutions, when necessary. The work performed by the Audit Committee in 2016 and up to the date of this report is summarised as follows:

(i) consideration and approval of the terms of engagement and fees proposed by the external auditor regarding the interim results review for the six months ended 30 June 2016 and the final audit of the Group for the year ended 31 December 2016;

(ii) review of the reports from the external auditor, management representation letters in relation to the final audit of the financial statements of the Group for the years ended 31 December 2015 and 2016;

(iii) review of the reports from the external auditor and management representation letters in relation to the interim results review of the financial statements of the Group for the six months ended 30 June 2016;

(iv) review of the financial reports of the Company for the years ended 31 December 2015 and 2016, and for the six months ended 30 June 2016, with a recommendation to the Board for approval;

(v) review of the internal audit review reports by the internal audit function and discussed the risk management and internal control issues of the Group;

(vi) review of the 2017 internal audit plan;

(vii) consideration of the enhanced auditor's report/ key audit matters (KAMs) applicable to the financial statements of the Group for the year ended 31 December 2016; and

(viii) review of the updated reports on substantiation of the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions and their training programmes and budget, with a recommendation to the Board for approval.

Executive Committee

The Executive Committee (the "Exco") has been established since November 1983 and currently consists of three Executive Directors, being Messrs. Lee Seng Huang (chairman), Simon Chow Wing Charn 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 terms of reference of the Exco.

The Exco is mainly responsible for undertaking and supervising the day-to-day management of the Group, 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") has been established since January 2007 and currently consists of three Executive Directors, being Messrs. Simon Chow Wing Charn (chairman), Lee Seng Huang and Peter Anthony Curry.

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 setting up committee(s) and supervision by division/department heads, adequate review, assessment, and monitoring the risks which may be encountered by the Group and the effectiveness of the Group's systems of risk management and internal controls, including but without limiting 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 function 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 of the results of monitoring to the Board enabling it and Audit Committee to develop a cumulative assessment of the state of control in the Group and the effectiveness with 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 any applicable laws, regulations, regulatory guidelines/codes; significant internal policies, 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 will normally meet quarterly or as directed by the chairman of the RMC. Four meetings of the RMC of the Company were held in 2016 and one meeting was held in March 2017 and the work performed by the RMC during the year and up to the date of this report is summarised as follows:

(i) review of the legal and compliance issues and requirements arising from business activities and regulatory issues;

(ii) monitoring of the market risk and reporting approaches;

(iii) review of the report from an external consultant on the infrastructure and control framework for the Group's principal investments business and its recommendation on the risk management and internal control system;

(iv) review of the terms of reference of an Investment Committee and recommendation to the Exco for approval;

(v) review of the portfolio management system of KIMA Pan Asia Offshore Fund and its IT infrastructure support;

(vi) review of the Operational Procedures Manual of PI and the Valuation Policy and Procedures of the Company with a recommendation to the Board for adoption;

(vii) review of the risk management reports from UAF and Sun Hung Kai Credit Limited;

(viii) review of the Foreign Exchange Risk Management Policy, with a recommendation to the Exco for approval; and

(ix) control and review of the completed responsibility statements from the relevant business units and department heads regarding their risk, compliance and internal control procedures for the financial year ended 31 December 2016.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility, with the support of the Finance Department, for preparing the consolidated financial statements of the Group. In preparing the consolidated financial statements for the year ended 31 December 2016, 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, and made judgments and estimates that are prudent and reasonable, and have ensured that the consolidated 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 66 to 73.

External Auditor's Remuneration

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

Services rendered for the Group	Fees paid (HK$ Million)
Audit services	8.1
Non-audit services (taxation and other professional services)	3.5
Total	**11.6**

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the establishment and maintenance of sound and effective risk management and internal control systems to safeguard the Group's corporate interests.

Since its establishment in 2007, the Group's Risk Management Committee ("RMC") has been delegated with the responsibility to assist the Board to review, assess and monitor the various risks which may be encountered by the Group and the effectiveness of the Groups' risk management system. The functions and compositions of the RMC are set out in the "Board Committees" section in the earlier part of this report.

The Group's risk management and internal control systems are designed 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 are set out in the "Principal Risks, Relevant Laws and Regulations" section under "Management Discussion and Analysis" and in Note 42 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 its independent control functions e.g. internal audit. Together with the RMC, 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 ("Group CFO"). It provides an independent and objective assurance and internal consultancy service to safeguard the Group's operations. It effectuates a systematic and disciplined approach to evaluate and improve the Group's process on risk management, internal control and governance. The audit plans are risk-based to ensure that 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 Audit Committee, relevant senior management and division/department heads.

Each year, a Group-wide self-assessment is conducted on the effectiveness of the risk management and 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 Group CFO who reports directly to the Group Executive Chairman. The results and findings are reported to the RMC, Audit Committee and the Board which have been considered effective and adequate. Other monitoring and review on risk exposures to formulate risk management policies is also co-ordinated by the Group CFO.

Management reviews are conducted on new processes and systems to ensure that policies and procedures are updated in accordance with the ever changing risk-related environment. The Group also engages external consultants on an ad-hoc basis to perform independent reviews covering significant parts of the Group's operations.

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

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 Group Executive 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 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 2016, 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. Having made specified enquiries of all the Directors, they have confirmed 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 to possess inside information in relation to the Company or its securities.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with Shareholders. Information in relation to the Group is disseminated to 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 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 2016 AGM was held on 25 May 2016 and six out of eight Directors attended the meeting. For details, please refer to the attendance record of the Directors set out in the section headed "Board Process" of this report.

Separate resolutions are proposed at the AGM, including the re-election of retiring Directors.

Notice of meetings to 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 Shareholders at the commencement of the meeting. The chairman of the meeting answers questions from 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.

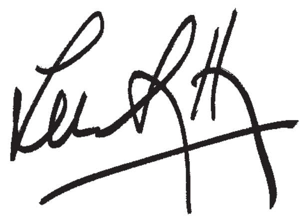
Shareholder(s) representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings of the Company can request to convene an extraordinary general meeting according to Article 67 of the Articles and Section 566 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong). The business proposed to be transacted at the meeting must be stated in the related requisition which must be signed and deposited at the registered office of the Company. Besides, Shareholders may make a proposal at a Shareholders' meeting by submitting it in written form of a proposed resolution to the Board at the registered office of the Company, which shall clearly and concisely set out the proposal for discussion and be relevant to the Company's business scope.

The Board has adopted a shareholders' communication policy since March 2012 and subsequently updated in November 2016. Shareholders may make reasonable enquiries to the Company for information regarding the Company which has been made publicly available. Such enquiries 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, Shareholders can contact Tricor Secretaries Limited, the share registrar of the Company, for any questions about their shareholdings.

CORPORATE GOVERNANCE ENHANCEMENT

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, 22 March 2017

Environmental, Social and Governance Report

APPROACH AND STRATEGY

At Sun Hung Kai & Co. Limited, we believe in delivering long term, sustainable value creation to our shareholders. In doing so, we recognize that the choices we make will have an impact on the communities in which we carry on our business and we should make it a positive one. We are committed to contributing to the sustainable development of society and the environment, and endeavour to embrace these principles as part of our practice and governance which cover the area of employment and labour practices, business integrity, the environment and the community.

This report outlines the Group's sustainability initiatives and selected Key Performance Indicators ("KPI") that are material to the Group and its stakeholders on Environmental, Social and Governance ("ESG") issues for the year ended 31 December 2016. This report supplements information disclosed in this Annual Report.

REPORTING SCOPE

Unless otherwise stated, the information in this report covers the operations of the following units and their subsidiaries in Hong Kong and Mainland China for the year ended 31 December 2016:

Sun Hung Kai & Co. Limited ("SHK&Co")
United Asia Finance Limited ("UAF")
Sun Hung Kai Credit Limited ("Sun Hung Kai Credit")

The subject areas and aspects are presented based on the "Environmental, Social and Governance Reporting Guide" for listed issuers published by The Stock Exchange of Hong Kong Limited (the "ESG Reporting Guide").

MATERIALITY ASSESSMENT AND STAKEHOLDER ENGAGEMENT

Amongst various environmental and social issues based on the ESG Reporting Guide, the below are the list of issues that are considered to be material and relevant to the Group. The priorities are set based on management's view as well as certain conclusions from our stakeholders' engagement. We regularly engage key stakeholders in daily operations through meetings, events, and other communication and feedback channels. A survey was also conducted with a sampling of staff from various departments (including customer relationship management which represents the customers' perspective) and shareholders to understand their specific views on the relevance and materiality of various ESG aspects. Based on management's assessment as well as the survey results, the aspects and KPIs relevant to this report's disclosure are set out as follows:

Material and relevant issues:

Supply chain management (Aspect B5) general disclosure, KPI B5.1, B5.2
Anti-corruption (Aspect B7) general disclosure, KPI B7.2

Other relevant issues:

Emissions (Aspect A1) general disclosure
Use of resources (Aspect A2) general disclosure, KPI A2.1
The Environment and natural resources (Aspect A3) general disclosure, KPI A3.1
Employment (Aspect B1) general disclosure
Health and safety (Aspect B2) general disclosure
Development and training (Aspect B3) general disclosure, KPI B3.1, B3.2
Labour standards (Aspect B4) general disclosure
Product responsibility (Aspect B6) general disclosure, KPI B6.2, B6.5
Community investment (Aspect B8) general disclosure, KPI B8.1, B8.2

All other KPIs not mentioned above were considered to be not relevant for detailed disclosure.

The following ESG issues are presented based on the classification of provisions by the ESG Reporting Guide.

A. ENVIRONMENTAL ISSUES

The Group's Sustainability Policy encompasses our general approach towards environmental issues. We endeavour to:

- observe relevant laws and regulations and aim to go beyond minimum requirements;
- prevent/minimize air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste;
- make efficient use of resources, including energy, water and other raw materials;
- minimise the impact of the Group's activities on the environment and natural resources; and
- engage our staff, customers and partners to promote green business practices and constantly re-assess our processes to minimize environmental impact.

Emissions (Aspect A1)

The Group is not involved in any manufacturing activities. Emissions produced directly by the Group only related to the executive passenger vehicles (15) and company boats (3) in Hong Kong and Mainland China. These are used for senior staff's local travel only as well as for entertainment. The scale and usage is immaterial given the size of the Group's assets and staff.

Other emissions produced are mostly on a "second degree" basis as incurred during occasional business travels which is infrequent.

The Group's investment and finance businesses are mostly carried out locally in offices and customer services branches in Hong Kong and Mainland China, or online. In line with our policy to minimize air and greenhouse gas emissions, the head offices in each city are equipped with video conferencing facilities to minimize the need for face to face meetings and keep business travelling to a minimum. Only a small percentage of employees travel for business.

There are no relevant laws and regulations applicable to our business on this aspect.

Use of Resources (Aspect A2), and The Environment and Natural Resources (Aspect A3)

We place a high priority on the efficient use of resources. With 4,317 staff across the Group, we consume considerable amounts of electricity and paper and with the efficient use of such, we hope to minimize our impact on the environment whilst we grow our businesses. Water consumption is not relevant to our business as it relates only to the personal consumption of our staff for their personal hygiene.

Environmental protection guidelines in relation to energy savings and reduction in paper consumption are circulated to all staff at head office and branches. For instance, staff are reminded to switch off lights and equipment after work, during lunch break or during the time working outside the office and wherever possible. Energy efficient office equipment is always preferred in making purchase decisions. During 2016, the Group's total electricity consumption was approximately 5.6 million kwh.

In Hong Kong, UAF joined the "Charter on External Lighting" (the "Charter") launched by the Environment Bureau on 1 April 2016 and the external lighting of advertising and shop signage be switched off after midnight. The purpose of the Charter is to minimize light nuisance and energy wastage.

Throughout the Group, many business processes were implemented to improve efficiency and to reduce paper usage.

Increasingly paper usage is being reduced with more use of on-line or mobile loan applications channels. For instance, at UAF where the largest number of loans are processed, 42% of new loans by the number of accounts, or 35% by value, were originated through these electronic channels in 2016.

With effect from 1 October 2016, paper statements are being replaced by electronic statements through either email or mobile apps for all types of revolving loan accounts. Starting from 1 January 2017, a service fee of HK$20 was charged to customers requesting paper monthly statements with an aim to reduce paper usage.

Document Management Systems ("DMS"), web-based application systems which facilitate the storage, retrieval and management of documents, are used extensively by UAF and Sun Hung Kai Credit during business process, especially for the management of the large amounts of loan documents. The DMS allows staff to retrieve documents efficiently through designated PC terminals and reduces paper usage as the documents can be viewed on screen.

The Group also actively participates in recycling schemes. Old computers, printers, and toner cartridges are returned to suppliers.

In addition, an electronic platform is used by UAF and Sun Hung Kai Credit for internal administration and effective communication with all staff at head office and our extensive branch network. Staff can easily access company internal circulars, the employee handbook, relevant company policies, lending guidelines, as well as e-learning materials. In addition, an HR e-platform has been adopted by UAF and Sun Hung Kai Credit to enable staff to complete online enrolment for training/staff activities and evaluation survey to replace paper usage in connection with such activities.

At SHK&Co corporate offices, a new e-platform was also deployed during the year to gradually phase out the use of paper forms for internal administration. Since June 2013, electronic board papers were implemented, improving Board efficiency whilst saving papers. Our annual reports were printed on wood-free paper and lower "gsm" (grams per square meter) than the previous years to compensate for increased content.

Except for the abovementioned, the Group's business has no direct impact on the environment and natural resources other than the consumption of electricity and papers as detailed above.

B. SOCIAL ISSUES

Employment, Health and Safety and Labour Standards (Aspect B1, B2, B4)

Being in the financial services industry, our people are our most important asset that drives the long-term development and sustainability of the Group. The Group's policy on employment is as follows:

- observing relevant laws and regulations;
- being an equal-opportunity employer, implementing fair practices relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare for our staff;
- providing a safe, healthy and quality workplace and protecting employees from occupational hazards;
- promoting a good work-life balance for staff;
- investing in training and professional development of our staff for the purpose of improving their knowledge and skills for discharging duties at work;
- maintaining an open dialogue with our staff, facilitating a transparent two way communication; and
- no child and forced labour.

In Hong Kong, the Group's employment of staff is governed by the Employment Ordinance, the Minimum Wage Ordinance, as well as the Employees' Compensation Ordinance. In Mainland China, staff employment is subject to the Labour Contract Law of the People's Republic of China ("中華人民共和國勞動合同法"). The Group has no known non-compliance with the above relevant regulations.

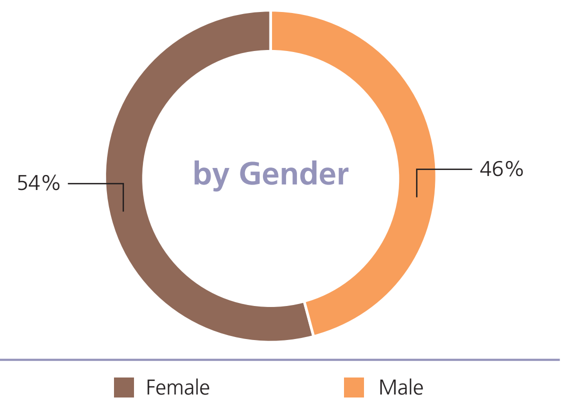
Our compensation and benefits (including working hours, rest periods, welfare) need to be competitive with other peers in the financial services sector and in general far exceeds the minimum as required by the relevant regulations. Owing to the nature of our businesses, work related injuries, occupational health issues and the incurrence of child labour are not significant risk factors.

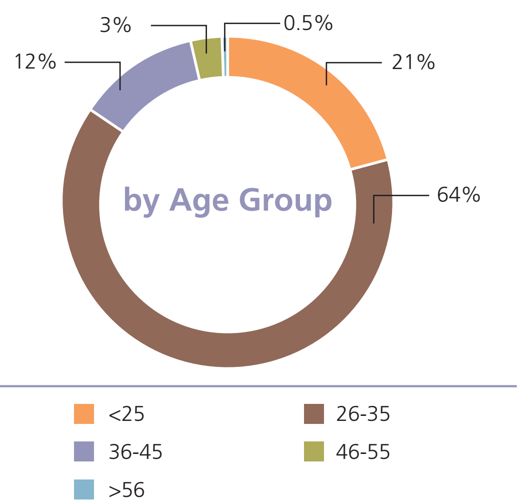
Further information on the Group's human resources is also detailed in the Management Discussion and Analysis section of this Annual Report.

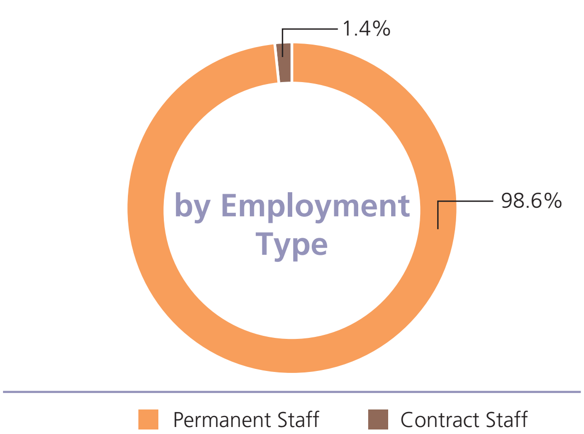
The Group endeavours to provide a safe and pleasant working environment for our staff. On top of this, well-being programs such as those promoting a good work-life balance are offered regularly to staff such as the handling of stress and parenting skills. The Group also sponsors and organizes various company teams across the Group for team sports and community service. Sports teams include dragon boating, soccer, and basketball to name a few. Staff magazines are published to share Group, industry and staff news and to promote internal communication.

As at 31 December 2016, the Group employs a total of 4,317 staff, compared against 5,850 at the end of 2015 as UAF consolidated its consumer finance branches in Mainland China.

Staff Breakdown (2016)







Human Resources and sustainability related awards:

- Good MPF Employer Award 2014-2016 (SHK&Co)
- Caring Company Award 2005-2017 (UAF); 2016-2017 (SHK&Co)
- Partner Employer Award 2016-2017 (UAF)
- ERB Manpower Developer Award Scheme 2012-2018 (UAF)
- Social Capital Builder Award 2017 (UAF)
- Hong Kong Outstanding Corporate Citizenship Awards 2016 (UAF)
- The Young Entrepreneurs Development Council's Life Planning Co-operation Award 2015-2016 (UAF)

Development and Training (Aspect B3)

The Group is committed to fostering a culture of continuous learning in our organisation. Heavy emphasis is placed on staff training which is tailored to equip our workforce with the necessary knowledge and skills relevant to their work, as well as to build our talent pool. Management is involved, together with professional trainers, in designing training programmes that meet the demands of the work place. Training content and topics are set to cover the key aspects of our operations. These include:

Compliance and regulatory – general compliance, market and regulatory updates, prevention of bribery, bankruptcy laws, data privacy, the Money Lender's Ordinance.

Management skills and personal – leadership skills, supervisory skills, KPI setting, communication and interpersonal skills, creative thinking and problem solving skills, self-development skills.

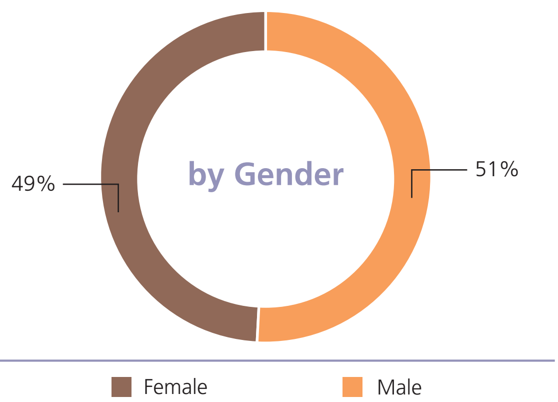
Job skills – language skills, computer skills, debt collection skills, customer service skills.

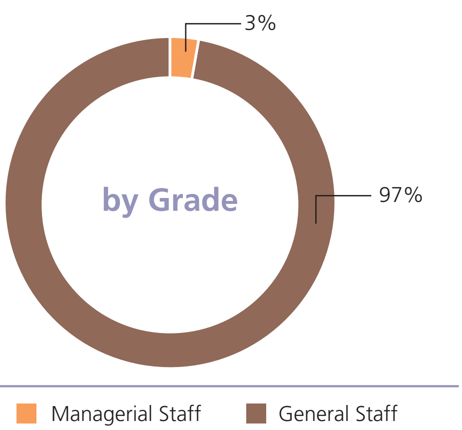
UAF has a comprehensive graduate training programme to train up talented university graduates for advancing to future management team. The 25-month program trains the graduate trainees on their knowledge and skill sets for consumer financing industry.

On top of internal training, UAF also provides a study subsidy for staff to advance their education after office works. UAF Hong Kong has received the honour of "Manpower Developer" from the Employees Retraining Board every year since 2012.

Staff training across the Group amounted to a total of 108,675 hours in total.

Training hours breakdown (2016)





Supply Chain Management (Aspect B5)

The Group's general business suppliers include providers of information technology and communication, premises, legal and other business services as well as vendors for office supplies. These are not considered to pose significant social risks for our business and procurement decisions are based on pricing, suitability as well as the general reputation of suppliers.

For UAF and Sun Hung Kai Credit businesses specifically, external debt collection agents are engaged only after internal collection efforts have failed to collect overdue debts. More than 20 and 35 of such agents were engaged by the businesses in Hong Kong and Mainland China respectively. UAF and Sun Hung Kai Credit both have well-defined policies and procedures for the selection, monitoring of their debt collection agents. The agents are selected carefully based on track record of good practices and reputation. They are required to abide by a Code of Conduct and are subject to benchmarking, audits and rotation. As UAF and Sun Hung Kai Credit do not sell their receivables, they can retain control over the collection process. Under the Code of Conduct, the agents shall not:

– sub-contract or delegate the whole or any part of their duties under the debt service agreement with UAF and Sun Hung Kai Credit;
– violate the relevant laws and regulations; and
– engage in any action or conduct which is prejudicial to the business, integrity, reputation or goodwill of UAF and Sun Hung Kai Credit.

As part of monitoring these agents, regular surveys with customers and the general public are conducted for feedback. During 2016, complaints received on debt collection amounted to 0.01% of the UAF's and Sun Hung Kai Credit's customer base. We understand that this is a very low ratio by industry standards according to management's knowledge. Over the years, UAF's market share by customer numbers (outside of banks) in Hong Kong continued to lead as a result of its solid reputation.

Product Responsibility (Aspect B6)

The Group provides loan products to individuals and corporates in Hong Kong and Mainland China. This includes corporate structured loans under the Principal Investments Segment of SHK&Co, consumer finance and small business loans through UAF, as well as mortgage loans through Sun Hung Kai Credit.

In Hong Kong, all the relevant loan businesses above operate under the Money Lenders' Ordinance ("MLO"), being licensed money lenders. In Mainland China, UAF's operations follow the regional guidelines announced by the provincial governments under the Guiding Opinions ("Guiding Opinions") of the China Banking Regulatory Commission and the People's Bank of China ("PBOC") on the Pilot Operation of Small Loan Companies. During the year, there were no known cases of non-compliance with the above laws or regulations.

In Hong Kong, the MLO focuses on borrowers' rights as well as lenders' practices. UAF, as a founding member of the HKSAR Licensed Money Lenders' Association ("LMLA"), has led the drafting of the Code of Practice ("the Code") for the money lending industry. The Code was promoted for application by all the members of the LMLA including UAF and Sun Hung Kai Credit. The Code is a comprehensive framework of market practice and standard, developed based on the Hong Kong Monetary Authority's guidelines to banks, in the various business aspects such as customer relationships, know-your-customer, anti money laundering, credit evaluation, collection and recovery and data privacy. UAF is on the executive committee of LMLA and leads the task force for regular review of the Code. The latest version was released during the year. UAF also holds regular dialogues with the Companies Registry (which reviews the licensing matters of money lenders) to discuss best practices and industry trends.

Across the Group we have approximately 190,000 customers the majority of which is from the UAF business in Hong Kong and Mainland China. As a market leader in Hong Kong, UAF runs an extensive advertising and promotion campaign. Customer relationship programs such as "member-get-members", bonus point schemes are in place. Customers can access UAF's loan services through our extensive branch network, phone application as well as on-line means in Hong Kong such as E-cash Revolving Loans or the mobile app. The Group places a very high priority to uphold customers data privacy. Measures and clear guidelines are in place and observed to ensure customers' adequate data are protected against unauthorised or accidental access, processing or erasure. Appropriate levels of security protection were implemented by adequate physical, electronic and managerial measures to safeguard customers' personal data. In addition, all Hong Kong staff are required to complete a Personal Data Privacy Ordinance e-learning course annually.

Owing to the nature of the consumer finance business where debt collection is involved, reputational risk monitoring and preventions are of utmost importance. At both UAF and Sun Hung Kai Credit, various measures are in place to minimize risks. Results and response to collection efforts are monitored on a timely basis. Dedicated telephone hotlines are set up for customer complaints and dispute resolution. External agents engaged for collection are tightly monitored as discussed above.

Anti Corruption (Aspect B7)

A Whistle Blower Policy has been established to facilitate employees' direct reporting of any unlawful conduct, any incident of corruption, avoidance of internal controls, incorrect or improper financial or other reporting to senior management. This policy is placed on the corporate electronic platform to facilitate employees' easy access and reporting. As part of the financial control practice, the Accounts Department would also review any irregular expenditure to detect any unlawful conduct.

An internal control framework was adopted with stringent policies to undertake vigorous enforcement against corruption. All staff are subject to the provisions of the Prevention of Bribery Ordinance, which require staff not to offer or pay, solicit or accept anything of material value in exchange for some improper advantage from the companies.

All relevant staff in Hong Kong are required to complete Money Laundering & Counter-Terrorist Financing e-learning courses annually. ICAC seminar on anti-corruption is organized periodically for employees.

Community Investment (Aspect B8)

We strive to excel for our customers and undertake the responsibility of a good corporate citizen contributing to the community by encouraging our staff to enroll in charity and social services. The Sun Hung Kai & Co. Foundation (the "Foundation") was established in March 2010. It serves as a platform for the Group and its business associates and partners to support our community, in particular, to improve the lives of the underprivileged. The Foundation's principal interests are in the areas of poverty relief, education and the environment. As we look to the future, we will continue to devote our time, resources and capital to fostering a stronger and sustainable Hong Kong. Sponsored by the Company, the Foundation is an independently registered charity in Hong Kong and made a donation of approximately HK$0.5 million to education related causes during the year.

UAF had a long history of participation in volunteering activities to service our communities. It was also named a "Caring Company" by the Hong Kong Council of Social Service for 11 consecutive years. In 2015, the UAF volunteer team was officially formed. The team participates in community services on a periodic basis to serve with care and concern for the underprivileged, like low-income senior citizens, senior citizens living alone, children with heart diseases etc. As at 31 December 2016, UAF had a total of 53 volunteer members and served a total of 1,040 hours in various community activities during 2016.

The key activities in 2016 included the following:

- Po Leung Kuk Charity Walk
- Low Income Children Birthday Party
- Elderly Lantern Making for Autumn Festival
- Elderly Visit and Gathering – Community Canteen
- Low Income Family Fun Day – Running Family
- Visit to Kunming Children Welfare Institute

The Group's total charitable donations during the year amounted to approximately HK$3.6 million. The recipients included Po Leung Kuk, The Community Chest, The Chinese University of Hong Kong, HK & Macau Taiwanese Charity Fund Limited, Yan Oi Tong Limited, Bosco Charity Association Limited, The Hong Kong Council of Social Service, Corporate Governance Development Foundation Fund Limited and Bring Me a Book Hong Kong Limited.

Apart from charitable activities, the Group is also actively involved in the community via our participation as well as our senior management's roles in industry organisations, schools, chambers and NGOs. By sharing our knowledge and best practices, we aim to contribute to the long-term development of the communities we operate in.

Industry Organisations and NGO Participation

Role of Company/ Senior Management	Organisation
SHK&Co	
Corporate Member and Committee Member	The Chamber of Hong Kong Listed Companies
Corporate Member	The Malaysian Chamber of Commerce (Hong Kong and Macau) Ltd.
UAF	
Founding member, Chairman, Executive Committee Member and Secretary	The HKSAR Licensed Money Lenders' Association
Trustee member	New Asia College, The Chinese University of Hong Kong
Director	Hong Kong and Macau Taiwanese Charity Fund
Director	Shenzhen Microfinance Industry Association
Vice Chairman	Shenyang Micro-credit Company Association
Director	Liaoning Micro-credit Company Association
Director	Chongqing Microcredit Association
Executive Director	Tianjin Association of Micro-credit
Vice Chairman	Yunnan Province Microcredit Association
Director	Dalian Microcredit Association
Director	Wuhan City Association of Microfinance
Director	Hubei Micro-credit Company Association
Director	Heilongjiang Province Association of Microcredit Companies
Vice Chairman	Shandong Micro-credit Association

The board of directors of the Company (the "Board") are pleased to present the 2016 annual report ("Annual Report") and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investing holding. The principal activities of the Company's principal subsidiaries and associates are set out in Notes 23 and 24 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.

The business review of the Group for the year ended 31 December 2016 and further discussion and analysis as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the section of "Financial Highlights", the relevant sections of "Management Discussion and Analysis" and "Environmental, Social and Governance Report" of this Annual Report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2016 are set out in the Consolidated Statement of Profit or Loss.

An interim dividend of HK12 cents per share was paid to the shareholders of the Company on 13 September 2016. The Directors 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 the shareholders 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 per share. Dividend warrants of the second interim dividend are expected to be despatched on 25 April 2017.

INVESTMENT PROPERTIES

Movements in investment properties during 2016 are detailed in Note 18 to the consolidated financial statements.

PROPERTY AND EQUIPMENT

Movements in property and equipment during 2016 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 approximately HK$3.6 million.

SHARE CAPITAL AND SHARES ISSUED

Details of the movements in share capital of the Company during the year are set out in Note 37 to the consolidated financial statements.

DEBENTURES

The Group has issued the following debentures and remained outstanding at the end of the year.

– US$234.5 million 6.375% Guaranteed Notes due 2017 issued under its US$2 billion Guaranteed Medium Term Note Programme which was listed on 27 September 2012 (stock code: 4567) by Sun Hung Kai & Co. (BVI) Limited ("SHK BVI"), a company incorporated in the British Virgin Islands and is a wholly-owned subsidiary of the Company.

– US$60 million 3% Guaranteed Notes due 2017 were further issued under its US$2 billion Guaranteed Medium Term Note Programme by SHK BVI on which was listed on 28 March 2014.

– US$361.6 million 4.75% Guaranteed Notes due 2021 were further issued during the year under its US$2 billion Guaranteed Medium Term Note Programme by SHK BVI which was listed on 1 June 2016 (stock code: 5654).

– RMB500 million 6.9% Guaranteed Notes due 2018 issued under the US$3 billion Medium Term Note Programme by UA Finance (BVI) Limited (a company incorporated in the British Virgin Islands and an indirect non wholly-owned subsidiary of the Company) which was listed on 2 May 2013.

For further details of the abovementioned issued Notes, please refer to Note 36 to the consolidated financial statements. Save as disclosed above, the Group has not issued any debentures during the year.

RESERVES

Details of the movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity and Note 45 to the consolidated financial statements.

DIRECTORS

The directors of the Company (the "Directors") during the year and up to the date of this report comprises:

Executive Directors

Lee Seng Huang *(Group Executive Chairman)*
Simon Chow Wing Charn
Peter Anthony Curry
Joseph Tong Tang *(resigned on 25 January 2016)*

Non-Executive Directors

Jonathan Andrew Cimino
(appointed on 25 January 2016)
Joseph Kamal Iskander
(alternate to Mr. Jonathan Andrew Cimino)
(resigned on 22 March 2017)
Ahmed Mohammed Aqil Qassim Alqassim
(resigned on 25 January 2016)
Joseph Kamal Iskander
(alternate to Mr. Ahmed Mohammed Aqil Qassim Alqassim)
(ceased on 25 January 2016)

Independent Non-Executive Directors ("INEDs")

David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
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, and eligible for re-election, at each Annual General Meeting of the Company ("AGM").

Accordingly, pursuant to the Article 103 of the Articles, Mr. Lee Seng Huang, Mr. David Craig Bartlett and Ms. Jacqueline Alee Leung, the Directors being the longest in office since their last election, will retire at the forthcoming AGM, and being eligible, offer themselves for re-election at the AGM.

A list of names of all the directors who have served on the boards of directors of the Company's subsidiaries during the year is available on the website of the Company under the "Corporate Governance" section.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election or election (as the case may be) at the forthcoming AGM has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS

As at 31 December 2016, the interests of Directors in the shares of the Company, 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 of the Company (the "Shares"), the underlying Shares and debentures

Name of Directors	Capacity	Number of Shares, underlying Shares and debentures	Approximate % of the total number of issued Shares
Lee Seng Huang	Interests of controlled corporation *(Note 1)*	1,233,578,575 *(Note 2)*	56.24%
Simon Chow Wing Charn	Beneficiary of trust	552,000 *(Note 3)*	0.02%
Peter Anthony Curry	Beneficiary of trust	341,000 *(Note 4(a))*	0.01%
	Beneficial owner	684,141 *(Note 4(b))*	0.03%
	Beneficial owner	1 *(Note 4(c))*	n/a

Notes:

1. Mr. Lee Seng Huang, a Director, together with Mr. Lee Seng Hui and Ms. Lee Su Hwei are the trustees of Lee and Lee Trust, being a discretionary trust. The Lee and Lee Trust controls approximately 74.49% of the total number of shares of Allied Group Limited ("AGL") (inclusive of Mr. Lee Seng Hui's personal interest) and was therefore deemed to have interests in the Shares in which AGL was interested.

2. This refers to the deemed interests in 1,233,578,575 Shares held by Allied Properties (H.K.) Limited ("APL").

3. This refers to the deemed interests in 552,000 unvested Shares granted to Mr. Simon Chow Wing Charn on 15 April 2016 under the SHK Employee Ownership Scheme (the "EOS") and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 184,000 Shares) shall be vested and become unrestricted from 15 April 2017; another one-third thereof shall be vested and become unrestricted from 15 April 2018; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2019.

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

   (i) 26,000 unvested Shares out of the total of 78,000 Shares granted to Mr. Peter Anthony Curry ("Mr. Curry") on 16 April 2014 under the EOS 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 2015; another one-third thereof was vested and became unrestricted from 15 April 2016; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2017;

   (ii) 78,000 unvested Shares out of the total of 117,000 Shares granted to Mr. Curry on 21 April 2015 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 39,000 Shares) was vested and became unrestricted from 15 April 2016; another one-third thereof shall be vested and become unrestricted from 15 April 2017; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2018; and

   (iii) 237,000 unvested Shares granted to Mr. Curry on 15 April 2016 under the EOS and was subsequently accepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 79,000 Shares) shall be vested and become unrestricted from 15 April 2017; another one-third thereof shall be vested and become unrestricted from 15 April 2018; and the remaining one-third thereof shall be vested and become unrestricted from 15 April 2019.

   (b) This includes 682,000 Shares granted to Mr. Curry under the EOS that were vested, became unrestricted and the title of which was transferred to him. The balance represents the Shares received by Mr. Curry by the allotment of scrip shares pursuant to the previous scrip dividend scheme of the Company.

   (c) This represents the interest held by Mr. Curry in the 4.75% Guaranteed Notes due 2021 issued by SHK BVI in the amount of US$200,000.

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

Name of Directors	Associated corporations	Capacity	Number of shares and underlying shares	Approximate % of the total number of the relevant shares
Lee Seng Huang *(Note 1)*	AGL	Trustee (other than a bare trustee) *(Note 2)*	131,706,380	74.48%
	APL	Interests of controlled corporation *(Note 3)*	5,381,039,521 *(Note 4)*	78.99%
	SHK Hong Kong Industries Limited ("SHK HK Ind")	Interests of controlled corporation *(Note 5)*	3,082,889,606 *(Note 6)*	74.97%

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, 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 Seng Huang'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 February 2017.

2. Mr. Lee Seng Huang is one of the trustees of Lee and Lee Trust, being a discretionary trust which indirectly controlled 131,706,380 shares of AGL.

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

4. This includes the interest in (i) 5,108,911,521 shares of APL which were held 968,354,880 directly and 4,140,556,641 indirectly by AGL and (ii) 272,128,000 shares of APL which were held indirectly by certain wholly-owned subsidiaries of the Company as holders of pledged shares.

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

6. This refers to the interest in 3,082,889,606 shares of SHK HK Ind.

All interests stated above represent long positions. As at 31 December 2016, none of the Directors held any short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations.

Save as disclosed above, as at 31 December 2016, 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 Hong Kong Stock Exchange (the "Listing Rules").

SHK EMPLOYEE OWNERSHIP SCHEME

On 18 December 2007 (the "Adoption Date"), the Company adopted the EOS to recognise the contributions by any employee or director of the Group (the "Selected Grantees") 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 awarded 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) respectively of the total number of Shares in issue as at the Adoption Date.

During the year, a total of 834,000 Shares (2015: 282,000 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 in various vesting periods. A total of 872,000 Shares (2015: 1,581,000 Shares) were vested during the year.

Since its adoption, a total of 15,229,000 Shares have been awarded up to the date of this report, representing about 0.91 per cent of the total number of Shares in issue as at the Adoption Date. As at 31 December 2016, the outstanding awarded Shares under the EOS (excluding Shares awarded, but subsequently forfeited) amounted to 1,430,000 Shares, out of which 893,000 Shares were awarded to the Directors.

EQUITY-LINKED AGREEMENTS

Other than the EOS as disclosed above, no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year or subsisted at the end of the year.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

Other than the EOS, at no time during the year was the Company, its holding company or any of their 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 2016, 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"):

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
APL	Interests of controlled corporation *(Note 1)*	1,233,578,575 *(Note 2)*	56.24%
AGL	Interests of controlled corporation *(Note 3)*	1,233,578,575 *(Note 4)*	56.24%
Lee and Lee Trust	Interests of controlled corporation *(Note 5)*	1,233,578,575 *(Note 4)*	56.24%
Dubai Ventures L.L.C ("Dubai Ventures")	Beneficial owner	166,000,000 *(Note 6)*	7.56%
Dubai Ventures Group (L.L.C) ("DVG")	Interests of controlled corporation *(Note 7)*	166,000,000 *(Note 8)*	7.56%
Dubai Group (L.L.C) ("Dubai Group")	Interests of controlled corporation *(Note 9)*	166,000,000 *(Note 8)*	7.56%
Dubai Holding Investments Group LLC ("DHIG")	Interests of controlled corporation *(Note 10)*	166,000,000 *(Note 8)*	7.56%
Dubai Holding (L.L.C) ("Dubai Holding")	Interests of controlled corporation *(Note 11)*	166,000,000 *(Note 8)*	7.56%
Dubai Group Limited ("DGL")	Interests of controlled corporation *(Note 12)*	166,000,000 *(Note 8)*	7.56%
HSBC Trustee (C.I.) Limited ("HSBC Trustee")	Trustee (other than a bare trustee) *(Note 13)*	166,000,000 *(Note 8)*	7.56%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation *(Note 14)*	166,000,000 *(Note 8)*	7.56%
Asia Financial Services Company Limited ("AFSC")	Beneficial owner	341,600,000 *(Note 15)*	15.57%
Asia Financial Services Holdings Limited ("AFSH")	Interests of controlled corporation *(Note 16)*	341,600,000 *(Note 17)*	15.57%
Asia Financial Services Group Limited ("AFSG")	Interests of controlled corporation *(Note 18)*	341,600,000 *(Note 17)*	15.57%
Asia Financial Services Group Holdings Limited ("AFSGH")	Interests of controlled corporation *(Note 19)*	341,600,000 *(Note 17)*	15.57%
CVC Capital Partners Asia Pacific III L.P. ("CVC LP")	Interests of controlled corporation *(Note 20)*	341,600,000 *(Note 17)*	15.57%
CVC Capital Partners Asia III Limited ("CVC Capital III")	Interests of controlled corporation *(Note 21)*	341,600,000 *(Note 17)*	15.57%

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
CVC Capital Partners Advisory Company Limited ("CVC Capital Partners Advisory")	Interests of controlled corporation *(Note 22)*	341,600,000 *(Note 17)*	15.57%
CVC Capital Partners Finance Limited ("CVC Capital Partners Finance")	Interests of controlled corporation *(Note 23)*	341,600,000 *(Note 17)*	15.57%
CVC Group Holdings L.P. ("CVC Group Holdings")	Interests of controlled corporation *(Note 24)*	341,600,000 *(Note 17)*	15.57%
CVC Portfolio Holdings Limited ("CVC Portfolio")	Interests of controlled corporation *(Note 25)*	341,600,000 *(Note 17)*	15.57%
CVC Management Holdings Limited ("CVC Management")	Interests of controlled corporation *(Note 26)*	341,600,000 *(Note 17)*	15.57%
CVC MMXII Limited ("CVC MMXII")	Interests of controlled corporation *(Note 27)*	341,600,000 *(Note 17)*	15.57%
CVC Capital Partners 2013 PCC (acting in respect of its protected cell, CVC Capital Partners Cell FPC) ("CVC Capital Partners 2013")	Interests of controlled corporation *(Note 28)*	341,600,000 *(Note 17)*	15.57%
CVC Capital Partners SICAV-FIS S.A. ("CVC Capital Partners SA")	Interests of controlled corporation *(Note 29)*	341,600,000 *(Note 17)*	15.57%
Ontario Teachers' Pension Plan Board	Beneficial owner	138,035,002 *(Note 30)*	6.29%

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 1,233,578,575 Shares held by APL through AP Emerald.

3. AGL owned approximately 74.99% of the total number of shares of APL and was therefore deemed to have an interest in the Shares in which APL was interested.

4. This refers to the same deemed interests in 1,233,578,575 Shares held by APL.

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. The Lee and Lee Trust controls approximately 74.49% of the total number of shares of AGL (inclusive of Mr. Lee Seng Hui's personal interest) and were therefore deemed to have an interest in the Shares in which AGL was interested.

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

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

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

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

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

11. Dubai Holding owned 99.66% interest in DHIG and was therefore deemed to have an interest in the Shares in which DHIG was interested.

12. DGL, through its wholly-owned subsidiary, owned 49% interest in Dubai Group and was therefore deemed to have an interest in the Shares in which Dubai Group was interested.

13. HSBC Trustee owned 100% interest in DGL and was therefore deemed to have an interest in the Shares in which DGL was interested.

14. HH Mohammed Bin Rashid Al Maktoum owned 97.40% interest in Dubai Holding and was therefore deemed to have an interest in the Shares in which Dubai Holding was interested.

15. This represents an interest in 341,600,000 Shares.

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

17. This refers to the same interests in 341,600,000 Shares held by AFSC.

18. AFSG owned 99.06% interest in AFSH and was therefore deemed to have an interest in the Shares in which AFSH was interested.

19. AFSGH held 100% interest in AFSG and was therefore deemed to have an interest in the Shares in which AFSG was interested.

20. CVC LP owned 88% interest in AFSGH and was therefore deemed to have an interest in the Shares in which AFSGH was interested.

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

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

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

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

25. CVC Portfolio (i) held 81.8% interest in CVC Management (which was the sole limited partner of CVC Group Holdings) and was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested, and (ii) as the general partner of CVC Group Holdings, exclusively managed and controlled CVC Group Holdings, and was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested.

26. CVC Management, as the limited partner of CVC Group Holdings, was therefore deemed to have an interest in the Shares in which CVC Group Holdings was interested.

27. CVC MMXII held 100% interest in CVC Portfolio and was therefore deemed to have an interest in the Shares in which CVC Portfolio was interested.

28. CVC Capital Partners 2013 held 100% interest in CVC MMXII and was therefore deemed to have an interest in the Shares in which CVC MMXII was interested.

29. CVC Capital Partners SA held 100% interest in CVC Capital Partners 2013 and was therefore deemed to have an interest in the Shares in which CVC Capital Partners 2013 was interested.

30. This represents an interest in 138,035,002 Shares.

All interests stated above represent long positions. As at 31 December 2016, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 31 December 2016, the Directors are not aware of any other persons who have interests or short positions in the Shares, underlying Shares or debentures which would require to be disclosed to the Company pursuant to Part XV of the SFO.

INDEMNITY OF DIRECTORS

Pursuant to Article 181 of the Articles and subject to the provisions permitted by the Companies Ordinance, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. A Directors' and Officers' liability insurance policy for the benefit of the Directors and other officers of the Company was in force during the year and up to the date of this report.

CONTINUING CONNECTED TRANSACTIONS

(1) Sharing of Management Services Agreement

As disclosed in the announcement of the Company dated 28 January 2014 and in its annual report for the year 2015, a renewed sharing of management services agreement was entered into between the Company and AGL on 28 January 2014 (the "2014-2016 Agreement") in relation to the provision of management, consultancy, strategic and business advice services by the senior management and the selected staff of AGL (the "Management Staff") to the Group, and the reimbursement of costs payable to AGL for a period of three years from 1 January 2014 to 31 December 2016. Pursuant to the 2014-2016 Agreement, the maximum aggregate amounts set for the three financial years commencing from 1 January 2014 and expiring 31 December 2016 were HK$5.37 million, HK$6.03 million and HK$6.78 million respectively. The total amount paid to AGL under the 2014-2016 Agreement for the year ended 31 December 2016 was HK$8.46 million, which has exceeded the agreed fees payable to AGL of HK$6.78 million. The 2016 annual cap has been exceeded mainly because of the increase in the actual costs of the services provided to the affairs of the Group during the year ended 31 December 2016. The remuneration of certain members of the Management Staff was increased for the year ended 31 December 2016 when compared to the projection made in January 2014.

As disclosed in the announcement of the Company dated 7 February 2017, the supplemental sharing of management services agreement ("Supplemental Agreement") was entered into on 7 February 2017 whereby parties agreed to amend the 2014-2016 Agreement to increase the annual cap of the fees payable to AGL in respect of the management services for the year ended 31 December 2016 from HK$6.78 million to HK$8.46 million. In addition, the 2014-2016 Agreement (as supplemented by the Supplemental Agreement) was further renewed on the same date for a term of three years commencing from 1 January 2017 to 31 December 2019 and the relevant annual cap for each of the three financial years ending 31 December 2019 were set at HK$24 million, HK$26.5 million and HK$29 million respectively (the "Renewed Sharing of Management Services Agreement"). Pursuant to the Listing Rules, details of the continuing connected transactions under the Renewed Sharing of Management Services Agreement shall be disclosed in the next published annual report of the Company.

(2) Leasing Agreements with subsidiaries of Tian An China Investments Company Limited ("TACI")

As disclosed in the joint announcements of the Company and TACI dated 29 January 2014, 23 May 2014, 31 October 2014 and 19 December 2014, and also in the announcement of the Company dated 30 May 2016, the Group has leased the following four premises from subsidiaries of TACI (unless otherwise specifically defined herein, capitalised terms used below shall have the same meaning as those defined in the said announcements):

2.1 Unit 04, 32nd Floor, Dalian Tian An International Building, No. 88 Zhongshan Road, Zhongshan District, Dalian, Liaoning Province, PRC ("Premises I")

Dalian Tian An (a wholly-owned subsidiary of TACI) as lessor and Dalian UAF (a non wholly-owned subsidiary of the Company) as lessee entered into a renewed leasing agreement on 23 May 2014 in relation to the leasing of Premises I (for usage as office premises) for a term from 1 August 2014 to 30 June 2016 with monthly rental of RMB19,004.64 and monthly management fee of RMB4,998.48.

The same parties entered into a renewed leasing agreement on 30 May 2016 in relation to the leasing of Premises I (for usage as office premises) for a term from 1 July 2016 to 30 June 2018 with monthly rental of RMB19,004.64 and monthly management fee of RMB4,998.48.

2.2 Unit 05, 32nd Floor, Dalian Tian An International Building, No. 88 Zhongshan Road, Zhongshan District, Dalian, Liaoning Province, PRC ("Premises II")

Dalian Tian An as lessor and Dalian UAF as lessee entered into a renewed leasing agreement on 23 May 2014 in relation to the leasing of Premises II (for usage as office premises) for a term from 1 August 2014 to 30 June 2016 with monthly rental of RMB26,092.15 and monthly management fee of RMB6,433.68.

The same parties entered into a renewed leasing agreement on 30 May 2016 in relation to the leasing of Premises II (for usage as office premises) for a term from 1 July 2016 to 30 June 2018 with monthly rental of RMB26,092.15 and monthly management fee of RMB6,433.68.

2.3 Units 01-06, 52nd Floor, Dalian Tian An International Building, No. 88 Zhongshan Road, Zhongshan District, Dalian, Liaoning Province, PRC ("Premises V")

Dalian Tian An as lessor and Dalian UAF as lessee entered into a leasing agreement on 29 January 2014 in relation to the leasing of Premises V (for usage as office premises) for a term from 1 January 2014 to 30 June 2016 with total rental over the lease term of approximately RMB6.3 million and monthly management fee of RMB32,842.56.

The same parties entered into a renewed leasing agreement on 30 May 2016 in relation to the leasing of Premises V (for usage as office premises) for a term from 1 July 2016 to 30 June 2018 with monthly rental covering the lease term of RMB179,396.78 and monthly management fee of RMB32,842.56.

2.4 Unit 03, 32nd Floor, Dalian Tian An International Building, No. 88 Zhongshan Road, Zhongshan District, Dalian, Liaoning Province, PRC ("Premises VI")

Dalian Tian An as lessor and Dalian UAF as lessee entered into a leasing agreement on 26 June 2015 in relation to the leasing of Premises VI (for usage as office premises) for a term from 1 June 2015 to 30 June 2016 with monthly rental of RMB14,321.38 and monthly management fee of RMB3,533.08

The same parties entered into a renewed leasing agreement on 30 May 2016 in relation to the leasing of Premises VI (for usage as office premises) for a term from 1 July 2016 to 30 June 2018 with a monthly rental of RMB12,816.85 and monthly management fee of RMB3,160.32.

The maximum aggregate amount set for the transactions in respect of the leasing of the four premises (i.e. Premises I, Premises II, Premises V and Premises VI) for the years ended 31 December 2016, 31 December 2017 and the six months ended 30 June 2018 were RMB3.52 million (equivalent to approximately HK$4.19 million), RMB3.42 million (equivalent to approximately HK$4.07 million) and RMB1.71 million (equivalent to approximately HK$2.03 million) respectively.

The total amount paid to TACI Group in respect of the above four premises for the year ended 31 December 2016 was approximately RMB3.52 million (equivalent to approximately HK$4.19 million).

(3) Leasing arrangement in respect of Allied Kajima Building

3.1 Master Lease Agreement

As disclosed in the announcement of the Company dated 2 December 2015, the Company as the lessee entered into the Renewed Master Lease Agreement with Art View Properties Limited ("Art View"), a joint venture of APL, as the lessor whereby any member of the Group may continue, amend or renew the existing leases or enter into new leases, sub-leases and licenses in relation to Allied Kajima Building with Art View from time to time as are necessary for the future business needs of the Group during the period from 1 January 2016 to 31 December 2017 in accordance with the terms of the Renewed Master Lease Agreement.

The maximum aggregate amount set for the transaction contemplated under the Renewed Master Lease Agreement for the financial years ended 31 December 2016 and 2017 were HK$19.47 million and HK$21.84 million respectively.

The total amount paid to Art View under the Renewed Master Lease Agreement for the year ended 31 December 2016 was approximately HK$17.09 million.

3.2 Sub-tenancy Agreement

As disclosed in the announcement of the Company dated 8 April 2015, UAF (a non wholly-owned subsidiary of the Company) entered into a Renewed Sub-tenancy Agreement on 8 April 2015 with AGL, pursuant to which a portion of 24th Floor of Allied Kajima Building was sub-leased by AGL to UAF for a further term of two years from 1 April 2015 to 31 March 2017.

The maximum amounts set under the Renewed Sub-tenancy Agreement for each of the two years ended 31 December 2016 and for the three months' period ending 31 March 2017 as announced on 8 April 2015 and 2 December 2015 were HK$252,000, HK$256,000 and HK$64,000 respectively.

The total amount paid to AGL under the Renewed Sub-tenancy Agreement for the year ended 31 December 2016 was HK$255,600.

Given that APL is a substantial shareholder of the Company; and AGL, TACI, Dalian Tian An and Art View are all associates of APL under the definition of the Listing Rules, each of AGL, TACI, Dalian Tian An and Art View is regarded as a connected person of the Company under the Listing Rules. As such, the entering into of the 2014-2016 Agreement, the Supplemental Agreement, the leasing agreements (in respect of Premises I, Premises II, Premises V and Premises VI), the Renewed Master Lease Agreement and the Renewed Sub-tenancy Agreement constituted continuing connected transactions for the Company (the "Continuing Connected Transactions") under Chapter 14A of the Listing Rules. In accordance with the requirements of Rules 14A.49 and 14A.71 of the Listing Rules, details of the said Continuing Connected Transactions are included in this report.

The Company's auditor was engaged to report on the Group's Continuing Connected Transactions for the year ended 31 December 2016 in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 an unqualified letter containing its findings and conclusions in respect of the Continuing Connected Transactions in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Pursuant to Rule 14A.55 of the Listing Rules, the INEDs, being Mr. David Craig Bartlett, Mr. Alan Stephen Jones, Ms. Jacqueline Alee Leung and Mr. Peter Wong Man Kong, had 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 or better; and

(iii) according to the respective 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.

CONNECTED TRANSACTIONS

Sale and Purchase Agreements with the subsidiaries of TACI

As disclosed in a joint announcement of the Company and TACI dated 6 May 2016 (the "2016 Joint Announcement") whereby the Company, Boneast Assets Limited ("Boneast"), a direct wholly-owned subsidiary of the Company, as vendor, Shine Star Properties Limited ("Shine Star"), an indirect wholly-owned subsidiary of TACI as purchaser and Hing Yip Holdings Limited ("Hing Yip"), the then indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement on 6 May 2016 ("HY Sale and Purchase Agreement") pursuant to which (i) Boneast agreed to sell and Shine Star agreed to purchase the entire issued share capital of Hing Yip; and (ii) the Company agreed to assign and Shine Star agreed to take as an assignment of the benefits of a shareholder's loan due from Hing Yip to the Company at the aggregate consideration of RMB23.1 million (equivalent to HK$27.6 million).

As also disclosed in the 2016 Joint Announcement, the Company, Boneast as vendor, Shine Star as purchaser and Sing Hing Investment Limited ("Sing Hing"), the then indirect wholly-owned subsidiary of the Company entered into another sale and purchase agreement on 6 May 2016 ("SH Sale and Purchase Agreement") pursuant to which (i) Boneast agreed to sell and Shine Star agreed to purchase the entire issued share capital of Sing Hing; and (ii) the Company agreed to assign and Shine Star agreed to take as an assignment of the benefits of a shareholder's loan due from Sing Hing to the Company at the aggregate consideration of RMB61.2 million (equivalent to HK$73.1 million).

As APL is a substantial shareholder of the Company and also holds more than 30% of TACI, TACI and its subsidiaries (including Shine Star) are connected persons of the Company within the meaning of the Listing Rules. As a result, the transactions under both the HY and SH Sale and Purchase Agreement constituted connected transactions of the Company. Pursuant to Rule 14A.49 of the Listing Rules, details of the transactions are included in this report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group are set out in Note 32 to the consolidated financial statements.

SUBSIDIARIES

Particulars regarding the principal subsidiaries are set out in Note 23 to the consolidated financial statements.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. The information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 27 to 41.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which the Directors or an entity connected with the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

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 2018 but subject to the relevant provisions of the Articles or any applicable laws whereby the Directors shall vacate 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:

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, SHK HK Ind, APAC Resources Limited ("APAC"), TACI and Dan Form Holdings Limited ("Dan Form") 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, trading and investment in securities and financial instruments;

– APL, through certain of its subsidiaries, is partly engaged in the businesses of money lending, property investment, trading and investment in securities in the resources and related industries and financial instruments;

– SHK HK Ind, through certain of its subsidiaries, is partly engaged in the businesses of trading in securities and investment in financial instruments;

– APAC, through certain of its subsidiaries, is partly engaged in the business of money lending, investment and/or trading in listed securities in the resources and related industries;

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

– Dan Form, through certain of its subsidiaries, is partly engaged in the business of property investment.

Although the abovementioned Director has competing interests in other companies by virtue of his shareholding, he will fulfil his fiduciary duties in order to ensure that he 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on the 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 Group's 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.

None of the Directors, their close associates or any shareholders, which to the knowledge of the Directors own more than 5% of the Company's total number of issued Shares, had a beneficial interest in any of the Group's five largest suppliers and customers.

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:

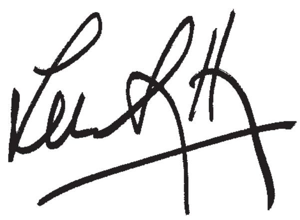
Month	Number of Shares repurchased	Purchase price Highest (HK$)	Lowest (HK$)	Aggregate consideration (before expenses) (HK$)
January	7,278,000	5.00	4.20	32,883,720
February	114,000	4.44	4.30	500,140
March	269,000	4.65	4.52	1,231,390
April	324,000	4.65	4.41	1,474,620
May	12,015,000	4.60	4.48	54,444,050
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.

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, 22 March 2017

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

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 74 to 172, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Valuation of loans and advances to consumer finance customers and term loans	
We identified the impairment assessment of loans and advances to consumer finance customers and term loans as a key audit matter due to application of significant judgement and use of subjective assumptions by management. As disclosed in notes 29 and 30 to the consolidated financial statements, the Group has loans and advances to consumer finance customers of HK$8,273.4 million, after recognising an impairment allowance of HK$909.5 million, and term loans of HK$2,847.9 million, after recognising an individual impairment allowance of HK$0.4 million, as at 31 December 2016. Loans and advances to consumer finance customers, which are individually not significant and assessed not to be impaired individually, are assessed for impairment collectively. The collective impairment allowance for loans and advances to consumer finance customers was based on an evaluation of their collectability with reference to an ageing analysis of the amounts and management judgement. Term loans are assessed for impairment individually. The consideration for an impairment allowance for term loans is done on an individual basis and involves significant management judgement including the determination of the present value of estimated future cash flows taking into account the borrower's financial situation and the net realisable value of the underlying collateral or guarantees received. Please refer to note 4 for the basis of determining the impairment allowances.	Our procedures in relation to the collective impairment of loans and advances to consumer finance customers included: – Obtaining an understanding of and evaluating the methodology and assumptions used by management as well as checking the reasonableness of inputs applied in determining and calculating the collective impairment allowance with reference to the underlying loan data and past collection statistics of respective loan portfolios; and – Testing the mathematical accuracy of the collective impairment assessment based on the input data. Our procedures in relation to the individual impairment assessment of the term loans included: – Obtaining an understanding from management of the established policies and procedures on credit risk approval and monitoring; – On a sample basis, evaluating management's assessment of the credit quality of the borrowers by examining the credit files, including overdue records, the borrowers' financial information and other relevant information, and checking the existence and recoverable amount of the collateral and the charge over the collateral, as applicable; and – For those term loans with impairment indicators, checking on a sample basis management's computations of the recoverable amounts and the impairment allowance.

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Valuation of financial instruments classified as level 3 under fair value hierarchy	
We identified the valuation of financial instruments classified as level 3 under the fair value hierarchy ("Level 3 financial instruments") as a key audit matter due to the degree of complexity involved in valuing the instruments and the significance of the judgements and estimates made by management. In particular, the determination of unobservable inputs is considerably more subjective given the lack of availability of market-based data. At 31 December 2016, HK$4,817.0 million of the Group's total financial assets (including available-for-sale investments of HK$42.2 million and financial assets at fair value through profit or loss of HK$4,774.8 million) and HK$4.8 million of the Group's total financial liabilities carried at fair value were classified as level 3 under fair value hierarchy. These include unlisted put right for shares in an associate, unlisted overseas equity securities with a put right for shares and unlisted investment funds with carrying amount at 31 December 2016 of HK$1,052.0 million, HK$826.1 million and HK$2,871.6 million, respectively. Please refer to note 26 to the consolidated financial statements for further details of the valuation technique and unobservable inputs of material Level 3 financial instruments.	Our procedures in relation to the valuation of Level 3 financial instruments included: – Obtaining an understanding of the valuation methodologies and the processes performed by the management with respect to the valuation of Level 3 financial instruments; – For a sample of financial instruments, performing the following procedures, with the assistance of our internal valuation specialist, as appropriate: • Evaluating the appropriateness of the methodologies and valuation techniques used by management for Level 3 financial instruments; and • Assessing the reasonableness and relevance of key assumptions and inputs based on our industry knowledge; – In respect of unlisted put right for shares in an associate and unlisted overseas equity securities with a put right for shares, in addition to the above procedures, testing the mathematical accuracy of the valuation model, with the assistance of our internal valuation specialist; and – In respect of the unlisted overseas investment funds, checking the net asset value against financial information provided by the fund managers.

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of goodwill and intangible assets with indefinite useful lives	
We have identified the impairment assessment of goodwill and intangible assets with indefinite useful lives as a key audit matter due to the inherent subjectivity arising from the significant management judgement involved as stated in note 4. As shown in notes 21 and 20 to the consolidated financial statements, the Group has goodwill and trade mark of HK$2,384.0 million and HK$868.0 million respectively arising from the acquisition of United Asia Finance Limited ("UAF"). The recoverable amount of UAF, a cash-generating unit (consumer finance segment), represents the value in use based on discounted estimated future cash flows over a five-year period. The recoverable amount of UAF was determined to be in excess of its net carrying amount. Further details are shown in note 22 to the consolidated financial statements.	Our procedures in relation to the estimated impairment of goodwill and intangible assets with indefinite useful lives included: – Obtaining an understanding of the valuation methodology and the processes with respect to the valuation of the recoverable amount (which represents the value in use) of UAF; – Evaluating the appropriateness of the valuation methodology and the models used by management, with the assistance of our internal valuation specialist; – Comparing the current year actual cash flows with the prior year cash flow projections and assessing the reasonableness for the changes of those assumptions (e.g. average growth rate on the profit before tax) used in current year; – Assessing the reasonableness of other key inputs used by management (e.g. sustainable growth rate and discount rate) based on our knowledge of the business and industry, with the assistance of our internal valuation specialist; and – Testing the mathematical accuracy of the value in use calculation.

KEY AUDIT MATTERS *(CONTINUED)*

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of interest in an associate	
We identified the estimated impairment of interest in an associate as a key audit matter due to the significant management judgement involved. An interest in associate is required to be tested for impairment whenever there is an impairment indicator. As shown in note 24 to the consolidated financial statements, the Group has 30% equity interest in Sun Hung Kai Financial Group Limited ("SHKFGL"), which is an interest in associate. At 31 December 2016, the net carrying amount of SHKFGL is HK$954.0 million, after impairment of HK$680.2 million. The recoverable amount of the 30% equity interest in SHKFGL is measured at fair value less cost of disposal. Further details are shown in note 11 to the consolidated financial statements. The determination of the recoverable amount of 30% equity interest in SHKFGL involves significant management judgement. The key judgement is considered to be in relation to the determination of the fair value less cost of disposal which is based on the expected future cash flows of SHKFGL and discount rate.	Our procedures in relation to the estimated impairment of interest in an associate included: – Obtaining an understanding of the valuation methodology and the processes applied by management with respect to the valuation of the recoverable amount of 30% equity interest in SHKFGL; – Evaluating the appropriateness of the valuation methodology and the models used by management, with the assistance of our internal valuation specialist; – Assessing the reasonableness of key assumptions and inputs used by management based on our knowledge of the business and industry, with the assistance of our internal valuation specialist; – Testing the mathematical accuracy of the discounted cash flow calculations.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(CONTINUED)*

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Chong Kwok Shing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
22 March 2017

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016

	Notes	2016 HK$ Million	2015 HK$ Million
Continuing operations			
Revenue	5	**3,511.3**	4,174.1
Other gains	7	**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	11	**(1,158.3)**	(1,354.0)
Net gain on financial assets and liabilities	12	**749.9**	1,005.6
Net exchange gain		**9.7**	7.5
Bad and doubtful debts	13	**(895.7)**	(1,570.9)
Finance costs	14	**(488.3)**	(478.8)
Other losses	11	**(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	11	**1,501.6**	973.2
Taxation	15	**(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	43	**—**	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	23	**260.1**	221.8
		1,369.7	4,118.3
Earnings per share	17		
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 HK$ Million	2015 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	18	**1,054.5**	1,027.3
Leasehold interests in land		**4.2**	4.6
Property and equipment	19	**421.9**	478.7
Intangible assets	20	**883.4**	884.5
Goodwill	21	**2,384.0**	2,384.0
Interest in associates	24	**1,086.5**	1,226.3
Interest in joint ventures	25	**227.1**	208.2
Available-for-sale investments	26	**109.5**	104.8
Financial assets at fair value through profit or loss	26	**3,632.9**	3,484.6
Deferred tax assets	27	**652.5**	543.4
Amounts due from associates and joint ventures	28	**248.8**	64.9
Loans and advances to consumer finance customers	29	**2,521.2**	2,741.3
Trade and other receivables	30	**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	26	**2,979.1**	2,245.9
Taxation recoverable		**1.9**	9.6
Amounts due from associates and joint ventures	28	**64.5**	118.7
Loans and advances to consumer finance customers	29	**5,752.2**	6,080.7
Trade and other receivables	30	**3,679.8**	2,008.1
Bank deposits	31	**1,257.7**	1,501.4
Cash and cash equivalents	31	**5,194.5**	5,647.6
		18,929.7	17,612.0
Current Liabilities			
Financial liabilities at fair value through profit or loss	26	**115.3**	177.9
Bank and other borrowings	32	**2,092.6**	2,009.1
Trade and other payables	33	**239.1**	281.3
Amounts due to fellow subsidiaries and a holding company	34	**41.0**	—
Amounts due to associates	34	**1.9**	0.1
Provisions	35	**54.7**	31.8
Taxation payable		**135.3**	200.1
Notes	36	**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

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	**31/12/2016 HK$ Million**	31/12/2015 HK$ Million
Capital and Reserves			
Share capital	37	**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	23	**3,578.8**	3,583.2
Total Equity		**21,655.8**	21,590.8
Non-current Liabilities			
Deferred tax liabilities	27	**195.4**	192.5
Bank and other borrowings	32	**2,717.7**	4,303.6
Provisions	35	**0.2**	0.2
Notes	36	**3,047.4**	3,502.1
		5,960.7	7,998.4
		27,616.5	29,589.2

The consolidated financial statements on pages 74 to 172 were approved and authorised for issue by the Board of Directors on 22 March 2017 and are signed on its behalf by:

Lee Seng Huang
Director

Peter Anthony Curry
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company									
	Share capital 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 2016	8,752.3	(12.6)	6.1	(80.3)	556.8	61.3	8,724.0	18,007.6	3,583.2	21,590.8
Profit for the year	–	–	–	–	–	–	1,109.6	1,109.6	260.1	1,369.7
Other comprehensive income (expenses) for the year (Note 38)	–	–	–	(292.9)	(15.7)	–	10.1	(298.5)	(199.6)	(498.1)
Total comprehensive income (expenses) for the year	–	–	–	(292.9)	(15.7)	–	1,119.7	811.1	60.5	871.6
Acquisition a subsidiary	–	–	–	–	–	–	–	–	2.9	2.9
Disposal of interest in subsidiaries	–	–	–	–	–	–	–	–	(1.2)	(1.2)
Recognition of equity-settled share-based payments	–	–	3.6	–	–	–	–	3.6	–	3.6
Purchase of shares for the SHK Employee Ownership Scheme	–	(1.4)	–	–	–	–	–	(1.4)	–	(1.4)
Vesting of shares of the SHK Employee Ownership Scheme	–	4.9	(4.9)	–	–	–	–	–	–	–
Interim dividends paid	–	–	–	–	–	–	(575.4)	(575.4)	–	(575.4)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(66.6)	(66.6)
Shares repurchased and cancelled	–	–	–	–	–	–	(168.5)	(168.5)	–	(168.5)
Transfer retained earnings to capital reserves	–	–	–	–	–	2.6	(2.6)	–	–	–
At 31 December 2016	8,752.3	(9.1)	4.8	(373.2)	541.1	63.9	9,097.2	18,077.0	3,578.8	21,655.8

Consolidated Statement of Changes in Equity
For the year ended 31 December 2016

	Attributable to owners of the Company									
	Share capital 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 2015	8,752.3	(20.2)	13.3	121.2	454.4	60.8	5,545.2	14,927.0	3,740.3	18,667.3
Profit for the year	–	–	–	–	–	–	3,896.5	3,896.5	221.8	4,118.3
Other comprehensive income (expenses) for the year (Note 38)	–	–	–	(201.5)	102.4	–	0.9	(98.2)	(151.0)	(249.2)
Total comprehensive income (expenses) for the year	–	–	–	(201.5)	102.4	–	3,897.4	3,798.3	70.8	3,869.1
Recognition of equity-settled share-based payments	–	–	0.4	–	–	–	–	0.4	–	0.4
Vesting of shares of the SHK Employee Ownership Scheme	–	7.6	(7.6)	–	–	–	–	–	–	–
Final dividend paid	–	–	–	–	–	–	(314.1)	(314.1)	–	(314.1)
Interim dividends paid	–	–	–	–	–	–	(269.3)	(269.3)	–	(269.3)
Shares repurchased and cancelled	–	–	–	–	–	–	(134.7)	(134.7)	–	(134.7)
Transfer retained earnings to capital reserves	–	–	–	–	–	0.5	(0.5)	–	–	–
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(227.9)	(227.9)
At 31 December 2015	8,752.3	(12.6)	6.1	(80.3)	556.8	61.3	8,724.0	18,007.6	3,583.2	21,590.8

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$ Million	2015 HK$ Million
Operating activities		
Profit for the year	**1,369.7**	4,118.3
Adjustments for:		
— Share of results of associates	**(0.5)**	(2.4)
— Share of results of joint ventures	**55.3**	(40.2)
— Taxation	**131.9**	113.8
— Dividend income	**(17.3)**	(14.9)
— Interest income	**(3,372.5)**	(4,212.7)
— Profit on disposal of subsidiaries	**(18.9)**	(3,033.5)
— Profit on disposal of an associate	**(3.9)**	—
— Profit on disposal of a joint venture	**—**	(5.7)
— Profit on disposal of available-for-sale investments	**—**	(19.0)
— Increase in fair value of investment properties	**(135.5)**	(38.2)
— Expenses recognised for the SHK Employee Ownership Scheme	**2.8**	0.5
— Amortisation of leasehold interests in land	**0.2**	0.2
— Amortisation of intangible assets	**5.6**	18.2
— Depreciation of property and equipment	**55.8**	67.6
— Net loss on disposal/write-off of equipment	**1.1**	3.5
— Impairment loss on available-for-sale investments	**—**	13.8
— Impairment loss on an associate	**141.5**	538.7
— Impairment loss on amounts due from a joint venture	**—**	5.1
— Loss on purchase of bonds issued by the Group	**—**	141.5
— Bad and doubtful debts	**895.7**	1,559.0
— Interest expenses	**481.0**	471.9
— Net fair value gain on financial assets and liabilities	**(825.6)**	(931.2)
— Exchange difference	**(52.6)**	(30.8)
Operating cash flows before movements in working capital	**(1,286.2)**	(1,276.5)
Change in financial assets at fair value through profit or loss	**168.5**	(1,224.0)
Change in amounts due from associates	**56.3**	(35.4)
Change in loans and advances to consumer finance customers	**(460.1)**	996.3
Change in trade and other receivables	**(417.9)**	(1,547.5)
Change in financial liabilities at fair value through profit or loss	**(62.6)**	153.3
Change in trade and other payables	**(36.3)**	1,122.3
Change in amounts due to fellow subsidiaries and a holding company	**41.0**	(8.8)
Change in provisions	**21.1**	(12.1)
Cash used in operations	**(1,976.2)**	(1,832.4)
Dividends received from held for trading investments	**11.1**	7.6
Interest received	**3,344.4**	4,194.1
Interest paid	**(433.2)**	(405.0)
Taxation paid	**(322.8)**	(346.3)
Net cash from (used in) operating activities	**623.3**	1,618.0

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$ Million	2015 HK$ Million
Investing activities		
Purchase of property and equipment	**(28.8)**	(77.8)
Proceeds on disposal of equipment	**0.2**	0.7
Purchase of intangible assets	**(5.5)**	(8.0)
Proceeds on disposal of subsidiaries (Note 43)	**104.1**	3,543.1
Proceeds on disposal of associates	**57.9**	—
Acquisition of a subsidiary	**(39.4)**	—
Repayment from associates	**—**	1,061.4
Capital injection to associates	**(180.8)**	(83.7)
Capital injection to a joint venture	**(23.4)**	(57.7)
Dividends received from associates	**28.4**	—
Dividends received from joint ventures	**11.8**	32.5
Proceeds on disposal of a joint venture	**—**	10.9
Advance to associates	**(199.8)**	—
Advance to joint ventures	**—**	(1.2)
Dividends received from available-for-sale investments	**3.6**	7.3
Purchase of available-for-sale investments	**(5.4)**	—
Proceeds on disposal of available-for-sale investments	**—**	115.0
Purchase of long-term financial assets designated as at fair value through profit or loss	**(253.3)**	(2,297.1)
Proceeds on disposal of long-term financial assets designated as at fair value through profit or loss	**90.2**	189.1
Net payment of statutory deposits	**—**	(5.5)
Payment of deposits for acquisition of property and equipment	**(44.8)**	(1.5)
Fixed deposits with banks placed	**154.2**	(572.9)
Net cash from (used in) investing activities	**(330.8)**	1,854.6
Financing activities		
Net short-term bank and other borrowings repaid	**(2,486.0)**	(3,224.4)
New long-term bank and other borrowings raised	**953.4**	2,570.9
Repayment of long-term bank loans	**(14.0)**	(61.2)
Proceeds from issue of notes	**1,854.8**	—
Repurchase of notes	**(121.1)**	(109.4)
Redemption of notes	**18.5**	—
Purchase of shares for the SHK Employee Ownership Scheme	**(1.4)**	—
Shares repurchased and cancelled	**(168.5)**	(134.7)
Dividends paid	**(575.4)**	(583.4)
Dividends to non-controlling interests	**(66.6)**	(227.9)
Net cash from (used in) financing activities	**(606.3)**	(1,770.1)
Net change in cash and cash equivalents	**(313.8)**	1,702.5
Cash and cash equivalents at 1 January	**5,647.6**	4,051.2
Effect of foreign exchange rate changes	**(139.3)**	(106.1)
Cash and cash equivalents at the end of the year (Note 31)	**5,194.5**	5,647.6

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 section 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 23.

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.

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

Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

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.

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

Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

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*".

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

Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

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.

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

Amendments to HKFRSs that are mandatorily effective for the current year *(continued)*

HKFRS 16 "Leases" (continued)

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 note 39(a). 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. 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 consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap. 622).

(b) Basis of preparation and consolidation

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. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries and the Group's interest in associates and joint ventures. The income and expenses of subsidiaries acquired or disposed of during the year are included in profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a debit balance.

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 profit or loss as incurred.

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;

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(c) Business combinations *(continued)*

— 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 profit or loss 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 profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss 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

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity.

Control is generally accompanied by a shareholding of more than one half of the voting rights. When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

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 Group had directly disposed of the related assets.

(f) Interests in associates and joint ventures

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.

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.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method. Under the equity method, an investment in an associate or a joint venture is initially recognised at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Interests in associates and joint ventures *(continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date in which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities.

When the Group transacts with an associate or a joint venture of the Group, unrealised gains and losses are eliminated to the extent of the Group's interest in the relevant associate or joint venture.

(g) 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 profit or loss 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 profit or loss in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(h) 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 profit or loss on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in profit or loss.

(i) 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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) 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.

(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. Useful lives are also examined on an annual basis and adjustments where applicable are made on a prospective basis. 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 profit or loss when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(k) 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.

"Loans and receivables"

This category includes trade and other receivables, bank deposits, cash and cash equivalents, 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.

(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 profit or loss. Financial assets which are not financial assets at fair value through profit or loss are initially recognised at fair value plus transaction costs.

(iii) 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 profit or loss in the period in which they occur.

"Available-for-sale investments"

Available-for-sale investments are carried at fair value. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the revaluation reserve.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

(iii) Subsequent measurement (continued)

"Loans and receivables"

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

(iv) 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.

(v) Fair value measurement principles

Fair values of quoted investments are based on quoted 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 profit or loss) is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity investments are not reversed through profit or loss.

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.

Individual impairment allowance applies to securities margin financing and 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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

(vi) Impairment (continued)

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 profit or loss.

(l) 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.

(m) Financial liabilities

Financial liabilities at fair value through profit or loss

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 forms 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 profit or loss in the period in which they arise.

Financial guarantee issued

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial guarantee issued for rendering financial guarantee service is initially measured at fair value as represented by the consideration received from the specified customers and the consideration received is recognised as revenue on straight-line basis over the guarantee period. Subsequent to initial recognition, the Group measures the financing guarantee at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less cumulative amortisation recognised in accordance with the Group's revenue recognition policy.

Other financial liabilities

Other financial liabilities including bank and other borrowings, notes, 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 profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(n) 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.

(o) 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 profit or loss net of any reimbursement.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) 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 profit or loss.

(q) 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 interests in subsidiaries, associates and 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.

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 profit or loss, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(q) Taxation *(continued)*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(r) 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.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. 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 reclassified to profit or loss in the period in which the operation is disposed of.

(s) 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 profit or loss in the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(t) 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 profit or loss 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.

(u) 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 profit or loss, with a corresponding adjustment to the employee share-based compensation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(v) 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.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

(i) 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.

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

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

(iv) 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.

(v) Income from rendering financial guarantee services is recognised over the contractual period on a straight-line basis.

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 and term loans to assess whether impairment allowances exist. In determining whether impairment allowances should be recorded in profit or loss, 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.

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

(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 collectability 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.

(c) 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.

(d) Deferred tax

Estimating the amount for recognition of deferred tax assets arising from tax losses and other deductible temporary differences 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 profit or loss for the period in which such a recognition or reversal takes place. While the current financial models indicate that the recognised tax losses and deductible temporary differences can be utilised in the future, any changes in assumptions, estimates and tax regulations can affect the recoverability of this deferred tax asset.

(e) Fair value of derivative and financial instruments

The Group selects appropriate valuation techniques for financial instruments not quoted in an active market. Note 26 provides detailed information about the key assumptions used in the determination of the fair value of material financial instruments.

(f) Estimated impairment of interest in an associate

The Group disposed of 70% interest in a wholly-owned subsidiary Sun Hung Kai Financial Group Limited in June 2015 and classified the remaining 30% equity interest as an associate, the Group's interest in Sun Hung Kai Financial Group Limited is tested for impairment whenever there is an impairment indicator. Determining whether the interest in the associate is 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 recoverable amount is less than expected, an impairment loss may arise.

5. REVENUE

	2016 HK$ Million	2015 HK$ Million
Service and commission income	**99.2**	42.7
Dividends from listed investments	**13.7**	11.4
Dividends from unlisted investments	**3.6**	3.5
Gross rental income from investment properties	**22.3**	22.9
Interest income	**3,372.5**	4,093.6
	3,511.3	4,174.1

During the year, the interest income that was derived from financial assets not at fair value through profit or loss amounted to HK$3,372.5 million (2015: HK$4,089.0 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 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.

6. SEGMENT INFORMATION *(CONTINUED)*

	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	—

6. SEGMENT INFORMATION *(CONTINUED)*

	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.

6. SEGMENT INFORMATION *(CONTINUED)*

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

	2016 HK$ Million	2015 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 HK$ Million	31/12/2015 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

7. OTHER GAINS

	2016 HK$ Million	2015 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

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	2016					
	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
Executive Directors						
Lee Seng Huang (Group Executive Chairman)	0.01	—	8.08	30.50[4]	0.35	38.94
Simon Chow Wing Charn[1]	0.01	—	2.66	2.50[3]	0.13	5.30
Peter Anthony Curry[2]	0.01	—	2.77	1.65[6]	0.20	4.63
Joseph Tong Tang[5]	—	—	0.25	—	0.01	0.26
Non-Executive Directors						
Ahmed Mohammed Aqil Qassim Alqassim	—	—	—	—	—	—
Josephn Kamal Iskander	—	—	—	—	—	—
Jonathan Andrew Cimino	0.01	—	—	—	—	0.01
Independent Non-Executive Directors						
David Craig Bartlett	0.01	0.20	—	—	—	0.21
Alan Stephen Jones	0.01	0.26	—	—	—	0.27
Jacqueline Alee Leung	0.01	0.20	—	—	—	0.21
Peter Wong Man Kong	0.01	0.20	—	—	—	0.21
	0.08	0.86	13.76	34.65	0.69	50.04

1. In March 2017, Awarded Shares with fair value at grant date of HK$2.5 million under the SHK Employee Ownership Scheme is approved to be granted to the director in relation to his performance in 2016.
2. In March 2017, Awarded Shares with fair value at grant date of HK$1.1 million under the SHK Employee Ownership Scheme is approved to be granted to the director in relation to his performance in 2016. In addition, 109,000 shares were vested during 2016.
3. The amount represents an actual cash bonus of HK$2.5 million for the year 2016 (2015: HK$1.7 million).
4. The amount represents an actual cash bonus of HK$30.5 million for the year 2016 (2015: HK$39.5 million which include HK$25.0 million for special completion bonus for the disposal of Sun Hung Kai Financial Group Limited).
5. 80,000 shares under the SHK Employee Ownership Scheme were vested in 2016. He resigned as the director of the Company on 25 January 2016.
6. The amount represents an actual cash bonus of HK$1.65 million for the year 2016 (2015: HK$3.15 million which include HK$1.5 million for special completion bonus for the disposal of Sun Hung Kai Financial Group Limited).

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

The non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries.

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

(a) Directors *(continued)*

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

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.

	2015					
	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
Executive Directors						
Lee Seng Huang (Group Executive Chairman)	0.01	—	7.70	39.50	0.29	47.50
Simon Chow Wing Charn[1]	0.01	—	1.46	1.70	0.07	3.24
Peter Anthony Curry[2]	0.01	—	2.71	3.15	0.13	6.00
William Leung Wing Cheung[3]	—	—	1.82	—	0.09	1.91
Joseph Tong Tang[4]	0.01	—	2.69	—	0.13	2.83
Non-Executive Directors						
Ahmed Mohammed Aqil Qassim Alqassim	0.01	—	—	—	—	0.01
Joseph Kamal Iskander	—	—	—	—	—	—
Ho Chi Kit	—	—	—	—	—	—
Roy Kuan	—	—	—	—	—	—
Leung Pak To	—	—	—	—	—	—
Liu Zheng	—	—	—	—	—	—
Independent Non-Executive Directors						
David Craig Bartlett	0.01	0.19	—	—	—	0.20
Alan Stephen Jones	0.01	0.25	—	—	—	0.26
Jacqueline Alee Leung	0.01	0.19	—	—	—	0.20
Peter Wong Man Kong	0.01	0.19	—	—	—	0.20
	0.09	0.82	16.38	44.35	0.71	62.35

1 In March 2016, Awarded Shares with fair value at grant date of HK$2.55 million under the SHK Employee Ownership Scheme is approved to be granted to the director in relation to his performance in 2015.

2 In March 2016, Awarded Shares with fair value at grant date of HK$1.10 million under the SHK Employee Ownership Scheme is approved to be granted to the director in relation to his performance in 2015. In addition, 184,000 shares were vested during 2015.

3 192,000 shares under the SHK Employee Ownership Scheme were vested during 2015.

4 125,000 shares under the SHK Employee Ownership Scheme were vested during 2015.

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

(b) Highest paid individuals

The five highest paid individuals of the Group include three Directors (2015: two Directors) of the Company. The emoluments of the remaining two (2015: three) highest paid individuals are analysed below:

	2016 HK$ Million	2015 HK$ Million
Salaries, housing and other allowances, and benefits in kind	**10.3**	9.8
Bonuses	**17.7**	27.0
Contributions to retirement benefit scheme	**1.0**	0.9
	29.0	37.7

The above emoluments of the highest paid individual were within the following bands:

Emoluments band (HK$)	**Number of employees**	
	2016	2015
$4,000,001 — $4,500,000	—	1
$5,000,001 — $5,500,000	**1**	—
$5,500,001 — $6,000,000	—	1
$23,500,001 — $24,000,000	**1**	—
$27,500,001 — $28,000,000	—	1

(c) Senior Management

The emoluments of senior management (as described in Profiles of Directors and Senior Management section) were within the following bands:

Emoluments band (HK$)	**Number of employees**	
	2016	2015
$1,000,001 — $1,500,000	**1**	—
$2,500,001 — $3,000,000	—	1
$3,000,001 — $3,500,000	—	1
$23,500,001 — $24,000,000	**1**	—
$27,500,001 — $28,000,000	—	1

No shares was vested and granted for our senior management during year 2016. No dividend payments were paid to senior management during the year (2015: HK$0.13 million).

9. INFORMATION ABOUT MATERIAL INTERESTS OF DIRECTORS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which the Directors or an entity connected with the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

10. 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 employees of the Company's subsidiaries established in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. These subsidiaries are required to contribute certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contributions.

Expenses recognised in profit or loss for the contributions to retirement benefit schemes for the current year amounted to HK$90.1 million (2015: HK$119.6 million). The amount of forfeited contributions utilised in the course of the year ended 31 December 2016 was HK$0.01 million (2015: HK$0.5 million).

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

Under the EOS, which was formally adopted on 18 December 2007, selected employees or directors of the Group (the "Selected Grantees") were awarded shares in the Company. Following management's recommendation, shares were granted to the Selected Grantees subject to various terms including, amongst other things, the vesting scale whereby awarded shares will vest and become unrestricted in various vesting periods.

During the year, 0.8 million shares (2015: 0.3 million shares) of the Company were awarded to Selected Grantees under the EOS. The fair value of the services rendered (by reference to the market value of awarded shares at grant dates) as consideration of the shares awarded during the year was HK$3.8 million (2015: HK$2.2 million) which will be amortised to profit or loss during the vesting period. The amount expensed during the year in respect of shares awarded under the EOS was HK$2.8 million (2015: HK$1.4 million).

11. PROFIT BEFORE TAXATION

	2016 HK$ Million	2015 HK$ Million
Profit before taxation from continuing operations for the year has been arrived at after charging:		
Administrative expenses (note a)	**(1,158.3)**	(1,354.0)
Amortisation of leasehold interests in land	**(0.2)**	(0.2)
Amortisation of intangible assets acquired in business combination included in direct cost and operating expenses	**(4.1)**	(6.3)
Outgoings in respect of rental generating investment properties	**(2.8)**	(0.7)
Outgoings in respect of non-rental generating investment properties	**(0.6)**	(0.4)
Other losses (note b)	**(142.8)**	(702.5)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**(6.3)**	(1.3)
(a) Analysis of administrative expenses:		
Staff costs (including Directors' emoluments)	**(663.9)**	(728.8)
Contributions to retirement benefit schemes	**(90.1)**	(114.8)
Expenses recognised for the SHK Employee Ownership Scheme	**(2.8)**	(1.4)
Total staff costs	**(756.8)**	(845.0)
Auditors' remuneration	**(5.7)**	(6.6)
Depreciation of property and equipment	**(55.8)**	(57.3)
Amortisation of intangible assets — computer software	**(1.5)**	(1.3)
Operating lease rentals	**(153.8)**	(174.5)
Other administrative expenses	**(184.7)**	(269.3)
	(1,158.3)	(1,354.0)
(b) Analysis of other losses:		
Net loss on disposal/write-off of equipment	**(1.1)**	(3.4)
Impairment loss		
— Available-for-sale investments	**—**	(13.8)
— Interest in an associate*	**(141.5)**	(538.7)
— Amount due from a joint venture	**—**	(5.1)
Loss on purchase of bonds issued by the Group	**—**	(141.5)
Loss on disposal of investments	**(0.2)**	—
	(142.8)	(702.5)

* The Group disposed of 70% interest in a wholly-owned subsidiary Sun Hung Kai Financial Group Limited ("SHKFGL") in June 2015 and classified the remaining 30% equity interest as an associate. Affected by the slow recovery of Hong Kong and China stock markets in 2016 after the stock market correction in the second half of 2015, the carrying amount of the 30% equity interest in SHKFGL exceeded the recoverable amount at the reporting date that led to a further impairment loss for the year ended 31 December 2016. The impairment loss was included in Financial Services segment. The recoverable amount was measured at fair value less cost of disposal of SHKFGL. The fair value was measured by discounted cash flow approach at the reporting date using a discount rate of 19.7% (2015: 14.6%). As part of the disposal in 2015, the Group was awarded a put right on the 30% equity interest of SHKFGL. This put right recorded a valuation gain during the period of HK$345.0 million (2015: HK$596.0 million gain) classified under net gain on financial assets and liabilities.

12. 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 **HK$ Million**	2015 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

13. BAD AND DOUBTFUL DEBTS

	2016 **HK$ Million**	2015 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 **HK$ Million**	2015 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)

14. FINANCE COSTS

	2016 HK$ Million	2015 HK$ Million
Interest on the following liabilities		
— Bank loans and overdrafts	**(207.9)**	(233.2)
— Notes	**(273.1)**	(232.3)
	(481.0)	(465.5)
Other borrowing costs	**(7.3)**	(13.3)
	(488.3)	(478.8)

All finance costs were derived from financial liabilities not at fair value through profit or loss for both years.

15. 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.

15. TAXATION *(CONTINUED)*

The taxation for the year can be reconciled to the profit before taxation from continuing operations per the consolidated statement of profit or loss as follows:

	2016 HK$ Million	2015 HK$ Million
Profit before taxation	**1,501.6**	973.2
Less: Share of results of associates	**(0.5)**	(2.4)
Share of results of joint ventures	**55.3**	(38.4)
	1,556.4	932.4
Tax at the Hong Kong profits tax rate of 16.5% (2015: 16.5%)	**(256.8)**	(153.8)
Over provision in prior years	**0.7**	1.1
Tax effect of non-taxable income	**149.0**	206.1
Tax effect of non-deductible expenses	**(37.5)**	(154.1)
Tax effect of unrecognised deductible temporary difference and tax losses	**(3.0)**	(10.2)
Countries subject to different tax rates	**15.7**	27.2
	(131.9)	(83.7)

Deferred tax recognised in other comprehensive income during the year was immaterial (2015: deferred tax of HK$5.0 million arising from the revaluation gain on properties transferred from self-owned properties to investment properties).

16. 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

17. 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 HK$ Million	2015 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 Million Shares	2015 Million Shares
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).

18. INVESTMENT PROPERTIES

	Hong Kong HK$ Million	**PRC** HK$ Million	**Total** HK$ Million
At 1 January 2015	710.0	154.9	864.9
Exchange adjustments	—	(7.7)	(7.7)
Additions	—	16.9	16.9
Transfer from property and equipment	113.0	19.5	132.5
Transfer to property and equipment	—	(17.5)	(17.5)
Change in fair value recognised in profit or loss	46.0	(7.8)	38.2
At 31 December 2015	869.0	158.3	1,027.3
Exchange adjustments	—	(3.0)	(3.0)
Transfer from property and equipment	—	3.7	3.7
Disposal of subsidiaries	—	(109.0)	(109.0)
Change in fair value recognised in profit or loss	136.0	(0.5)	135.5
At 31 December 2016	1,005.0	49.5	1,054.5
Unrealised gains or losses for the year included in profit or loss			
— For 2016	136.0	(0.5)	135.5
— For 2015	46.0	(7.8)	38.2

In determining the fair value of the investment properties, the management of the Group has formed a valuation working group to determine the appropriate valuation techniques and inputs for fair value measurements with the assistance of an independent qualified professional valuer.

The valuation working group works closely with the independent qualified professional valuer to establish the appropriate valuation techniques and inputs to the valuation model, and analyses changes in fair value measurements from period to period.

18. INVESTMENT PROPERTIES *(CONTINUED)*

The fair value of the Group's investment properties at the reporting date have been arrived on the basis of a valuation carried out by Norton Appraisals Limited, an independent qualified professional valuer, not connected with the Group. The fair value was grouped under Level 3. The Group considers that the current use of the properties is to be the highest and best use. The following table provides further information regarding the valuation.

			Input values	
	Valuation technique	**Unobservable inputs**	**2016**	2015
Hong Kong	Investment method	Term yield	**2%**	2.65%
		Reversionary yield	**2.5%**	3.15%
		Monthly market unit rent per gross floor area (sq. ft.)	**HK$41 to HK$65**	HK$58 to HK$71
PRC	Investment method	Term yield	**4.25% to 6.75%**	4.25% to 6.75%
		Reversionary yield	**4.75% to 6.75%**	4.75% to 6.75%
		Monthly market unit rent per gross floor area (sq.m.)	**RMB27 to RMB102**	RMB27 to RMB210

The increase in term yield and reversionary yield would result in a decrease in fair value of the investment properties while the increase in market unit rent would result in an increase in fair value of the investment properties. The Group believes that reasonably possible changes in the input values would not cause significant change in fair value of the investment properties. There was no change in the valuation technique during the year.

18. INVESTMENT PROPERTIES *(CONTINUED)*

Particulars of the investment properties at 31 December 2016 were as follows:

Location	Classification	Term of lease
20-1, 20-2, 20-3, 20-4, 19-1, 19-2, 19-3 &19-4 in Block 2 of No. 101 building, Cuibai Road, Chunhuilu Street, Dadukou District, Chongqing, the PRC	Industrial	2061
Unit 401B, Block 6, Times Centre, No. 160 Zhengyang Road, Chengyang District, Qingdao, the PRC	Commercial	2046
Units 1001-1010 in Block 2-2 of Phase II of Tianjin Tian An Cyberpark, Zhangjiawo, Xiqing District, Tianjin, the PRC	Industrial	2060
2201, 2201A and 2202, 22/F, Tower I, Admiralty Centre, 18 Harcourt Road, Hong Kong	Commercial	2053
4/F, Tower II, 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

At the end of the reporting period, investment properties with a total carrying value of HK$873.0 million (31/12/2015: HK$475.0 million) were pledged as security for the Group's banking facilities.

19. PROPERTY AND EQUIPMENT

	Property	Furniture and equipment	Total
	HK$ Million	HK$ Million	HK$ Million
Cost			
At 1 January 2015	282.8	513.6	796.4
Exchange adjustments	(15.2)	(10.1)	(25.3)
Additions	74.4	71.9	146.3
Disposal of subsidiaries	—	(209.8)	(209.8)
Transfer from investment properties	17.5	—	17.5
Transfer to investment properties	(22.0)	—	(22.0)
Disposals/write-off	—	(14.1)	(14.1)
At 31 December 2015	337.5	351.5	689.0
Exchange adjustments	(21.6)	(14.5)	(36.1)
Additions	—	29.1	29.1
Disposal of subsidiaries	—	(0.7)	(0.7)
Transfer to investment properties	(3.9)	—	(3.9)
Disposals/write-off	—	(7.7)	(7.7)
At 31 December 2016	312.0	357.7	669.7
Accumulated depreciation and impairment			
At 1 January 2015	22.1	326.8	348.9
Exchange adjustments	(0.9)	(5.5)	(6.4)
Depreciation provided for the year	9.6	58.1	67.7
Disposal of subsidiaries	—	(179.8)	(179.8)
Transfer to investment properties	(10.2)	—	(10.2)
Eliminated on disposals/write-off	—	(9.9)	(9.9)
At 31 December 2015	20.6	189.7	210.3
Exchange adjustments	(1.8)	(9.3)	(11.1)
Depreciation provided for the year	9.4	46.4	55.8
Disposal of subsidiaries	—	(0.6)	(0.6)
Transfer to investment properties	(0.2)	—	(0.2)
Eliminated on disposals/write-off	—	(6.4)	(6.4)
At 31 December 2016	28.0	219.8	247.8
Carrying amount at 31 December 2016	284.0	137.9	421.9
Carrying amount at 31 December 2015	316.9	161.8	478.7

The useful lives of the properties are same as the remaining term of the leases that are ranging from 27 to 36 years.

20. INTANGIBLE ASSETS

	Club membership	Exchange participation rights	Computer software: Acquired	Computer software: 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 2015	5.0	2.6	141.8	101.7	875.0	1,154.0	78.0	2,358.1
Exchange adjustments	—	—	(0.6)	—	—	—	—	(0.6)
Additions	—	—	1.4	6.6	—	—	—	8.0
Disposals/write-off	(2.8)	(2.6)	(129.8)	(108.3)	—	—	—	(243.5)
At 31 December 2015	2.2	—	12.8	—	875.0	1,154.0	78.0	2,122.0
Exchange adjustments	—	—	(1.0)	—	—	—	—	(1.0)
Additions	—	—	5.5	—	—	—	—	5.5
At 31 December 2016	2.2	—	17.3	—	875.0	1,154.0	78.0	2,126.5
Accumulated amortisation and impairment								
At 1 January 2015	1.2	1.1	100.8	43.5	7.0	1,154.0	67.6	1,375.2
Amortisation charged for the year	—	—	4.1	7.8	—	—	6.3	18.2
Disposal of subsidiaries	(0.2)	(1.1)	(103.3)	(51.3)	—	—	—	(155.9)
At 31 December 2015	1.0	—	1.6	—	7.0	1,154.0	73.9	1,237.5
Amortisation charged for the year	—	—	1.5	—	—	—	4.1	5.6
At 31 December 2016	1.0	—	3.1	—	7.0	1,154.0	78.0	1,243.1
Carrying amount at 31 December 2016	1.2	—	14.2	—	868.0	—	—	883.4
Carrying amount at 31 December 2015	1.2	—	11.2	—	868.0	—	4.1	884.5

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

	2016 HK$ Million	2015 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 2016 were allocated as follows:

	Goodwill		Trade Mark	
	31/12/2016 HK$ Million	31/12/2015 HK$ Million	**31/12/2016 HK$ Million**	31/12/2015 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 2016 based on a business valuation report on the UAF group prepared by an independent qualified professional valuer, Norton Appraisals Limited. The valuation used the discounted 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 15.0% on the profit after tax from 2017 to 2021 (2015: 20.7% from 2016 to 2020), a sustainable growth rate of 2.6% beyond 2021 (2015: 2.8% beyond 2020), and a discount rate of 13.8% (2015: 13.7%). 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

The consolidated profit or loss allocated to non-controlling interests during the year and the accumulated non-controlling interests in the consolidated statement of financial position as at 31 December 2016 are as follows.

	Profit or loss allocated to non-controlling interests		Accumulated non-controlling interests	
	2016	2015	**31/12/2016**	31/12/2015
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
United Asia Finance Limited and its subsidiaries	**261.6**	219.7	**3,399.4**	3,391.4
上海浦東新區亞聯財小額貸款有限公司	**(1.0)**	2.3	**64.1**	69.5
北京亞聯財小額貸款有限公司	**(2.1)**	0.4	**112.3**	122.1
Other subsidiaries having non-controlling interests	**1.6**	(0.6)	**3.0**	0.2
	260.1	221.8	**3,578.8**	3,583.2

The following tables provide summarised financial information of subsidiaries that have non-controlling interest. The information is before inter-company eliminations.

	United Asia Finance Limited and its subsidiaries		上海浦東新區亞聯財小額貸款有限公司	
	31/12/2016	31/12/2015	**31/12/2016**	31/12/2015
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Current assets	**9,907.3***	11,276.7*	**196.9**	223.7
Non-current assets	**3,320.7#**	3,645.6#	**30.2**	23.0
Current liabilities	**(2,338.6)**	(2,416.8)	**(13.4)**	(15.0)
Non-current liabilities	**(3,255.8)**	(4,876.6)	**—**	—

	2016	2015	**2016**	2015
	HK$ Million	HK$ Million	**HK$ Million**	HK$ Million
Dividend paid to non-controlling interests	**66.1**	227.2	**—**	—
Revenue	**3,004.5**	3,687.5	**43.1**	88.4
Profit (loss) for the year	**622.9**	532.8	**(3.2)**	7.6
Total comprehensive income (expenses) for the year	**162.8**	184.2	**(18.0)**	(3.2)
Net change in cash and cash equivalents during the year	**(386.7)**	1,078.8	**(1.0)**	2.8

* Including loans and advances to consumer finance customers of HK$5,470 million (31/12/2015: HK$6,062 million)

\# Including loans and advances to consumer finance customers of HK$2,191 million (31/12/2015: HK$2,547 million)

23. INTEREST IN SUBSIDIARIES *(CONTINUED)*

	北京亞聯財小額貸款有限公司	
	31/12/2016	31/12/2015
	HK$ Million	HK$ Million
Current assets	**551.7**	606.1
Non-current assets	**18.4**	15.5
Current liabilities	**(8.7)**	(11.0)
Non-current liabilities	**—**	—

	2016	2015
	HK$ Million	HK$ Million
Dividend paid to non-controlling interests	**—**	—
Revenue	**45.1**	66.4
Profit (loss) for the year	**(10.4)**	2.0
Total comprehensive income (expenses) for the year	**(49.3)**	(26.7)
Net change in cash and cash equivalents during the year	**246.1**	18.2

23. INTEREST IN SUBSIDIARIES *(CONTINUED)*

Particulars of the Company's principal subsidiaries at 31 December 2016 were as follows:

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Proportion of ownership interest 2016	Proportion of ownership interest 2015	Principal activities
Admiralty Eight Limited	Hong Kong	HK$1	**100%**	—	Property investment
Admiralty Eleven Limited	Hong Kong	HK$1	**100%**	—	Property investment
Boneast Assets Limited*	British Virgin Islands	US$1	**100%**	100%	Investment holding
First Asian Holdings Limited	Hong Kong	HK$2	**58%**	58%	Investment holding
Hing Yip Holdings Limited	British Virgin Islands	US$1	**—**	100%	Property investment
Itso Limited	Hong Kong	HK$2	**100%**	100%	Investment holding, financial services and securities trading
Kennedy (Nominees) Limited	Hong Kong	HK$10,000	**100%**	100%	Nominee services
KIMA Pan Asia Offshore Fund	Cayman Islands				Investment fund
— Management shares		1,000 US$1 shares	**100%**	100%	
— Participating shares		7,392.805 US$0.001 shares	**100%**	100%	
— Class B6 participating shares		223,060.3644 US$0.001 shares	**100%**	100%	
— Class B3 participating shares		7,581.95 US$0.001 shares	**100%**	—	
Oakfame Investment Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Plentiwind Limited	Hong Kong	HK$15,000,002	**100%**	100%	Investment holding
Rossworth Global Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
Rodril Investments Limited	Hong Kong	HK$1	**100%**	—	Investment holding
Scienter Investments Limited	Hong Kong	HK$20	**100%**	100%	Investment holding and provision of loan finance
Shipshape Investments Limited*	British Virgin Islands	US$1	**100%**	100%	Investment holding
SHK Asian Opportunities Holdings Limited	Cayman Islands	US$10,000	**95%**	—	Investment holding
SHK Asset Management Holding Limited	British Virgin Islands	US$3,400,001	**100%**	100%	Investment holding
SHK Finance Limited	Hong Kong	HK$150,000,000	**58%**	58%	Money lending
SHK Investment Services Limited	Hong Kong	HK$1,000,000	**100%**	100%	Asset holding
SHK Securities Limited	Hong Kong	HK$20	**100%**	100%	Asset holding
Sing Hing Investment Limited	British Virgin Islands	US$1	**—**	100%	Property investment
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 & Co. (BVI) Limited *	British Virgin Islands	US$1	**100%**	100%	Financing
Sun Hung Kai Capital Limited*	British Virgin Islands	US$1	**100%**	100%	Investment holding
Sun Hung Kai Credit Limited	Hong Kong	HK$250,000,000	**86%**	86%	Money lending
Sun Hung Kai International Bank [Brunei] Limited*	Brunei Darussalam	SGD10,000,000	**100%**	100%	International banking business
SHK International Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
Razorway Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding

23. INTEREST IN SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Proportion of ownership interest 2016	2015	Principal activities
Sun Hung Kai Securities (Overseas) Limited	Hong Kong	HK$60,000	**100%**	100%	Investment holding
Sun Hung Kai Strategic Capital Limited	Hong Kong	HK$2	**100%**	100%	Investment holding, securities trading and financial services
Sun Hung Kai Structured Finance Limited	Hong Kong	HK$137,500,000	**100%**	100%	Securities trading and provision of loan finance
Sun Hung Kai Venture Capital Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Swan Islands Limited*	British Virgin Islands	US$503,000,001	**100%**	100%	Investment holding
Swanwick Global Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
SWAT Securitisation Fund^	Luxembourg	RMB29,968,900	**100%**	100%	Securitisation fund
Texgulf Limited	Hong Kong	HK$20	**100%**	100%	Property investment
Top Marker Limited+	British Virgin Islands	US$1	**—**	—	Investment holding
Treasure Rider Limited	Cayman Islands	US$11,000	**86%**	86%	Investment holding
Tung Wo Investment Company, Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
United Asia Finance Limited	Hong Kong	HK$1,502,218,418	**58%**	58%	Consumer financing
UAF Holdings 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#(a)	People's Republic of China	RMB200,000,000	**41%**	41%	Money lending
大連保税區亞聯財小額貸款有限公司(b)	People's Republic of China	US$60,000,000	**58%**	58%	Money lending
大連亞聯財信息諮詢有限公司(c)	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
天津亞聯財小額貸款有限公司(b)	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#(a)	People's Republic of China	RMB500,000,000	**47%**	47%	Money lending
成都亞聯財小額貸款有限公司(b)	People's Republic of China	HK$350,000,000	**58%**	58%	Money lending
成都亞聯財經濟信息諮詢有限公司(c)	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
亞洲第一信息諮詢(深圳)有限公司(b)	People's Republic of China	RMB50,000,000	**58%**	58%	Financial consultancy
亞聯財信息諮詢(上海)有限公司#(a)	People's Republic of China	RMB1,000,000	**41%**	41%	Financial consultancy
亞聯財信息諮詢(深圳)有限公司(b)	People's Republic of China	RMB25,000,000	**58%**	58%	Financial consultancy

23. INTEREST IN SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Proportion of ownership interest 2016	2015	Principal activities
武漢亞聯財小額貸款有限公司 [b]	People's Republic of China	RMB300,000,000 (2015: RMB500,000,000)	**58%**	58%	Money lending
武漢亞聯財信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
青島市城陽區亞聯財小額貸款有限公司 [b]	People's Republic of China	RMB300,000,000	**58%**	58%	Money lending
青島亞聯財信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
南寧市亞聯財小額貸款有限公司 [b]	People's Republic of China	RMB200,000,000	**58%**	58%	Money lending
南寧市亞聯財投資管理有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
哈爾濱市亞聯財小額貸款有限公司 [b]	People's Republic of China	RMB200,000,000	**58%**	58%	Money lending
哈爾濱亞聯財信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
重慶亞聯財小額貸款有限公司 (formerly known as 重慶市渝中區亞聯財小額貸款有限責任公司) [b]	People's Republic of China	US$40,000,000 (2015: USD$50,000,000)	**58%**	58%	Money lending
重慶亞聯財信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
深圳亞聯財小額貸款有限公司 [b]	People's Republic of China	RMB600,000,000	**58%**	58%	Money lending
雲南省亞聯財小額貸款有限公司 [b]	People's Republic of China	HK$350,000,000	**58%**	58%	Money lending
雲南亞聯財經濟信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
新聯財信息諮詢(深圳)有限公司 [c]	People's Republic of China	RMB5,000,000	**58%**	58%	Financial consultancy
新鴻基(天津)股權投資基金管理有限公司 [b]	People's Republic of China	RMB50,000,000	**100%**	100%	Asset management
新鴻基融資擔保(瀋陽)有限公司 [b]	People's Republic of China	RMB300,000,000	**58%**	58%	Loan guarantee
福州亞聯財信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
福州市晋安區亞聯財小額貸款有限公司 [b]	People's Republic of China	RMB200,000,000	**58%**	58%	Money lending
濟南市歷下區亞聯財小額貸款有限公司 [b]	People's Republic of China	RMB300,000,000	**58%**	58%	Money lending
濟南亞聯財信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy
瀋陽亞聯財卓越信息諮詢有限公司 [c]	People's Republic of China	RMB1,000,000	**58%**	58%	Financial consultancy

23. INTEREST IN SUBSIDIARIES *(CONTINUED)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital	Proportion of ownership interest 2016	2015	Principal activities
瀋陽金融商貿開發區亞聯財小額貸款有限公司[b]	People's Republic of China	RMB320,000,000 (2015: RMB300,000,000)	**58%**	58%	Money lending
深圳亞聯財信息技術有限公司[c]	People's Republic of China	RMB20,000,000	**100%**	—	Financial consultancy

* These subsidiaries are directly held by the Company.
\# The companies are non-wholly owned subsidiaries of a non-wholly owned subsidiary.
^ The subsidiary is a fund established and created under Luxembourg laws. As the Group holds all the issued units of the fund, it is classified as a subsidiary.
\+ Although the Group has no equity interest in Top Marker Limited, it is classified as a subsidiary of the Group as the Group can control the composition of its board and is exposed to its variable returns. The Group's investment in Top Marker Limited was HK$188.9 million at the reporting date.
(a) These companies are sino-foreign equity joint ventures.
(b) These companies are wholly-foreign owned enterprises.
(c) These companies are wholly-domestic owned enterprises.

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.

24. INTEREST IN ASSOCIATES

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Carrying amount of unlisted associates	**1,767.4**	1,765.7
Less: impairment	**(680.9)**	(539.4)
	1,086.5	1,226.3

Particulars of the Group's material associate at 31 December 2016 were as follows:

Name	Place of incorporation and operation	Proportion of ownership interest 2016	2015	Principal activities
Sun Hung Kai Financial Group Limited ("SHKFGL")	British Virgin Islands	**30%**	30%	Wealth management and brokerage business

All associates are accounted for using the equity method. The summarised consolidated financial information of the Group's material associate, SHKFGL, is set out below. The summarised consolidated information of the financial performance for the year and financial position at the reporting date represents the amounts included in the consolidated financial statements of SHKFGL adjusted by fair value adjustments made at the time of reclassifying SHKFGL from a subsidiary to an associate.

24. INTEREST IN ASSOCIATES *(CONTINUED)*

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Current assets	**7,192.1**	6,036.4
Non-current assets	**1,534.2**	879.7
Current liabilities	**(3,904.0)**	(2,258.0)
Non-current liabilities	**(1,400.6)**	(1,221.6)

	2016 HK$ Million	2015 HK$ Million
Revenue	**979.6**	1,248.3
Profit from continuing operations	**87.5**	120.9
Post-tax profit from discontinued operations	**—**	92.5
Other comprehensive income	**(16.3)**	(2.4)
Total comprehensive income	**71.2**	211.0

The reconciliation of the above summarised financial information to the carrying amount of the interest in SHKFGL is as follows:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Adjusted net assets of SHKFGL	**3,421.7**	3,436.5
Group's effective interest	**30%**	30%
Group's share of adjusted net assets	**1,026.5**	1,031.0
Goodwill	**607.7**	607.7
Impairment (Note 11)	**(680.2)**	(538.7)
Carrying amount of the Group's interest in SHKFGL	**954.0**	1,100.0

24. INTEREST IN ASSOCIATES *(CONTINUED)*

The following table provides aggregate information for the share of the total comprehensive income and unrecognised share of losses of associates that are not individually material.

	2016 HK$ Million	2015 HK$ Million
Share of profit or loss from continuing operations	**(25.7)**	8.1
Share of other comprehensive income	—	—
Share of total comprehensive income (expenses)	**(25.7)**	8.1
Share of unrecognised losses for the year	**(0.1)**	(0.4)
Share of cumulative losses	**(25.3)**	(25.2)

25. INTEREST IN JOINT VENTURES

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Carrying amount of unlisted joint ventures	**227.1**	208.2
Less: impairment	—	—
	227.1	208.2

All joint ventures are accounted for using the equity method. No joint venture is individually material to the Group. The analyses of the Group's share of the total comprehensive income are as follows.

	2016 HK$ Million	2015 HK$ Million
Share of profit or loss from continuing operations	**(55.3)**	38.4
Share of other comprehensive income (expenses)	**(1.5)**	2.5
Share of total comprehensive income (expenses)	**(56.8)**	40.9
Share of unrecognised losses for the year	—	—
Share of cumulative losses	—	—

26. FINANCIAL ASSETS AND LIABILITIES

The following tables provide analyses of financial assets and liabilities of the Group that are measured at cost less impairment and at fair value subsequent to initial recognition.

	At 31 December 2016				
	Fair value			Cost less	
	Level 1 HK$ Million	Level 2 HK$ Million	Level 3 HK$ Million	impairment HK$ Million	Total HK$ Million
Available-for-sale investments					
Equity securities listed in Hong Kong	45.7	—	—	—	45.7
Unlisted overseas equity securities	—	—	42.2	21.6	63.8
	45.7	—	42.2	21.6	109.5
Financial assets at fair value through profit or loss					
Held for trading investments					
— Equity securities listed in Hong Kong	269.1	—	—	—	269.1
— Equity securities listed outside Hong Kong	299.0	—	—	—	299.0
— Exchange-traded funds listed in Hong Kong	139.3	—	—	—	139.3
— Over the counter equity derivatives	—	—	0.4	—	0.4
— Over the counter currency derivatives	—	—	0.1	—	0.1
— Forward currency contract	—	50.6	—	—	50.6
— Unlisted overseas options	—	1.4	—	—	1.4
— Unlisted put right for shares in an associate	—	—	1,052.0	—	1,052.0
— Unlisted call option for club memberships	—	—	8.3	—	8.3
— Unlisted call option for shares listed outside Hong Kong	—	—	12.4	—	12.4
— Contracts for difference	—	22.3	—	—	22.3
— Unlisted bonds issued by listed companies	—	386.9	—	—	386.9
— Listed bonds issued by listed companies	—	668.6	—	—	668.6
	707.4	1,129.8	1,073.2	—	2,910.4
Investments designated as at fair value through profit or loss					
— Unlisted convertible bonds issued by an unlisted company	—	—	3.9	—	3.9
— Unlisted overseas equity securities with a put right for shares	—	—	826.1	—	826.1
— Unlisted overseas investment funds	—	—	2,871.6	—	2,871.6
	—	—	3,701.6	—	3,701.6
	707.4	1,129.8	4,774.8	—	6,612.0
Analysed for reporting purposes as:					
— Non-current assets					3,632.9
— Current assets					2,979.1
					6,612.0
Financial liabilities at fair value through profit or loss					
Held for trading					
— Futures and options listed outside Hong Kong	2.2	—	—	—	2.2
— Foreign currency contracts	—	4.8	—	—	4.8
— Unlisted overseas options	—	0.3	—	—	0.3
— Over the counter equity derivatives	—	—	2.9	—	2.9
— Over the counter currency derivatives	—	—	1.9	—	1.9
— Stock borrowings	—	75.7	—	—	75.7
— Contracts for difference	—	27.5	—	—	27.5
Analysed for reporting purposes as current liabilities	2.2	108.3	4.8	—	115.3

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

	At 31 December 2015				
	Fair value			Cost less impairment	Total
	Level 1 HK$ Million	Level 2 HK$ Million	Level 3 HK$ Million	HK$ Million	HK$ Million
Available-for-sale investments					
Equity securities listed in Hong Kong	48.9	—	—	—	48.9
Unlisted overseas equity securities	—	—	39.7	16.2	55.9
	48.9	—	39.7	16.2	104.8
Financial assets at fair value through profit or loss					
Held for trading investments					
— Equity securities listed in Hong Kong	382.5	—	—	—	382.5
— Equity securities listed outside Hong Kong	237.1	—	—	—	237.1
— Exchange-traded funds listed in Hong Kong	88.0	—	—	—	88.0
— Over the counter equity derivatives	—	—	0.7	—	0.7
— Over the counter currency derivatives	—	—	0.1	—	0.1
— Forward currency contract	—	6.3	—	—	6.3
— Options listed outside Hong Kong	3.6	—	—	—	3.6
— Unlisted overseas options	—	0.4	—	—	0.4
— Unlisted put right for shares in an associate	—	—	707.0	—	707.0
— Unlisted call option for club memberships	—	—	9.3	—	9.3
— Unlisted call option for shares listed outside Hong Kong	—	—	25.9	—	25.9
— Contracts for difference	—	88.1	—	—	88.1
— Unlisted bonds issued by listed companies	—	359.6	—	—	359.6
— Listed bonds issued by listed companies	—	488.4	—	—	488.4
	711.2	942.8	743.0	—	2,397.0
Investments designated as at fair value through profit or loss					
— Unlisted convertible preferred shares issued by an unlisted company	—	—	267.8	—	267.8
— Unlisted convertible bonds issued by unlisted companies	—	—	778.9	—	778.9
— Unlisted overseas investment funds	—	—	2,286.8	—	2,286.8
	—	—	3,333.5	—	3,333.5
	711.2	942.8	4,076.5	—	5,730.5
Analysed for reporting purposes as:					
— Non-current assets					3,484.6
— Current assets					2,245.9
					5,730.5
Financial liabilities at fair value through profit or loss					
Held for trading					
— Futures and options listed in Hong Kong	2.0	—	—	—	2.0
— Foreign currency contracts	—	1.9	—	—	1.9
— Over the counter equity derivatives	—	—	22.5	—	22.5
— Over the counter currency derivatives	—	—	0.9	—	0.9
— Stock borrowings	—	120.1	—	—	120.1
— Contracts for difference	—	30.5	—	—	30.5
Analysed for reporting purposes as current liabilities	2.0	152.5	23.4	—	177.9

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.

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

On the basis of its analysis of the nature, characteristics and risks of the securities, the Group has determined that presenting them by nature and type of issuers is appropriate.

Fair values are grouped from Level 1 to 3 based on the degree to which the fair values are 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.

In estimating the fair value, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages external valuers to perform the valuation for certain complex or material financial assets and liabilities. The valuation working group works closely with the external valuers to establish the appropriate valuation techniques and inputs to the valuation model for those complex or material financial assets and liabilities. For those less complex or not material financial assets and liabilities, the Group establishes appropriate valuation techniques internally to perform the valuation. The valuation working group also analyses changes in fair value measurements from period to period.

The fair values of bonds under Level 2 at the reporting date were derived from quoted prices from pricing services. The fair values of stock borrowings and forward currency contract under Level 2 at the reporting date were derived from observable market prices of the underlying financial assets or liabilities.

The fair values of Level 3 financial assets and liabilities are mainly derived from an unobservable range of data. In estimating the fair value of a financial asset or a financial liability under Level 3, the Group engages external valuers or establishes appropriate valuation techniques internally to perform the valuation which are reviewed by management.

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

The following tables provide further information regarding the valuation of material financial assets (liabilities) under Level 3.

	At 31 December 2016			
	Valuation technique	Unobservable inputs	Input values	Fair value HK$ Million
Available-for-sale investments				
Unlisted overseas equity securities	Discounted cash flow	Weighted average cost of capital	5%	42.2
		Average annual dividend pay-out	HK$54.3 million	
Held for trading investments				
Unlisted put right for shares in an associate	Option model	Volatility	41.8%	1,052.0
		Risk free rate	0.9%	
		Equity growth rate	1.1%	
		Estimated equity value	HK$954.0 million	
Unlisted call option for shares listed outside Hong Kong	Option model	Volatility	55.0%	12.4
		Risk free rate	-0.15%	
Financial assets designated as at fair value through profit or loss				
Unlisted overseas equity securities with a put right for shares	Market comparable approach and option model	Price to book ratio	1.23x	826.1
		Volatility	5.5%	
		Discount rate	1.9%	
		Equity growth rate	1.5%	
Unlisted overseas investment funds	Net asset value*	n/a	n/a	2,871.6
Financial liabilities held for trading				
Over the counter equity derivatives	Price quoted by counter parties	n/a	n/a	(2.9)

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

	At 31 December 2015			
	Valuation technique	Unobservable inputs	Input values	Fair value HK$ Million
Available-for-sale investments				
Unlisted overseas equity securities	Discounted cash flow	Weighted average cost of capital	5.0%	39.7
		Average annual dividend pay-out	HK$54.3 million	
Held for trading investments				
Unlisted put right for shares in an associate	Option model	Volatility	19.2%	707.0
		Risk free rate	0.6%	
		Equity growth rate	3.1%	
		Estimated equity value	HK$1,100.0 million	
Unlisted call option for shares listed outside Hong Kong	Option model	Volatility	63.1%	25.9
		Risk free rate	0.002%	
Financial assets designated as at fair value through profit or loss				
Unlisted convertible preferred shares issued by an unlisted company	Discounted cash flow	Contractual price of an impending sale	HK$267.8 million	267.8
Unlisted convertible bonds issued by unlisted companies	Market comparable approach	Recent transaction price	n/a	778.9
Unlisted overseas investment funds	Net asset value*	n/a	n/a	2,286.8
Financial liabilities held for trading				
Over the counter equity derivatives	Price quoted by counter parties	n/a	n/a	(22.5)

* The Group has determined that the reported net asset values represent fair value of the unlisted overseas investment funds.

The management believes that possible changes in the input values would not cause significant change in fair value of the financial assets and liabilities under Level 3.

There was no change in the valuation technique during the year.

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

The reconciliation of financial assets and liabilities under Level 3 fair value measurements is as follows:

	2016							
			Recognised gains or losses					
	Balance at 1/1/2016 HK$ Million	Transfer HK$ Million	Profit or loss HK$ Million	Other comprehensive income HK$ Million	Purchase HK$ Million	Disposal HK$ Million	Balance at 31/12/2016 HK$ Million	Unrealised gain or loss for the year HK$ Million
Available-for-sale investments								
Unlisted overseas equity securities	39.7	—	—	2.5	—	—	42.2	—
Held for trading investments								
Over the counter equity derivatives	0.7	—	(0.3)	—	—	—	0.4	(0.3)
Over the counter currency derivatives	0.1	—	—	—	—	—	0.1	—
Unlisted put right for shares in an associate	707.0	—	345.0	—	—	—	1,052	345.0
Unlisted call option for club memberships	9.3	—	(1.0)	—	—	—	8.3	(1.0)
Unlisted call option for shares listed outside Hong Kong	25.9	—	(13.5)	—	—	—	12.4	(13.5)
Investments designated as at fair value								
Unlisted convertible preferred shares issued by an unlisted company	267.8	—	0.1	—	—	(267.9)	—	—
Unlisted convertible bonds issued by unlisted companies	778.9	(775.0)	—	—	—	—	3.9	—
Unlisted overseas equity securities with a put right for shares#	—	775.0	51.1	—	—	—	826.1	51.1
Unlisted overseas investment funds	2,286.8	—	435.2	—	384.8	(235.2)	2,871.6	426.2
Financial liabilities held for trading								
Over the counter equity derivatives	(22.5)	—	19.6	—	—	—	(2.9)	19.6
Over the counter currency derivatives	(0.9)	—	(1.0)	—	—	—	(1.9)	(1.0)

On 10 December 2015, the Group entered into a convertible note agreement with an overseas unlisted company ("Issuer") to subscribe a convertible note in an aggregate principal amount of US$100,000,000 issued by the Issuer, and entered into a subscription and shareholders' agreement with the Issuer and its holding company, in respect of the exercise of the conversion right under the convertible note agreement to subscribe for the Issuer's ordinary shares with a right to put back the ordinary shares to the Issuer. During the year ended 31 December 2016, the Group exercised the conversion right and the Issuer allotted and issued 100,000,000 shares at US$1 each, which represented approximately 4.55% of the enlarged issued and paid up share capital of the Issuer. The put right is considered as an embedded derivative. The Group designates the entire unlisted equity securities with the put right for shares as a financial asset at fair value through profit or loss.

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

	2015						
		Recognised gains or losses					
	Balance at 1/1/2015 HK$ Million	Profit or loss HK$ Million	Other comprehen-sive income HK$ Million	Purchase HK$ Million	Disposal HK$ Million	Balance at 31/12/2015 HK$ Million	Unrealised profit or loss for the year HK$ Million
Available-for-sale investments							
Unlisted overseas equity securities	35.5	—	4.2	—	—	39.7	—
Unlisted overseas investment funds	12.3	—	(0.8)	—	(11.5)	—	—
Held for trading investments							
Over the counter equity derivatives	—	0.7	—	—	—	0.7	0.7
Over the counter currency derivatives	—	0.1	—	—	—	0.1	0.1
Unlisted put right for shares in an associate	—	596.0	—	111.0	—	707.0	596.0
Unlisted call option for club memberships	—	—	—	9.3	—	9.3	—
Unlisted call option for shares listed outside Hong Kong	—	25.9	—	—	—	25.9	25.9
Investments designated as at fair value							
Unlisted convertible preferred shares issued by an unlisted company	39.5	205.2	—	23.1	—	267.8	205.2
Unlisted convertible bonds issued by unlisted companies	—	—	—	778.9	—	778.9	—
Unlisted overseas investment funds	831.5	134.2	—	1,560.9	(239.8)	2,286.8	80.2
Financial liabilities held for trading							
Over the counter equity derivatives	(48.5)	26.0	—	—	—	(22.5)	26.0
Over the counter currency derivatives	(17.8)	16.9	—	—	—	(0.9)	16.9

There was no transfer out or transfer in of Level 3 in current year. The Group's policy is to recognise transfers into and transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

The carrying amounts of the Group's financial assets at the end of the reporting period were as follows:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Available-for-sale investments	**109.5**	104.8
Financial assets at fair value through profit or loss		
— Held for trading investments	**2,910.4**	2,397.0
— Investments designated as at fair value through profit or loss	**3,701.6**	3,333.5
	6,612.0	5,730.5
Loans and receivables		
— Amounts due from associates and joint ventures (Note 28)	**313.3**	183.6
— Loans and advances to consumer finance customers (Note 29)	**8,273.4**	8,822.0
— Trade and other receivables (Note 30)	**3,995.4**	3,575.9
— Bank deposits (Note 31)	**1,257.7**	1,501.4
— Cash and cash equivalents (Note 31)	**5,194.5**	5,647.6
	19,034.3	19,730.5
	25,755.8	25,565.8

The carrying amounts of Group's financial liabilities at the end of the reporting period were as follows:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Financial liabilities at fair value through profit or loss		
— Held for trading	**115.3**	177.9
Financial liabilities measured at amortised cost		
— Bank and other borrowings (Note 32)	**4,810.3**	6,312.7
— Trade and other payables (Note 33)	**73.4**	94.6
— Amounts due to fellow subsidiaries and a holding company (Note 34)	**41.0**	—
— Amounts due to associates (Note 34)	**1.9**	0.1
— Notes (Note 36)	**5,311.9**	3,581.7
	10,238.5	9,989.1
	10,353.8	10,167.0

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

Financial asset and financial liabilities offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that:

— are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the Group's consolidated statement of financial position.

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements ("ISDA Agreements") signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements:

As at 31 December 2016

	Gross amounts of recognised financial assets and liabilities HK$ Million	Gross amounts set off in the consolidated statement of financial position HK$ Million	Net amounts presented in consolidated statement of financial position HK$ Million	Related amounts not set off in the statement of financial position		Net amount HK$ Million
				Financial instruments HK$ Million	Cash collateral received HK$ Million	
Type of financial assets						
Financial assets at fair value through profit or loss	**1,450.8**	—	**1,450.8**	**(3.8)**	—	**1,447.0**
Receivables from brokers	**1,059.5**	—	**1,059.5**	**(111.5)**	—	**948.0**
Type of financial liabilities						
Financial liabilities at fair value through profit or loss	**115.3**	—	**115.3**	**(115.3)**	—	—

26. FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

As at 31 December 2015

	Gross amounts of recognised financial assets and liabilities HK$ Million	Gross amounts set off in the consolidated statement of financial position HK$ Million	Net amounts presented in consolidated statement of financial position HK$ Million	Related amounts not set off in the statement of financial position: Financial instruments HK$ Million	Related amounts not set off in the statement of financial position: Cash collateral received HK$ Million	Net amount HK$ Million
Type of financial assets						
Financial assets at fair value through profit or loss	1,654.8	—	1,654.8	(188.6)	—	1,446.2
Receivables from brokers	146.5	—	146.5	(5.7)	—	140.8
Type of financial liabilities						
Financial liabilities at fair value through profit or loss	177.9	—	177.9	(177.9)	—	—
Payables to brokers	16.4	—	16.4	(16.4)	—	—

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:

	Accelerated tax depreciation HK$ Million	Provisions and impairment HK$ Million	Revaluation of assets HK$ Million	Unrealised gain HK$ Million	Undistributed earnings and others HK$ Million	Tax losses HK$ Million	Total HK$ Million
At 1 January 2015	(22.9)	314.6	(180.4)	(67.6)	(7.8)	27.6	63.5
Exchange adjustments	0.2	(20.4)	1.6	3.2	—	(0.4)	(15.8)
Disposal of subsidiaries and joint venture	11.5	(10.9)	0.1	1.3	5.0	(0.4)	6.6
Recognised in equity	—	—	(5.0)	—	—	—	(5.0)
Recognised in profit or loss	0.5	295.7	4.0	(5.6)	0.1	6.9	301.6
At 31 December 2015	(10.7)	579.0	(179.7)	(68.7)	(2.7)	33.7	350.9
Exchange adjustments	—	(37.6)	0.6	4.0	—	(0.6)	(33.6)
Disposal of subsidiaries and joint venture	—	—	3.0	—	—	—	3.0
Recognised in profit or loss	1.5	130.4	(8.3)	9.4	2.7	1.1	136.8
At 31 December 2016	(9.2)	671.8	(184.4)	(55.3)	—	34.2	457.1

27. DEFERRED TAXATION *(CONTINUED)*

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

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Deferred tax assets	**652.5**	543.4
Deferred tax liabilities	**(195.4)**	(192.5)
	457.1	350.9

At the end of the reporting period, the Group had unrecognised tax losses of HK$325.6 million (31/12/2015: HK$281.5 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$1.5 million that will expire during 2018 to 2021 (31/12/2015: HK$1.5 million will expire during 2017 to 2020).

Under the Law of PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$788.1 million at the end of the reporting period (31/12/2015: HK$897.8 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 ASSOCIATES AND JOINT VENTURES

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Amounts due from associates	**328.2**	200.7
Less: impairment allowance	**(17.1)**	(17.1)
	311.1	183.6
Amounts due from joint ventures	**2.2**	—
Less: impairment allowance	**—**	—
	2.2	—
	313.3	183.6
Analysed for reporting purposed as:		
— Non-current assets	**248.8**	64.9
— Current assets	**64.5**	118.7
	313.3	183.6

28. AMOUNTS DUE FROM ASSOCIATES AND JOINT VENTURES *(CONTINUED)*

	Advance to associates HK$ Million	**Advance to joint ventures** HK$ Million	**Total** HK$ Million
At 31 December 2016			
Gross amount of impaired advances	**17.3**	**—**	**17.3**
Individually assessed impairment allowances			
— Balance brought forward	**(17.1)**	**—**	**(17.1)**
— Amounts written off	**—**	**—**	**—**
— Amounts recognised in profit or loss	**—**	**—**	**—**
— Balance carried forward	**(17.1)**	**—**	**(17.1)**
Net carrying amount of impaired advances	**0.2**	**—**	**0.2**
At 31 December 2015			
Gross amount of impaired advances	17.3	—	17.3
Individually assessed impairment allowances			
— Balance brought forward	(17.1)	(8.5)	(25.6)
— Amounts written off	—	13.6	13.6
— Amounts recognised in profit or loss	—	(5.1)	(5.1)
— Balance carried forward	(17.1)	—	(17.1)
Net carrying amount of impaired advances	0.2	—	0.2

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 and joint ventures.

Further details of amounts due from associates and joint ventures are disclosed in Note 34.

29. LOANS AND ADVANCES TO CONSUMER FINANCE CUSTOMERS

	31/12/2016 HK$ Million	31/12/2015 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

Movements of impairment allowance during the year were as follows:

	2016 HK$ Million	2015 HK$ Million
At 1 January	**(950.2)**	(756.6)
Exchange adjustments	**23.5**	19.1
Amounts written off	**1,054.0**	1,363.7
Amounts recognised in profit or loss	**(876.6)**	(1,446.9)
Amounts recovered	**(160.2)**	(129.5)
At 31 December	**(909.5)**	(950.2)

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.

29. 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:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Less than 31 days past due	**519.6**	571.2
31 — 60 days	**129.7**	147.0
61 — 90 days	**58.1**	124.7
91 — 180 days	**139.8**	397.6
Over 180 days	**169.8**	103.5
	1,017.0	1,344.0

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$7,388.3 million unsecured (31/12/2015: HK$7,803.9 million) and HK$885.1 million secured (31/12/2015: HK$1,018.1 million). The table below summarises its credit quality (gross balances net of impairment allowances):

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Credit quality		
Neither past due nor individually impaired	**7,238.7**	7,420.9
Past due or individually impaired	**1,034.7**	1,401.1
	8,273.4	8,822.0

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

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 impairment allowance.

Estimate of fair value of collateral is based on the 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 reduce or repay the outstanding loan balances. In general, the Group does not retain repossessed properties for business purposes.

In respect of the secured loans and advances to consumer finance customers with the carrying amount of HK$808.0 million (2015: HK$819.1 million), the fair values of the collaterals of such loans and advances 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.

30. TRADE AND OTHER RECEIVABLES

	31/12/2016 HK$ Million	31/12/2015 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.

** Subsequent to the year end, HK$804 million was settled in January 2017.

30. 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:

	31/12/2016 HK$ Million	31/12/2015 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.

30. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The gross amount of impaired receivables at the reporting date and the movement of impairment allowances during the year were as follows:

	Trade receivables HK$ Million	Term loans HK$ Million	Margin loans HK$ Million	Other receivables HK$ Million	Total HK$ Million
At 31 December 2016					
Gross amount of impaired receivables	**—**	**2.0**	**—**	**60.9**	**62.9**
Individually assessed impairment allowances					
— Balance brought forward	**—**	**(95.9)**	**—**	**(17.0)**	**(112.9)**
— Exchange adjustments	**—**	**—**	**—**	**3.1**	**3.1**
— Amounts written off	**—**	**59.7**	**—**	**12.7**	**72.4**
— Amounts recognised in profit or loss	**—**	**35.8**	**—**	**(54.9)**	**(19.1)**
— Balance carried forward	**—**	**(0.4)**	**—**	**(56.1)**	**(56.5)**
Net carrying amount of impaired receivables	**—**	**1.6**	**—**	**4.8**	**6.4**
At 31 December 2015					
Gross amount of impaired receivables	—	320.4	—	23.0	343.4
Individually assessed impairment allowances					
— Balance brought forward	(11.8)	(4.8)	(119.9)	—	(136.5)
— Exchange adjustments	—	—	—	0.6	0.6
— Amounts written off	0.1	4.4	9.5	—	14.0
— Amounts recognised in profit or loss	2.4	(95.5)	—	(17.6)	(110.7)
— Disposal of subsidiaries	9.3	—	110.4	—	119.7
— Balance carried forward	—	(95.9)	—	(17.0)	(112.9)
Net carrying amount of impaired receivables	—	224.5	—	6.0	230.5

Impairment loss on trade receivables, term loans and other receivables is recognised in profit or loss after review by the management, based on the latest status of trade receivables, term loans and other receivables, and the latest announced or available information about the underlying collateral held.

30. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Less than 31 days	**0.2**	1.6
31 — 60 days	**1.0**	0.4
61 — 90 days	**1.1**	0.4
Over 91 days	**1.8**	2.7
	4.1	5.1

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

Further details on financial risk management of trade and other receivables are disclosed in Note 42.

31. BANK DEPOSITS, CASH AND CASH EQUIVALENTS

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Bank balances and cash	**2,251.1**	2,860.6
Fixed deposits with banks with a term within 3 months	**2,943.4**	2,787.0
Cash and cash equivalents	**5,194.5**	5,647.6
Fixed deposits with banks with a term between 4 to 12 months	**1,257.7**	1,501.4
	6,452.2	7,149.0

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 42.

32. BANK AND OTHER BORROWINGS

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Bank loans		
— Unsecured term loans	**4,712.5**	6,263.7
— Secured instalment loans	**38.8**	14.0
Total bank borrowings	**4,751.3**	6,277.7
Other borrowings	**59.0**	35.0
	4,810.3	6,312.7
Analysed for reporting purposes as:		
— Current liabilities	**2,092.6**	2,009.1
— Non-current liabilities	**2,717.7**	4,303.6
	4,810.3	6,312.7

At 31 December 2016, bank and other borrowings were repayable as follows:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Bank borrowings		
— Within one year	**2,049.8**	1,995.1
— In the second year	**1,748.5**	2,240.9
— In the third to fifth year	**934.2**	2,027.7
Bank borrowings with a repayment on demand clause		
— Within one year	**4.8**	4.8
— In the second year	**4.8**	9.2
— In the third to fifth year	**9.2**	—
	4,751.3	6,277.7
Other borrowings		
— Within one year	**24.0**	—
— Over five years	**35.0**	35.0
	4,810.3	6,312.7

32. BANK AND OTHER BORROWINGS *(CONTINUED)*

The secured instalment bank loans are repayable by instalments up to August 2019. 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$448.9 million which was denominated in US dollar and Australian dollar (31/12/2015: HK$451.5 million in US dollar). Further details related to financial risk management of such balances are disclosed in Note 42.

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

33. TRADE AND OTHER PAYABLES

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Accounts payable to brokers and clients	—	16.4
Other accounts payable	**73.4**	78.2
Trade and other payables at amortised cost	**73.4**	94.6
Accrued staff costs and other accrued expenses	**165.7**	186.7
	239.1	281.3

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 HK$ Million	31/12/2015 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

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

34. RELATED PARTY TRANSACTIONS

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

	2016 HK$ Million	2015 HK$ Million
Associates and joint ventures of a holding company		
Insurance premiums received from associates of a holding company in the course of provision of insurance brokerage services	—	0.1
Rental and building management fees to an associate of a holding company*	**(4.1)**	(4.7)
Rental and building management fees to a joint venture of a holding company*	**(17.9)**	(17.5)
6% unsecured term loan to an associate of a holding company		
— Interest income	—	5.2
— Repayment	—	63.9
Interest expense to an associate of a holding company	**(2.8)**	—
Proceeds received on disposal of subsidiaries to an associate of a holding company*	**100.7**	—
Associates		
1-year shareholder loan to an associate		
— Interest income	—	26.0
— Repayment	—	1,061.6
— Drawdown	—	(1,061.6)
Loan to an associate	**(201.6)**	—
Rental income from an associate	**0.8**	1.1
Management and service fees received from associates and joint ventures	**14.2**	3.6
Brokerage expenses to an associate	**(0.8)**	(1.3)
Service fees expenses to an associate	**(4.7)**	(4.2)
Insurance premiums paid to an associate	**(0.8)**	(5.3)
Joint ventures		
Management fees received from a joint venture	—	1.5
Consultancy service fee received from a joint venture	—	0.1
Holding company and its subsidiaries		
Insurance premiums received from a holding company and fellow subsidiaries in the course of provision of insurance brokerage services	—	1.1
Short-term loan due to fellow subsidiaries	**(39.3)**	—
Finance costs to fellow subsidiaries	**(20.6)**	(14.5)
Management fees paid/payable to a holding company*	**(8.5)**	(6.0)

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

34. RELATED PARTY TRANSACTIONS *(CONTINUED)*

COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2016 **HK$ Million**	2015 HK$ Million
Short-term benefits	**73.7**	92.3
Post-employment benefits	**1.6**	1.6
	75.3	93.9

During the year, 789,000 shares were granted under the SHK Employee Ownership Scheme ("EOS") to key management personnel. In addition, 189,000 shares with a total amount of HK$0.84 million were vested for key management personnel during the year. The total dividend payments paid to the key management personnel during the year were HK$0.1 million (2015: HK$0.4 million). Further information of the EOS is disclosed in the Management Discussion and Analysis Section of this annual report.

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 of a subsidiary 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 of a subsidiary at the time of exercise of the Option. Prior to the period before the Option becomes vested, the director of a subsidiary 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 2016 (2015: Nil) 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.

34. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Associates of a holding company		
Deposits and trade receivable due from associates of a holding company	**—**	4.1
Notes held by an associate of a holding company	**(116.3)**	—
	(116.3)	4.1
Associates		
Amounts due from associates	**311.1**	183.6
Amounts due to associates	**(1.9)**	(0.1)
	(309.2)	183.5
Joint ventures		
Amounts due from joint ventures	**2.2**	—
Holding company and fellow subsidiaries		
Management fees paid/ payable to a holding company	**(1.7)**	—
Short-term loan due to fellow subsidiaries	**(39.3)**	—
Notes held by fellow subsidiaries	**(303.6)**	(260.5)

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

35. PROVISIONS

	Employee benefits HK$ Million	**Others** HK$ Million	**Total** HK$ Million
At 1 January 2016	23.0	9.0	32.0
Exchange adjustments	—	(0.5)	(0.5)
Additional provisions for the year	39.8	6.0	45.8
Amount written back	(2.1)	—	(2.1)
Amount paid during the year	(20.3)	—	(20.3)
At 31 December 2016	40.4	14.5	54.9

	31/12/2016 **HK$ Million**	31/12/2015 HK$ Million
Analysed for reporting purposes as:		
— Current liabilities	**54.7**	31.8
— Non-current liabilities	**0.2**	0.2
	54.9	32.0

36. NOTES

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
US dollar denominated notes (the "US$ Notes")		
— 6.375% US dollar denominated notes maturing in September 2017 (the "6.375% Notes")	**1,777.9**	2,526.7
— 3% US dollar denominated notes maturing in December 2017 (the "3% Notes")	**464.5**	459.6
— 4.75% US dollar denominated notes maturing in May 2021 (the "4.75% Notes")	**2,511.7**	—
Renminbi denominated notes (the "RMB Notes")		
— 6.9% Renminbi denominated notes maturing in May 2018 (the "6.9% Notes")	**557.8**	595.4
	5,311.9	3,581.7
Analysed for reporting purposes as:		
— Current liabilities	**2,264.5**	79.6
— Non-current liabilities	**3,047.4**	3,502.1
	5,311.9	3,581.7

The US$ Notes were issued by a subsidiary, Sun Hung Kai & Co. (BVI) Limited, under a US$2 billion guaranteed medium term note programme. The US$ Notes are guaranteed by the Company. The 6.375% 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.

During the year, the Group purchased part of the 6.375% Notes with a total nominal value of US$9.7 million (2015: US$13.0 million) from the market at a consideration of HK$81.7 million (2015: HK$103.0 million). In May 2016, the Group made an exchange offer for the exchange of the 6.375% Notes with the 4.75% Notes at an exchange ratio of 1.05375, and for its general corporate funding purposes. The holders of the 6.375% Notes with a nominal value of US$115.5 million (including intra-group holdings of US$28.8 million) accepted the exchange offer to exchange for the 4.75% Notes with a nominal value of US$121.6 million (including intra-group holdings of US$30.3 million). In addition, the Group issued new 4.75% Notes with a nominal value of US$240 million at par.

The 4.75% Notes are listed on The Stock Exchange of Hong Kong Limited and are issued to professional investors only. The 4.75% Notes are guaranteed by the Company. The nominal value of the 4.75% Notes after eliminating the intra-group holdings was US$328.3 million or equivalent to HK$2,546.1 million at the reporting date. The fair value of the 4.75% Notes based on the price quoted from pricing service at the reporting date was HK$2,572.7 million which was categorised as Level 2.

36. NOTES *(CONTINUED)*

The nominal value of the 6.375% Notes outstanding after eliminating the intra-group holdings was US$225.8 million or equivalent to HK$1,751.8 million at the reporting date (31/12/2015: US$322.2 million or equivalent to HK$2,497.1 million). The fair value of the 6.375% Notes based on the price quoted from pricing service at the reporting date was HK$1,810.1 million (31/12/2015: HK$2,649.8 million) which was categorised as Level 2.

The nominal value of the 3% Notes was US$60.0 million or equivalent to HK$465.3 million (31/12/2015: US$60.0 million or equivalent to HK$465.0 million) at the reporting date. The fair value of the 3% Notes measured by discounted cash flow approach at the reporting date was HK$459.6 million (31/12/2015: HK$462.5 million) which was categorised as Level 2.

The RMB Notes were issued by a subsidiary, UA Finance (BVI) Limited, under a US$3 billion medium term note programme. The RMB Notes are unsecured and guaranteed by a non-wholly owned subsidiary.

The nominal value of the 6.9% Notes after eliminating the intra-group holdings was RMB495.0 million or equivalent to HK$552.7 million at the reporting date (31/12/2015: RMB495.0 million or equivalent to HK$590.8 million). The fair value of the 6.9% Notes based on the price quoted from pricing service at the reporting date was HK$578.6 million (31/12/2015: HK$595.4 million) which was categorised as Level 2.

37. SHARE CAPITAL

	Number of shares		**Share capital**	
	2016 Million Shares	2015 Million Shares	**2016 HK$ Million**	2015 HK$ Million
Issued and fully paid				
Balance brought forward	**2,229.0**	2,253.6	**8,752.3**	8,752.3
Shares cancelled after repurchase	**(36.0)**	(24.6)	**—**	—
Balance carried forward	**2,193.0**	2,229.0	**8,752.3**	8,752.3

During the year, the trustee of the SHK Employee Ownership Scheme (the "EOS") acquired 0.3 million shares (2015: nil) of the Company 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 period was HK$1.4 million (2015: nil), which has been deducted from the owners' equity. Further information is disclosed in the Management Discussion and Analysis section.

During the year, the Company repurchased its own shares through purchases on The Stock Exchange of Hong Kong Limited for HK$168.5 million (including expenses) (2015: HK$134.7 million). Further information is disclosed under the Directors' Report section.

38. ANALYSIS OF OTHER COMPREHENSIVE INCOME (EXPENSES)

	Exchange reserve HK$ Million	Revaluation reserve HK$ Million	Retained earnings HK$ Million	Non-controlling interests HK$ Million	Total HK$ Million
For the year ended 31 December 2016					
Available-for-sale investments	**—**	**0.7**	**—**	**(1.4)**	**(0.7)**
Exchange differences arising on translating foreign operations	**(292.8)**	**0.1**	**—**	**(198.2)**	**(490.9)**
Reclassification adjustment on disposal of subsidiaries	**(0.1)**	**—**	**—**	**—**	**(0.1)**
Transfer of revaluation surplus upon disposal of subsidiaries	**—**	**(10.1)**	**10.1**	**—**	**—**
Share of other comprehensive expenses of associates	**—**	**(4.9)**	**—**	**—**	**(4.9)**
Share of other comprehensive expenses of joint ventures	**—**	**(1.5)**	**—**	**—**	**(1.5)**
	(292.9)	**(15.7)**	**10.1**	**(199.6)**	**(498.1)**
For the year ended 31 December 2015					
Available-for-sale investments	—	(3.2)	—	(3.0)	(6.2)
Exchange differences arising on translating foreign operations	(198.4)	(0.6)	—	(148.0)	(347.0)
Reclassification adjustment on disposal of subsidiaries	(1.8)	(7.3)	—	—	(9.1)
Reclassification adjustment on liquidation of joint venture	(1.1)	—	—	—	(1.1)
Revaluation gain on properties	—	111.3	—	—	111.3
Share of other comprehensive income/(expenses) of associates	(0.2)	(0.3)	0.9	—	0.4
Share of other comprehensive (expenses)/income of joint ventures	—	2.5	—	—	2.5
	(201.5)	102.4	0.9	(151.0)	(249.2)

39. COMMITMENTS

(a) Operating leases commitments

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:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Within one year	**123.5**	154.0
In the second to fifth year inclusive	**75.2**	148.5
	198.7	302.5

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 five years. The lease commitments include rental payable to a joint venture of a holding company of HK$14.3 million (2015: HK$28.7 million) and an associate of a holding company of HK$5.0 million (2015: HK$1.9 million).

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Within one year	**22.1**	16.1
In the second to fifth year inclusive	**18.2**	16.1
	40.3	32.2

The Group has properties leased to tenants for rental. The lease terms and rentals are fixed at three to five years.

39. COMMITMENTS *(CONTINUED)*

(b) Loan commitments

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Within one year	**1,259.4**	953.7
In the second to fifth year inclusive	**—**	135.7
	1,259.4	1,089.4

(c) Other commitments

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Capital commitments for funds	**457.6**	411.5
Other capital commitments	**1.8**	1.9
	459.4	413.4

40. CONTINGENT LIABILITIES

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

	31/12/2016 HK$ Million	31/12/2015 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).

41. 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 2016 and 31 December 2015.

The Group monitors capital using a gearing ratio, which is net debts divided by the equity. Net debts represent the total of bank and other borrowings and notes less bank deposits, cash and cash equivalents. The equity comprises all components of equity attributable to the owners of the Company. The gearing ratio at the reporting date was as follows:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Bank and other borrowings	**4,810.3**	6,312.7
Notes	**5,311.9**	3,581.7
	10,122.2	9,894.4
Less: bank deposits, cash and cash equivalents	**(6,452.2)**	(7,149.0)
Net debts	**3,670.0**	2,745.4
Equity attributable to owners of the Company	**18,077.0**	18,007.6
Gearing ratio	**20.3%**	15.2%

42. 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 functions including Internal Audit, 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.

42. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(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. Proprietary trading across the Group is subject to limits approved by senior management. 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.

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 2016				At 31 December 2015			
	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% HK$ Million	**-20% HK$ Million**	**20% HK$ Million**	**-20% HK$ Million**	20% HK$ Million	-20% HK$ Million	20% HK$ Million	-20% HK$ Million
Local Index	**285.0**	**(294.0)**	**9.1**	**(9.1)**	235.0	(277.2)	9.8	(9.8)
Overseas Index	**806.6**	**(872.6)**	**12.8**	**(12.8)**	665.3	(772.5)	7.9	(7.9)

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.

42. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(a) Market Risk *(continued)*

(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 term financing and loans and advances to consumer finance customers. Interest spreads are managed with the objective of maximising spreads to ensure consistency with liquidity and funding obligations.

At 31 December 2016, assuming that market interest rates moved by ±50 basis points (31/12/2015: ±50 basis points), the profit before tax for the year for the Group would have been HK$5.7 million lower or HK$6.6 million higher respectively (2015: HK$10.8 million lower or HK$12.1 million higher respectively). Assets and liabilities bearing interest below 50 basis points are excluded from 50 basis points downward movement.

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 2016					
Loans and advances to consumer finance customers	**684.5**	—	—	—	**684.5**
Bank deposits, cash and cash equivalents	**1,696.5**	—	—	—	**1,696.5**
Bank borrowings	**(4,751.3)**	—	—	—	**(4,751.3)**
At 31 December 2015					
Loans and advances to consumer finance customers	981.9	—	—	—	981.9
Bank deposits, cash and cash equivalents	2,151.1	—	—	—	2,151.1
Bank borrowings	(6,277.7)	—	—	—	(6,277.7)

42. 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 2016					
Loans and advances to consumer finance customers	**2,113.6**	**3,434.3**	**1,952.6**	**88.4**	**7,588.9**
Bonds included in financial assets at fair value through profit or loss	**386.9**	**211.8**	**456.8**	**—**	**1,055.5**
Term loans	**343.6**	**2,160.6**	**343.7**	**—**	**2,847.9**
Bank deposits, cash and cash equivalents	**3,690.0**	**711.5**	**—**	**—**	**4,401.5**
Notes	**(50.4)**	**(2,214.1)**	**(3,047.4)**	**—**	**(5,311.9)**
Amount due to fellow subsidiaries	**(38.3)**	**—**	**—**	**—**	**(38.3)**
At 31 December 2015					
Loans and advances to consumer finance customers	2,759.6	3,098.9	1,853.6	128.0	7,840.1
Bonds included in financial assets at fair value through profit or loss	—	—	602.0	246.0	848.0
Term loans	224.8	1,147.4	1,956.6	—	3,328.8
Bank deposits, cash and cash equivalents	3,201.6	1,091.8	—	—	4,293.4
Notes	(72.9)	(6.7)	(3,502.1)	—	(3,581.7)

(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 senior management. The risk arises from open currency positions are subject to management approved limits and are monitored and reported daily.

At 31 December 2016, assuming that the foreign exchange rates moved ±5% (31/12/2015: ±5%) with all other variables held constant, the profit before tax for the year for the Group would have been HK$2.7 million higher/lower (2015: HK$13.1 million higher/lower).

42. 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 procedures, governed by the Executive Committee, sets out the credit approval processes and monitoring procedures, which are established in accordance with sound business practices.

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.

	31/12/2016 HK$ Million	**%**	31/12/2015 HK$ Million	%
Maximum credit exposure				
Loans and advances to consumer finance customers	**8,273.4**	**38%**	8,822.0	39%
Bank deposits, cash and cash equivalents	**6,452.2**	**30%**	7,149.0	31%
Trade and other receivables	**3,995.4**	**19%**	3,575.9	16%
Bonds included in financial assets at fair value through profit or loss	**1,055.5**	**5%**	1,626.9	7%
Loan commitments	**1,259.4**	**6%**	1,089.4	5%
Amounts due from associates and joint ventures	**313.3**	**1%**	183.6	1%
Guarantees	**186.6**	**1%**	139.2	1%
	21,535.8	**100%**	22,586.0	100%

The maximum credit exposure at Group level is spread between "loans and advances to consumer finance customers" and "bank deposits, cash and cash equivalents", which represents more than two thirds of the total exposure. The breakdown and ageing analysis of "loans and advances to consumer finance customers" and the breakdown of "bank deposits, cash and cash equivalents" are disclosed in Notes 29 and 31 to the consolidated financial statements.

Loans with strategic clients are all properly authorised by the Executive Committee and with other controls in place to monitor their performance.

Concentration risk of loans and advances to consumer finance customers is managed by reference to individual customers. The aggregate credit exposure in relation to the ten largest outstanding consumer finance customers, including corporate entities and individuals, before taking into account any collateral held or other credit enhancements, at 31 December 2016 was HK$662.5 million (31/12/2015: HK$465.9 million) of which 47.1% (2015: 77.1%) was secured by collateral. There was no recent history of individual impairment allowance recognised.

42. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

(b) Credit Risk *(continued)*

The unsecured loans and advances to consumer finance customers of the Group include second mortgage loans in respect of which the Group are not entitled to the first charge of relevant mortgage properties. The management consider that the second mortgage loans are classified as unsecured loans due to the impediment in repossession of the mortgage properties and the practical difficulties to ascertain the residual collateral value after claim by first mortgagee. The carrying amount and the loan commitments of the second mortgage loans are as follows:

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Carrying amount	**380.0**	466.2
Loan commitments	**15.5**	23.6

Bank deposits, cash and cash equivalents is maintained in reputable banks with high credit rating, the credit risk is considered as remote.

(c) Liquidity Risk

The goal of liquidity management is to mitigate risk that a given security or asset cannot be traded quickly enough in the market to prevent a loss or make the required profit. Another goal 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. This is achieved by a transparent and collective monitoring approach across the Group involving Executive Directors, the Director of Banking & Treasury and the Group CFO.

42. 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 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 2016					
Bank and other borrowings+	**1,325.6**	**878.0**	**2,768.1**	—	**4,971.7**
Trade and other payables	**73.5**	—	—	—	**73.5**
Amounts due to fellow subsidiaries and a holding company	**41.0**	—	—	—	**41.0**
Amounts due to associates	**1.9**	—	—	—	**1.9**
Notes	**62.7**	**2,379.3**	**3,475.1**	—	**5,917.1**
Indemnities on banking facility made available to joint venture^	**104.7**	—	—	—	**104.7**
Guarantees*	**33.5**	**40.0**	**9.5**	—	**83.0**
Financial liabilities at fair value through profit or loss	**115.3**	—	—	—	—
At 31 December 2015					
Bank and other borrowings+	1,219.5	882.4	4,499.2	—	6,601.1
Trade and other payables	94.6	—	—	—	94.6
Amounts due to associates	0.1	—	—	—	0.1
Notes	86.6	127.3	3,787.0	—	4,000.9
Guarantees*	14.6	114.0	13.9	—	142.5
Financial liabilities at fair value through profit or loss	177.9	—	—	—	177.9

+ 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 amount represents the maximum amount the Group could be required by the counterparty bank to indemnity for the loans drawn by a joint venture under a banking facility guaranteed by the Group. Based on the expectation at the end of the reporting period, the Group considers that it is remote for such contingent liabilities to be materialised.

* 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.

43. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2016, the Group disposed of two wholly-owned property holding subsidiaries to an associate of a holding company for HK$100.7 million. The Group also disposed of the entire interest in a subsidiary to its non-controlling shareholder for HK$5.9 million. The net assets of the subsidiaries at the dates of disposal were as follows:

	HK$ Million
Non-current Assets	
Investment properties	109.0
Equipment	0.1
	109.1
Current Assets	
Trade and other receivables	2.4
Cash and cash equivalents	2.5
	4.9
Current Liabilities	
Trade and other payables	(2.2)
Taxation payable	(0.1)
	(2.3)
Net Current Assets	2.6
Non-current Liabilities	
Deferred tax liabilities	(26.1)
Net assets disposed of	85.6
Net cash inflow arising on disposal	
— Cash consideration	106.6
— Cash and cash equivalents disposed of	(2.5)
	104.1

43. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

The profit on disposal of the subsidiaries is as follows:

	HK$ Million
Cash consideration received	106.6
Net assets disposed of	(85.6)
Non-controlling interests	1.2
Release of reserves on disposal	0.2
Taxation	(3.5)
	18.9

On 2 June 2015, the Company completed the disposal of 70% interest in Sun Hung Kai Financial Group Limited ("SHKFGL"). SHKFGL and its subsidiaries carry out businesses in Wealth Management and Brokerage segment and Capital Markets segment. The proceeds on disposal of HK$4,095.0 million were received in cash. Upon the disposal, the fair value of the remaining 30% interest in SHKFGL on the disposal date of HK$1,644.0 million was classified as an interest in associate and the amounts due from the subsidiaries of SHKFGL were classified as amounts due from associates. Such amounts included a 1-year shareholder loan of HK$1,061.6 million (interest at 6% p.a. for the first 6 months and 8% p.a. thereafter) advanced by the Group to a subsidiary of SHKFGL. The loan was guaranteed by the controlling shareholder of SHKFGL and a subsidiary of SHKFGL and was secured by a share charge over the shares of SHKFGL owned by the controlling shareholder after the disposal. The loan was fully repaid in October 2015.

43. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

The profit from discontinued operations (the consolidated profit of SHKFGL up to the date of the disposal and the profit on disposal of SHKFGL) is analysed as follows.

	2015 HK$ Million
Revenue	603.5
Other income	0.3
Total income	603.8
Brokerage and commission expenses	(167.7)
Advertising and promotion expenses	(5.5)
Direct cost and operating expenses	(11.2)
Administrative expenses	(199.1)
Net gain on financial assets and liabilities	2.1
Net exchange loss	(4.3)
Bad and doubtful debts	11.9
Finance costs	(6.4)
Other expenses	—
	223.6
Share of results of joint ventures	1.8
Profit before taxation	225.4
Taxation	(30.1)
Profit for the year from discontinued operations	195.3
Profit on disposal of SHKFGL	3,033.5
Profit for the year from discontinued operations (attributable to owners of the Company)	3,228.8

The profit on disposal of SHKFGL included HK$802.4 million attributable to measuring the 30% retained interests in SHKFGL at its fair value at the date when control was lost. The fair value of the 30% retained interests is based on a business valuation report prepared by an independent qualified professional valuer, Norton Appraisals Limited. The valuation used the discounted cash flow approach and is based on certain key assumptions including an average growth rate of 32.4% from 2015 to 2020, a sustainable growth rate of 3%, a non-controlling interest discount rate of 9% and a discount rate of 13.3%.

The cash flows from discontinued operations is analysed as follows:

	2015 HK$ Million
Net cash from operating activities	67.0
Net cash used in investing activities	(9.5)
Net cash from financing activities	58.5
Net cash inflows	116.0

43. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

The consolidated net assets of SHKFGL at the date of disposal were as follows:

	HK$ Million
Non-current Assets	
Equipment	30.0
Intangible assets	87.6
Interest in joint ventures	43.2
Available-for-sale investments	11.9
Statutory deposits	45.3
Deferred tax assets	2.9
Trade and other receivables	7.4
Deposits for acquisition of equipment	1.5
	229.8
Current Assets	
Financial assets at fair value through profit or loss	0.2
Taxation recoverable	2.1
Amounts due from joint ventures	0.3
Amounts due from fellow subsidiaries and a holding company	5.6
Trade and other receivables	6,994.9
Cash and cash equivalents	539.3
	7,542.4
Current Liabilities	
Bank borrowings	(58.5)
Trade and other payables	(3,666.4)
Amounts due to fellow subsidiaries and a holding company	(1,155.9)
Provisions	(22.4)
Taxation payable	(47.5)
	(4,950.7)
Net Current Assets	2,591.7
Non-current Liabilities	
Deferred tax liabilities	(4.1)
Provisions	(12.0)
	(16.1)
Net assets disposed of	2,805.4
Net cash inflow arising on disposal	
— Cash consideration	4,095.0
— Expenses incurred	(12.6)
— Cash and cash equivalents disposed of	(539.3)
	3,543.1

43. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

The profit on disposal of SHKFGL is as follows:

	HK$ Million
Cash consideration received	4,095.0
Net assets disposed of	(2,805.4)
Retained interest in an associate	1,644.0
Put right for the retained interest in an associate procured on disposal*	111.0
Call option for club membership procured on disposal	9.3
Release of reserves on disposal	9.1
Transaction costs	(29.5)
Profit on disposal of SHKFGL	3,033.5

* The Group may, during the option periods (which are the period of six months commencing on the third and fifth anniversaries of the completion date) or following the occurrence of certain trigger events, exercise its put right to require the buyer to buy some or all of the shares it holds in SHKFGL at a price per share equal to the consideration per share paid by the buyer for the acquisition of the 70% interest plus a pre-agreed annualised yield of 8.8% compounding less dividend. Further details have been disclosed in the Company's circular dated 27 February 2015, Company's announcement dated 2 June 2015 and Note 26. The fair value of the put right at the disposal date is determined by an option model with certain key assumption including a volatility of 56.0%, risk free rate of 0.6% and equity growth rate of 4.7%.

Upon the completion of the disposal of 70% interest in SHKFGL, the properties that were rented to the subsidiaries of SHKFGL and classified as property and equipment with carrying amount of HK$16.2 million before the disposal were transferred to investment properties measured at fair value of HK$132.5 million as the properties were continued to be rented to the subsidiaries of SHKFGL. The difference of HK$111.3 million between the carrying amount and the fair value of the properties was recognised in revaluation reserve, net of deferred tax of HK$5.0 million.

44. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31/12/2016 HK$ Million	31/12/2015 HK$ Million
Non-current Assets		
Property and equipment	**4.3**	5.9
Intangible assets	**1.5**	1.1
Interest in subsidiaries	**4,094.1**	4,097.0
Interest in associates	**700.8**	700.8
Amounts due from subsidiaries	**7,922.1**	6,809.2
Amounts due from associates	**59.8**	59.8
	12,782.6	11,673.8
Current Assets		
Amounts due from subsidiaries	**263.9**	579.5
Other receivables	**3.4**	1.2
Tax recoverable	**0.8**	—
Cash and cash equivalents	**1,935.3**	1,667.0
	2,203.4	2,247.7
Current Liabilities		
Amounts due to subsidiaries	**2,117.8**	339.6
Trade and other payables	**13.5**	36.6
Provisions	**40.3**	22.9
Trade payable to a holding company	**—**	—
Taxation payable	**—**	0.2
	2,171.6	399.3
Net Current Assets	**31.8**	1,848.4
Total Assets less Current Liabilities	**12,814.4**	13,522.2
Capital and Reserves		
Share capital	**8,731.0**	8,731.0
Reserves	**4,083.2**	4,791.1
Equity attributable to owners of the Company	**12,814.2**	13,522.1
Non-current Liabilities		
Provisions	**0.2**	0.1
	12,814.4	13,522.2

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 22 March 2017 and are signed on its behalf by:

Lee Seng Huang
Director

Peter Anthony Curry
Director

45. RESERVES OF THE COMPANY

	2016 **HK$ Million**	2015 HK$ Million
Retained earnings		
Balance at 1 January	**4,791.1**	2,477.8
Profit attributable to owners of the Company	**36.0**	3,031.4
Dividends paid	**(575.4)**	(583.4)
Shares repurchased	**(168.5)**	(134.7)
Balance at 31 December	**4,083.2**	4,791.1
Total balance at 31 December	**4,083.2**	4,791.1

The distributable reserves of the Company at 31 December 2016 amounted to HK$3,473.1 million (31/12/2015: HK$4,180.9 million), being its net realised profits calculated under Section 291 of the Hong Kong Companies Ordinance.