BUSINESS REVIEW

Annual Report 2017

新鴻基有限公司
SUN HUNG KAI & CO. LIMITED

Stock Code: 0086

WHO WE ARE

Sun Hung Kai & Co. Limited

Sun Hung Kai & Co. Limited (the “Group”) is an investment firm headquartered in Hong Kong. Since its establishment in 1969, the Group has owned and operated market-leading businesses in financial services. Building on its rich heritage, experience and network, the Group aims to generate long-term capital growth for its shareholders through a diverse, yet complementary, portfolio of businesses and investments across multiple asset classes. It is the major shareholder of leading consumer finance firm United Asia Finance, and a substantial shareholder of Everbright Sun Hung Kai. The Group currently holds about HK$37 billion* in total assets.

*As at 31 December 2017

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Endure. Adapt. Excel

HISTORY AND MILESTONES

INNOVATION

Our innovative business model blends strategic vision, industry insight, a solid network and investment heritage – allowing us to deliver strong and stable returns.

PRUDENCE

We are focused on long-term value creation, remaining true to a disciplined investment strategy that best protects our stakeholders' interests.

INTEGRITY

In the pursuit of growth and expansion, we uphold the highest standards of business ethics, accountability and integrity, and are proud to be a fair player in the industry and a responsible corporate citizen.

1969

Founded by Mr Fung King Hey, Mr Kwok Tak Seng and Mr Lee Shau Kee, Sun Hung Kai & Co was incorporated and commenced brokerage and related financial businesses.

1983

The Company, Sun Hung Kai & Co. Limited. was formed and listed on the Hong Kong Stock Exchange.

1996

Allied Properties (H.K.) Limited acquired the Fung family's equity interest in the Company. In subsequent years, the brokerage business continued its growth by expanding into Mainland China and becoming an industry pioneer in online stock trading.

2006

Entered consumer finance by acquiring a majority stake in UA Finance.

PROFESSIONALISM

The Group's investment portfolio is managed by an experienced and diverse team with deep operating expertise across multiple geographies.

EXCELLENCE

Constantly fine-tuning our investment protocol and operations, we strive for excellence on all fronts.

2007

UA Finance commenced business in Shenzhen as one of the first foreign owned micro loan companies in China.

The brokerage business expanded into wealth management and was subsequently branded Sun Hung Kai Financial.

2011

The SHK Private brand was established, solidifying Sun Hung Kai Financials' market position as an independent wealth management platform.

2012-2013

UA Finance continued to expand its China network and opened its 100th branch in China.

2015

Everbright Securities Company Limited acquired 70% of the Sun Hung Kai Financial business, a move aligned with the Group's long stated strategy to gain greater access to the fast-developing wealth management sector in Mainland China.

The Company retains a 30% interest in the entity (later renamed Everbright Sun Hung Kai).

Sun Hung Kai Credit was established, focusing on the mortgage loan business in Hong Kong.

Invested in LSS Leasing, a car finance leasing joint venture.

Began to expand the Principal Investments platform.

2017

As online channels became more and more important to UA Finance, it formed a partnership with China Unionpay to market SME loan products to the latter's point-of-sale terminal users. UA Finance also launched its own branded online lending platform, UA Yirongzhan.

FINANCIAL HIGHLIGHTS

2017 Highlights

Attributable Profit
HK$1,824m
⬆ **64%**

Basic EPS
HK$0.84
⬆ **67%**

Return on Equity
9.7%
⬆ **360bp**

BVPS
HK$9.02
⬆ **9%**

Revenue

2017	HK$3,796m
2016	HK$3,511m

+8%

Pre-tax Profit

2017	HK$2,609m
2016	HK$1,502m

+74%

Statement of Financial Position Highlights

(HK$ Million)	2017	2016	Change
Loans and advances to customers	14,439.0	11,121.3	30%
- Consumer finance	9,163.6	7,660.3	20%
- Principal Investments (Term loans in Private Credit)	3,155.0	2,847.9	11%
- Mortgage Loans	2,120.4	613.1	246%
Total Borrowings	11,928.1	10,122.2	18%
- Current	3,275.9	4,357.1	-25%
- Long term	8,652.2	5,765.1	50%
Bank deposits, cash and cash equivalents	2,911.4	6,452.2	-55%
Total assets	37,422.2	32,560.9	15%
Shareholders' equity	19,426.7	18,077.0	7%

	2017	2016
Financial Ratios		
Return on assets	6.6%	4.2%
Return on shareholders' equity	9.7%	6.1%
Net gearing	46.4%	20.3%
Per Share Data		
Earnings per share		
- Basic (HK cents)	84.0	50.3
- Diluted (HK cents)	83.9	50.2
Dividend per share (HK cents)	26.0	26.0
Book value per share (HK$)	9.0	8.2

	2017	2016
Share Information		
No of shares in issue at year end (million)	2,153.0	2,193.0
Weighted average number of shares (million)	2,172.5	2,207.8
Share price (HK$)		
- High	5.86	5.12
- Low	4.77	4.18
- Close	4.99	4.80
Market capitalisation (HK$ million)	10,743.5	10,526.4

2017 Segment Assets and Contribution (HK$ Million)	Assets^	Pre-tax Profit	Change
Consumer Finance • UA Finance (58%) - unsecured lending in Hong Kong, China • Individuals and SME's • Market leader in Hong Kong	16,032	1,445	**99%**
Principal Investments • Leverage on our know-how and network • Equity, debt and real estate portfolio • Strategic and liquidity management portfolio	15,937	1,082	**129%**
Financial Services • EBSHK(30%) - wealth management in Hong Kong and comprehensive financial services platform • LSS Leasing (40%) - Car leasing in China • Other financial services firms	2,483	119	**-35%**
Mortgage Loans • Sun Hung Kai Credit - Mortgage and home equity loans in Hong Kong for home owners and buyers	2,185	35	**1844%**
Group Management and Support • Cost of funding charged to investments • Other unallocated assets and expenses	785	-72	
^ period end	37,422	2,609	**74%**

GLOBAL VALUE INVESTMENT

Financial Services

Since the Group's foundation 48 years ago, Sun Hung Kai & Co. Limited has a history of leading the field and this sector will continue to be our core. Through our portfolio of businesses, today the Group acts as a facilitator and liquidity provider to customers – ranging from corporates to retail consumers – offering a full spectrum of funding solutions include loans, wealth management, automobile supply chain finance, and mortgages etc.

UA Finance – A market leader in the Hong Kong Consumer Finance market and consistently ranked as one of the top unsecured loan providers in the non-bank sector. Celebrating its 10th anniversary in Mainland China, UA Finance was among the first foreign owned consumer finance companies there. With its vast branch network throughout China as well as growing on-line presence, it will continue its O2O approach which balances the power of online reach, as well as the "last mile" services to its customers

Everbright Sun Hung Kai – A full – service financial institution that spans wealth management and broking, corporate finance and capital markets, asset management and investment and structured financing. The business combines the local heritage of the Group as well as the Mainland network of Everbright group to tap the growing cross border capital flow as well as the rising demand for wealth management services.

LSS Leasing – In partnership with the Brilliance China Group and 58.com, LSS Leasing connects financing to traditional and new O2O transport models, from corporates to individual customers

Since the transformation of the Group in 2015, we have extended our sector reach globally through the investment platform, such as our investment in Fairstone Financial Inc, Canada's leading provider of affordable borrowing solutions.

Technology

Leveraging technology as an integral component of the finance industry's development, the Group has invested in a number of fintech companies. In addition to their long-term growth potential, the businesses also enjoy synergies with the Group's existing operations.

Healthcare

The Group invests in a range of health care companies, either directly or through partner funds, including health care technology, health care brokers, health care service providers and pharmaceutics. As the global population ages, the Group sees significant potential in health care and related businesses.

Real Estate

We selectively invest in real estate and hospitality projects with attractive risk profiles and robust downside protection. The Group's wide geographical reach helps us hedge risks and leverage attractive opportunities in real estate.

INVESTMENT STRATEGIES

Synergy-Focused Investments

We invest in companies that offer synergies with our existing businesses, are geographically complementary or protect us from cyclical business movements. Working in partnership with management, we bring to the table expertise, connections and insights from our own operations and business network.

Seamless Partnership and Network

We work with external partner funds, which are selected based on their medium-to-long-term track record, strategic fit and access to co-investment opportunities. The Group has developed a comprehensive global network which continues to expand, based on deep and extensive industry knowledge that enables us to seek out the best partnerships at the most opportune times.

Agile, Professional Team

Investments are led and managed by an experienced and professional team, with deep understanding of a wide range of industries and markets. The team is supported by state of the art technology and exceptional middle and back office talent – all focused on enabling smooth, swift and prudent investment decisions.

CHAIRMAN’S LETTER

Since the transformation of the Group two years ago, we have now firmly embarked on this strategy, and the early results have been very encouraging.

Dear Shareholders

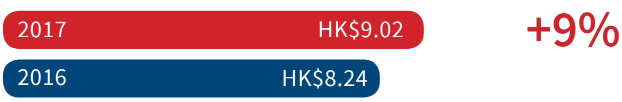
I am pleased to share with you the results of the Group for the year ended 31 December 2017, our strategy, as well as some key highlights for the year.

Financial Results and Capital Management

For the year 2017, book value per share gained 9.5% to HK$9.02 as at 31 December 2017. Return on equity and return on assets continued to improve and reached 9.7% and 6.6% respectively (2016: 6.1% and 4.2%).

Profit attributable to owners of the Company was HK$1,824.3 million, a substantial increase of 64.4% over HK$1,109.6 million for 2016.

Book Value per Share Gained



During the year, the Company has continued to repurchase and subsequently cancelled approximately 40 million shares for a total consideration of HK$196.2 million as part of our on-going capital management plan to return HK$1 billion to shareholders. So far approximately HK$437 million of this program has been completed. As a result of the share repurchases, the increase in basic earnings per share was higher than the profit growth, at 67.0% (2017: HK84 cents vs 2016: HK50.3 cents).

The Board of Directors has declared a second interim dividend of HK14 cents bringing the total dividend per share to HK26 cents for 2017 (2016: HK26 cents).

Profit Attributable to Owners of the Company Gained

Seeking Long Term Capital Growth

We started to transform the Group about two years ago, with the sale of the majority interest in Sun Hung Kai Financial. Our objective being to deliver long-term capital growth to our shareholders by leveraging our balance sheet across a diverse yet complementary portfolio of businesses, investments and multiple asset classes. We are well underway with the implementation of the strategy for that and the results have been very encouraging.

Return on Equity

The Group’s heritage is in financial services where we have been operating market-leading businesses for over 48 years, and this will continue to be our core. We have also been active in the technology, healthcare and real estate sectors, through investments in both equity and debt.

Business Portfolio

UA Finance, a 58% owned subsidiary operating under the Consumer Finance segment, nearly doubled its pre-tax contribution, with solid performances both in Hong Kong and Mainland China. Its profit after tax attributable to shareholders reached an all-time high of HK$1,162.6 million.

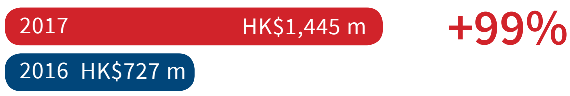
In Mainland China, the business has shown a sustained improvement since the economic downturn in 2014 and its subsequent turnaround. Today, it operates on a much more efficient platform with increasing online originations and a streamlined cost structure. For example, in 2017 the number of loans disbursed was 75% higher and was achieved with fewer people and on 28% lower operating costs than in 2014.

Gross Loan Balance in Mainland China

Between 2014 and 2016, we re-visited credit policies, reduced average loan sizes and thus reduced our total loan book. I am pleased to report that UA Finance has, with continued prudent underwriting and on improving credit quality, increased its gross loan balance by 50% in Mainland China in 2017. Bad debts are well down. The loan portfolio is balanced across individual consumers and a diversified SME customer base. The partnership with China UnionPay was a key driver for the latter category, which also highlighted the effectiveness of using better data analytics as we continue to refine our online strategy in China. Recently, the sector has faced changes as the PRC government continues to introduce new regulations for online lending. With our established presence, both online and offline, plus our fully licensed platform, we welcome greater regulation of the sector and are confident that we will emerge stronger from the shake out of non-compliant lenders in the industry.

The Sun Hung Kai Financial business, in which the Group retains a 30% shareholding, was rebranded to Everbright Sun Hung Kai ("EBSHK") in December 2017, marking its integration with Everbright Securities. Leveraging on its local heritage as part of the Group and the Mainland network of its new parent, EBSHK has emerged as a full-fledged financial platform offering cross-border and international financial services. Its client assets under management, custody and/or advice surpassed HK$100 billion at the end of 2017.

Consumer Finance Pre-tax Contribution Gained



In addition, the two businesses we have built over the last two years are starting to contribute meaningfully. Sun Hung Kai Credit's loan book surpassed HK$2 billion at the end of 2017 and made a pre-tax contribution of HK$35 million. By leveraging on our Consumer Finance experience in Hong Kong, we were quick to adjust to market dynamics to establish a strong foothold in the first mortgage market, forming alliances with mid-tier property developers as well as agents. Sun Hung Kai Credit is now a full-service mortgage business with a comprehensive offering, catering to all segments.

LSS Leasing, the car finance leasing business based in Shanghai, built multiple alliances leveraging on our joint venture partners Brilliance China Group as well as 58.com and extended its business reach. Our financial services sector expertise has landed us attractive direct investment transactions during the year, which in turn created further partnership opportunities for our existing businesses.

Established Investment Platform

The Principal Investments segment contributed more than HK$1 billion to pre-tax profit in 2017 with all asset strategies contributing. Over the past two years, we have established a robust and professional investment platform with capabilities across multi-asset classes. We have seen an improving pipeline of opportunities, and we have built a reputation in the market as an investment firm with a "family office" approach — a professional organisation with fast decision-making processes, in-depth industry knowledge as well as a longer-term investment horizon.

Principal Investments Pre-tax Contribution Gained

We have built a robust, scalable model for future growth which has allowed us to collaborate with other family offices and institutions locally as well as internationally. As we continue to build our investment performance track record, the potential is there to open up our platform to other like-minded investors.

In addition to the progress made on our business, we successfully issued US$550 million 5-year guaranteed notes at 4.65% coupon in September 2017. This is our largest public issue following the establishment of our Medium Term Note Programme in 2012 and we are steadily building a track record in the debt capital market. The strong response to the latest issue was an encouraging signal of the market's confidence in the Group, and this will be an important factor in supporting the Group's future growth.

The past two years have been critical transitional years for the Group. For the significant progress we have made, I owe my gratitude to my fellow board members for their guidance and wisdom, to our stakeholders for their continued support and my colleagues for their dedication and diligence throughout the year.

Lee Seng Huang
Group Executive Chairman

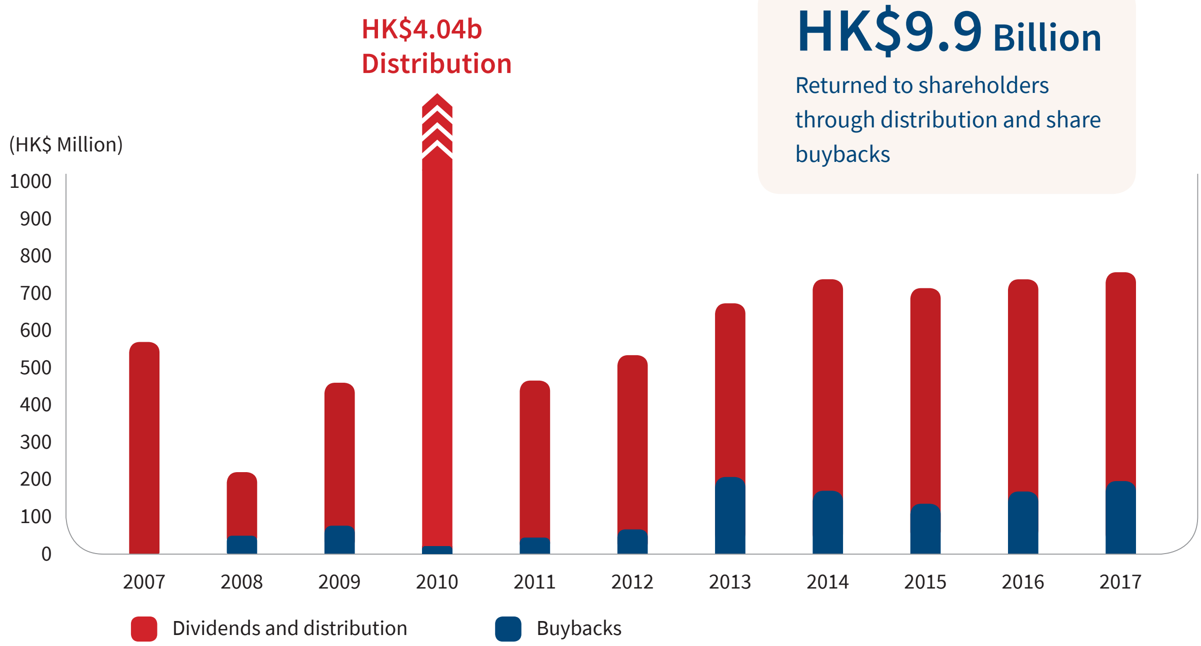
Hong Kong, 21 March 2018

CREATING VALUE FOR SHAREHOLDERS

Sun Hung Kai & Co. has a solid track record of delivering returns to shareholders through dividends and distribution, share repurchase and long term capital growth. The current management, at the helm since 2007, has steered the Group through volatile market cycles including major financial crises. During this time, we have made our foray into the consumer finance sector which has now become a significant contributor to the Group. We have also transformed a traditional brokerage business into the leading independent wealth management in Hong Kong.

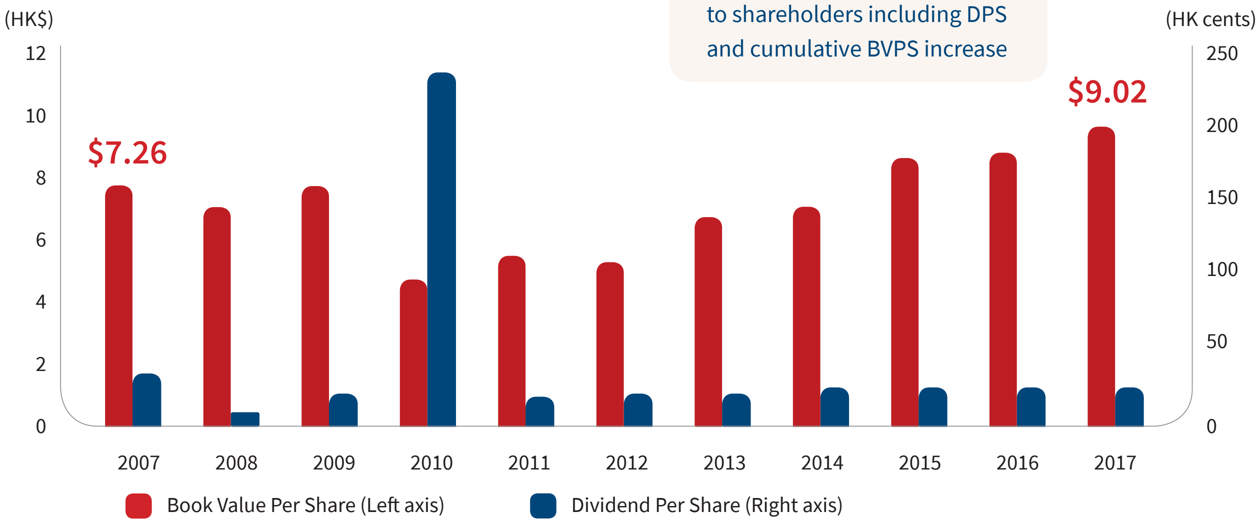
The sale of the majority stake of the Sun Hung Kai Financial business in 2015 has crystallised significant value for the Group whilst maintaining our exposure to future growth of the business through with a strong partner, Everbright Securities. The investment model that we have embarked on since 2015 combines the best of the Group's heritage, knowledge and network and marks the next phase of growth for the Group and our shareholders.

Track Record of Capital Return



Value Accretion

11.6% IRR
to shareholders including DPS and cumulative BVPS increase



Awards and Recognition

Awards	Years
Best of Asia	
Outstanding Company on Corporate Governance	2016-2017
Asian Corporate Director Recognition Award	2017
Corporate Governance Asia's Asian Excellence Award	
Best Investor Relations Company (Hong Kong)	2016-2017
Asia's Best CFO (Investor Relations, Hong Kong)	2017
Best Investor Relations Professional (Hong Kong)	2017
The Asset's Excellence in Management and Corporate Governance	2013-2017
Gold Award Winner	
Caring Company	2016-2018
Good MPF Employer Award	2014-2017
e-Contribution Award	2016-2017
Support for MPF Management Award	2016-2017

MANAGEMENT DISCUSSION AND ANALYSIS

Results Analysis

The Group's revenue was HK$3,795.6 million for the year 2017, an increase of 8.1% year-on-year revenue mainly consists of interest income. Total loans and advances to customers increased by 29.8%, which accelerated towards the end of the year.

Total Loans and Advances to Customers by Segment

(HK$ Million)	2017	2016	Change
Consumer Finance	9,164	7,660	19.6%
Mortgage Loans	2,120	613	245.8%
Principal Investments (term loans under Private Credit)	3,155	2,848	10.8%
Total	14,439	11,121	29.8%

Operating costs increased 7.0% to HK$1,461.9 million, less than the corresponding increase in turnover.

Finance costs were HK$544.3 million, higher than HK$488.3 million in 2016, as a result of the increase in total debt in 2017, as we strive to optimise our balance sheet.

The total bad and doubtful debts expense was HK$386.7 million, 56.8% lower than 2016. Mainland China business of Consumer Finance has achieved sustained improvement in credit quality, reducing total bad debts expense significantly.

The Group's Principal Investments business generated strong returns during the year.

The pre-tax profit of the Group (before non-controlling interests) amounted to HK$2,608.5 million (2016: HK$1,501.6 million).

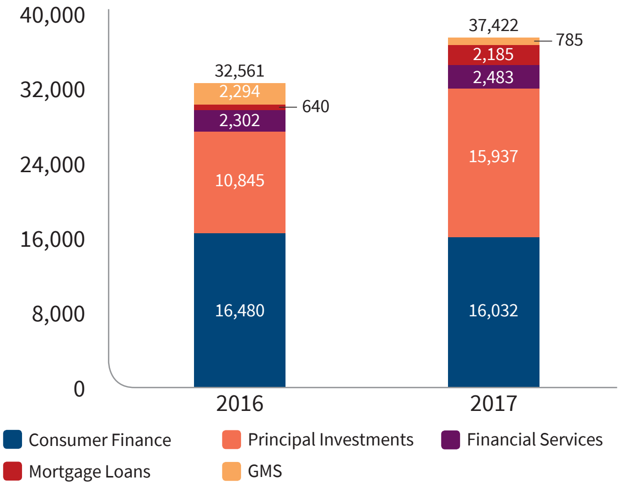
Business Review

The profit before tax by segment, before non-controlling interests, is analysed as follows:

(HK$ Million)	2017	2016	Change
Consumer Finance	1,444.7	726.6	98.8%
Principal Investments	1,082.3	472.6	129.0%
Financial Services	118.6	182.3	-34.9%
Mortgage Loans	35.0	1.8	1844.4%
GMS	(72.1)	118.3	n.a.
Total	2,608.5	1,501.6	73.7%

Assets by Segment

(HK$ Million)



Group Management and Support ("GMS") reflects unallocated corporate support and treasury costs and income. Cost of capital and finance cost are charged to the other segments to account for its capital usage as well as internal borrowings. The assets in GMS consist of the Group treasury portfolio as well as other unallocated assets. The difference between 2017 and 2016 pre-tax contribution is mainly explained by the increased amount of unallocated finance cost.

Consumer Finance

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

Segment Full Year Results

(HK$ Million)	2017	2016	Change
Revenue	3,122.2	3,024.2	3.2%
Operating costs	(1,146.0)	(1,169.0)	-2.0%
Cost to income (% Revenue)	36.7%	38.7%	
Finance costs	(202.1)	(243.7)	-17.1%
Bad and doubtful debts	(297.3)	(928.5)	-68.0%
Other income – net	8.4	4.7	
Exchange (loss) gain*	(40.5)	38.9	
Pre-tax contribution	1,444.7	726.6	98.8%

* Substantially from the conversion of RMB denominated debt translated to Hong Kong dollars

The segment's revenue increased by 3.2%, lower than the 14.7% growth in the gross loan balance, as the latter was skewed towards the end of 2017. However, the contribution to pre-tax profit grew by 98.8% to HK$1,444.7 million. This result was driven by a significant turnaround in the Mainland China business and a record profit from Hong Kong.

UAF's profit after tax attributable to shareholders reached a historical high of HK$1,162.6 million (2016: HK$623.8 million), generating a 14.5% return on its average shareholders' funds of HK$8 billion during the year, compared to 8.4% last year.

The half-yearly results analysis below demonstrates the positive momentum from the restructuring in Mainland China which is now largely complete. The restructuring produced satisfactory trends in cost-to-income, the charge-off ratio as well as profit contribution. Costs were reduced by downsizing the branch network, and credit risk was contained by having a more diversified portfolio and an increased focus on salaried workers.

Half Yearly Trend Analysis on Key Profitability Metrics from 2016 – 2017

(HK$ Million)	Jul – Dec 2017	Jan – Jun 2017	Jul – Dec 2016	Jan – Jun 2016
Revenue	1,647.5	1,474.7	1,517.7	1,506.5
Pre-tax contribution	821.5	623.2	539.5	187.1
Operating costs	(613.5)	(532.5)	(565.3)	(603.7)
Cost to income (% Revenue)	37.2%	36.1%	37.2%	40.1%
Charge Off	(285.0)	(324.6)	(335.1)	(570.4)
Charge-off ratio*	6.2%	7.6%	7.9%	12.7%
Total Bad and doubtful debts	(100.3)	(197.0)	(328.0)	(600.5)

* Annualised on the average gross loan balance

Key Operating Data

	2017	2016	Change
Loan book data at year end:			
Net loan balance (HK$ Million)	9,163.6	7,660.3	19.6%
Gross loan balance (HK$ Million)	9,826.9	8,566.6	14.7%
– Hong Kong	6,544.2	6,373.5	2.7%
– Mainland China	3,282.7	2,193.1	49.7%
Average gross balance per loan (HK$)	44,938	45,202	-0.6%
– Hong Kong (HK$)	53,126	54,654	-2.8%
– Mainland China (RMB)	28,628	26,941	6.3%
Ratios for the year:			
Total return on loans*	33.9%	33.4%	
– Hong Kong	32.9%	31.8%	
– Mainland China	36.5%	37.3%	
Charge-off ratio*	6.6%	10.0%	
– Hong Kong	4.8%	5.6%	
– Mainland China	11.0%	21.2%	

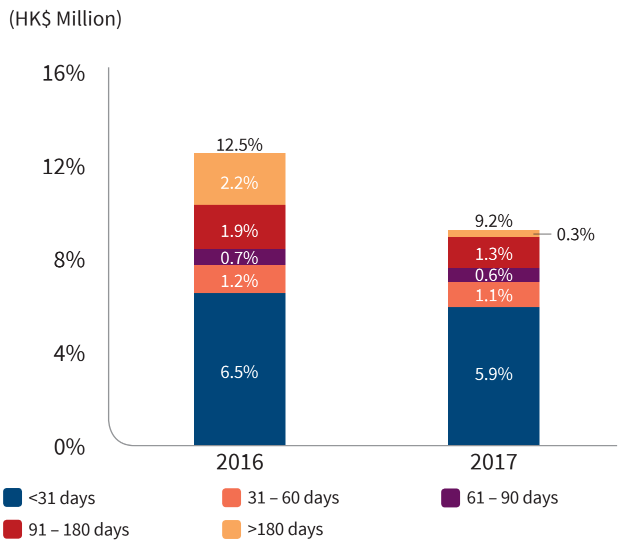
* On average gross loan balance

At the end of 2017, the consolidated gross loan balance amounted to HK$9.8 billion, a 14.7% increase year-on-year. The gross balances attributed to Hong Kong and Mainland China loans rose by 2.7% and 49.7% year-on-year respectively. The loan book in the PRC amounted to 33.4% (31 December 2016: 25.6%) of the consolidated gross loan balance.

Bad Debts and Delinquency

(HK$ Million)	2017	2016
Amounts written off	(772.3)	(1,065.7)
Recoveries	162.7	160.2
Charge off	(609.6)	(905.5)
As % of average gross loans	6.6%	10.0%
Written back (Charges) to impairment allowance	312.3	(23.0)
Total charges for bad and doubtful debts	(297.3)	(928.5)
Impairment allowance at year end	663.3	906.3
As % of year end gross loans	6.7%	10.6%

Ageing Analysis for Loans Past Due but not Impaired



Note: amount as a % of net loan balance.

During the year, the charge-off ratio improved from 10.0% to 6.6% as a result of the improvement in the China business. Total bad and doubtful debts expense decreased by 68.0% to $297.3 million. This is the net of bad debts written off, recoveries, as well as the charges to (or write back from) the impairment allowance. The impairment allowance is calculated based on the historical charge off rates, loan growth amount and remaining tenor of the loan portfolio.

In 2018, the Group will adopt accounting standard HKFRS 9. This requires an expected credit loss model for impairment of financial assets (as opposed to an incurred credit loss model under HKAS 39) that reflects changes in credit risk for each reporting period. Compared to the current impairment allowance calculation, the recognition and measurement of impairment will become more forward-looking. UAF does not expect to see a material impact on the classification and measurement in majority of loans and receivables from the adoption of HKFRS 9.

Branch Network

City/Province	Number as at 31 Dec 2017	Opened (Closed) during 2017
Hong Kong	49	(1)
Shenzhen	19	(9)
Shenyang	7	(2)
Chongqing	4	(2)
Tianjin	2	(1)
Chengdu	4	–
Yunnan province	7	–
Dalian	6	–
Beijing	4	–
Wuhan	5	(2)
Shanghai	7	(1)
Fuzhou	5	–
Harbin	3	(1)
Nanning	5	–
Qingdao	4	–
Jinan	3	1
Guangzhou*	–	(3)
Foshan*	–	(1)
Dongguan*	–	(1)
Total	134	(23)

* Loan marketing branches

Mainland China Business

23 underperforming branches have been closed in Mainland China, resulting in significant cost savings. A total of 85 branches were in operation at the end of 2017. Despite a leaner network, UAF China originated 128,744 loans, 46.4% higher than in 2016 as a result of the increased online reach and the use of technology to improve productivity.

During the year, sales and marketing efforts focused on promoting small consumer loans to salaried workers. Credit quality improved substantially, and charge-off normalised to 11.0% for the year 2017 (2016: 21.2%) and stayed below 10.0% towards the end of the year.

In light of the stabilising economy, UAF China has selectively increased its exposure to SME customers since the middle of 2017. In May 2017, we partnered with China UnionPay Merchant Services Co., Ltd ("China UnionPay") to market our loan products on its online platform, "UAF POS Loan"（天天富亞聯財 POS 貸）, offering convenient and transparent loan products to the 6.5 million SME users of the China UnionPay POS terminals. The entire loan process including application, credit evaluation, credit checking, approval, completion of loan agreement and disbursement of loan proceeds, is conducted online. The loan volume originated through this platform surpassed RMB500 million, and new product offerings are being planned to expand our reach into China UnionPay's vast customer base.

The China UnionPay partnership has been very encouraging, and the increased proportion of loan transactions conducted online has contributed to productivity gains. In February 2018, UAF formed a similar partnership with All In Pay（通聯支付）, a third party payment solution provider with 2.5 million business users. UAF will continue to explore other opportunities to cooperate with online portals or other point-of-sales ("POS") operators.

In conjunction with the above, UAF has also commenced business under its own brand. A technology platform Yirongzhan（壹融站）was established specifically to develop online products mobile technology such as risk management, credit scoring, credit database, payment settlement, sales and customer services. The "UA Rongyidai"（融易貸）mobile app was enhanced with facial recognition security features to facilitate online loan application, approval, and disbursement.

Although the Mainland China economy has improved, considerable challenges and uncertainties around the consumer finance sector remain and UAF will continue to adopt a prudent approach to balance credit risk and business growth.

The 2017 year marked the tenth anniversary of UAF's business in Mainland China. Capitalising upon the wealth of experience accumulated over different cycles over the past ten years and benefitting from dedicated efforts of a professional team in Mainland China, UAF is confident that it can ride through challenging conditions and deliver sustained profitability in the coming year.

Hong Kong Business

UAF Hong Kong achieved a record profit in 2017. Despite the keen competition in the market, UAF maintained its leadership position and further increased its market share. A brand new advertising theme "Let go of your worries. YES, UA" (「讓您鬆一口氣　就係UA」) was launched in the second half of 2017 and yielded satisfactory results.

UAF's business grew steadily with low delinquency in 2017 as the economy and job market remained solid. There are some factors that could weaken the domestic economy, including interest rates, the performance of the Chinese economy, or a reversal in property prices. Keeping these uncertainties in mind, UAF will endeavour to manage the risk adequately to optimise the return of the consumer finance business.

Mortgage Loans

The Group commenced its Mortgage Loans business under Sun Hung Kai Credit Limited ("Sun Hung Kai Credit") at the end of 2015, providing mortgage services and funding solutions to homeowners and property investors in Hong Kong.

In its second full year of operation, the loan portfolio surpassed the HK$1 billion mark in June 2017 and the HK$2 billion mark in December 2017. As the business builds scale, it has also started to contribute a meaningful profit. Based on the latest data available from the Land Registry, Sun Hung Kai Credit is the top-ranked non-bank mortgage provider in terms of the number of new loans originated for first mortgages.

Segment Full Year Results

(HK$ Million)	2017	2016	Change
Revenue	124.4	55.7	123.3%
Operating costs	(43.9)	(38.6)	13.7%
Cost to income (% revenue)	35.3%	69.3%	
Finance costs	(42.3)	(12.3)	243.9%
Bad and doubtful debts	(3.2)	(3.0)	6.7%
Pre-tax contribution	35.0	1.8	1844.4%

Our strategy to expand the target market to first mortgages and prime customers was timely and effective. During the year, we have continued to grow our alliances with real estate agents and property developers to provide mortgage finance to their prospective home buyers. We opened a second branch in Wanchai, Hong Kong Island.

At the end of 2017, total loans to customers amounted to HK$2,120.4 million, more than triple the amount at the end of 2016. The charge-off ratio for the portfolio remained negligible.

Looking ahead, Sun Hung Kai Credit should continue to benefit from its solid reputation and growing network of partners. As the business scales up, management will also put a high priority on efficiency gains to improve returns, while adopting a prudent approach to credit quality.

Financial Services

The segment consists of the Group's strategic interests in financial services companies through joint ventures and associated companies. These interests are complementary to our loan and investment strategies. Pre-tax contribution from this segment was significant at HK$118.6 million (2016: HK$182.3 million). The decline was mainly due to lower net accounting gains from our stake in the Everbright Sun Hung Kai business ("EBSHK", previously Sun Hung Kai Financial).

The Group maintains a 30% shareholding in EBSHK, a 70% subsidiary of Everbright Securities Company Limited ("Everbright Securities") which was the most significant contributor to this segment. Driven by a buoyant stock market in Hong Kong as well as growth in client assets and increase in financial advisors, EBSHK delivered a satisfactory performance for 2017. During the year, the average daily turnover increased by 32% year-on-year on the Hong Kong Stock Exchange. With its rebranding in December 2017, EBSHK has integrated with Everbright Securities Hong Kong, and it is expected that synergies in revenue and costs should accelerate in 2018.

The net effect of valuation change on the Group's 30% stake in EBSHK resulted in an accounting gain of HK$108.6 million (2016: HK$203.5 million): An impairment loss of HK$107.6 million on associate was reversed (2016: impairment loss HK$141.5 milion was charged). On the other hand, a gain of HK$1.0 million was recognised from our put option right as gain from financial assets (2016: HK$345.0 million gain).

LSS Financial Leasing (Shanghai) Limited ("LSS Leasing") was in its second full year of operation and continued with a successful expansion from corporate to consumer auto leasing. During the year, LSS Leasing formed several alliances to expand its business reach, connecting financing to new transport models. In June, a collaborative platform was established with its other shareholders, Brilliance China Group and 58.com through its "58 Car" (58車) and its "Suyun" (58速運) units to tap on the on-demand delivery business. In December 2017, it partnered with State Grid Corporation of China and Chang Sheng Holdings, a leading taxi company focussing on new energy vehicles. During the year, a second-round capital raising for LSS Leasing was completed with support from all shareholders. The capital increase will enable LSS Leasing to continue expanding into new segments and broaden its reach.

Principal Investments

The Group's Principal Investments division leverages the Company's operating expertise, network, and balance sheet to seek out and invest in attractive risk-adjusted investment opportunities. We take a relationship-driven approach to identify return opportunities and deploy capital across multiple asset classes.

As at 31 December 2017, total investment assets of the segment increased 48.5% to HK$15,936.8 million (31 December 2016: HK$10,730.1 million). The investment gain was HK$1,591.4 million, with satisfactory performance across all asset classes.

Taking into account the investment gain less operating costs, interest and cost of capital allocated to GMS, the segment contributed HK$1,082.3 million to pre-tax profit, a 129% increase over 2016.

To help provide a better illustration of the asset allocation and return drivers, the asset classes are further subdivided into public and private debt and equities for 2017:

2017 Principal Investments Asset Breakdown

(HK$ Million)	Year-end value	Average value	Gain	Return[2]
Public Equities	2,767.7	2,113.5	165.4	7.8%
Private Equities	4,322.9	3,841.1	760.1	19.8%
Public Credit	3,513.2	2,667.1	102.5	3.8%
Private Credit	3,222.7	3,097.9	416.0	13.4%
Real Estate	2,110.3	1,954.6	147.4	7.5%
	15,936.8	13,674.2	1,591.4	11.6%
Operating costs			(62.0)	
Cost of capital and finance costs[1]			(447.1)	
Pre-tax contribution			1,082.3	

1 Credit to Group Management and Support
2 Return on the average value

2016 Principal Investments Asset Breakdown

(HK$ Million)	Year-end value[3]	Average value	Gain	Return[2]
Equities	4,392.1	3,734.9	202.1	5.4%
Debt and Fixed Income	4,705.1	3,975.2	550.1	13.8%
Real Estate	1,632.9	1,562.8	179.8	11.5%
	10,730.1	9,272.9	932.0	10.1%
Operating costs			(24.3)	
Cost of capital and finance costs[1]			(435.1)	
Pre-tax contribution			472.6	

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

Public Equities (17%)

As a whole, the public equity portion of the portfolio performed well during the period as it benefitted from buoyant capital markets and a focused investment strategy on global, medium and large capitalisation companies.

The portfolio is global with an emphasis on Greater China, Australia and North America. For the market portfolio, we proactively hedge our positions against certain foreign exchange, market and volatility risks. In addition to our proprietary public equity investments, we have also invested in a select group of high-quality external managers that bring synergies to our investment strategy.

As at the end of 2017, Asian equity markets continued their winning streak. European and Japanese economies were on a path of steady improvement, and the US economy grew strongly. This combined global growth provided strong underlying fundamentals for global equity markets.

The public equities portfolio also includes longer-term equity positions that are strategic to the business. During the year, the Group entered into a partnership with PPDAI Group Inc. ("PPDAI") to jointly explore future collaboration opportunities and became a strategic investor in PPDAI in its initial public offering. The stake is classified as an available-for-sale investment, and an impairment was made reflecting the initial market reaction to the prospect of the tightening of regulations on online consumer lending. However, we believe in the medium term a fairly regulated market should benefit both PPDAI and our UAF business.

As a whole, the public equities portfolio returned 7.8% on average value in 2017. The investment return of the market-traded public equities portfolio was 16.6% if the impairment on the strategic investment is excluded.

Private Equities (27%)

Through the private equity portfolio, we seek to invest the Group's capital prudently, to maximise risk-adjusted returns, and diversify our exposure by industry and geography. Our strategy continues to combine direct investments as well as investments in fund managers who can be close partners on deals in their areas of expertise. Partner funds are evaluated on a regular basis ensuring their strategic fit, performance, and value-add to origination, while direct investments are typically deployed alongside partners or in areas of the Group's expertise like financial services. Successful co-investments with our fund partners have resulted in material gains in the second half of 2017 for our investments.

During 2017, we continued to diversify our portfolio internationally as well as to increase exposures in our strategic competencies in financial services, fintech, and other high growth sectors such as healthcare, media, and technology. At the end of the period, the portfolio was invested approximately 17% in financial services and fintech and 37% in healthcare. By geography, the largest exposure is Greater China at approximately 38%; and North America at 18%. Our diversification strategy benefited the portfolio, with investment return to date ending December 2017 at 19.8%.

In 2017, our notable new investments include Social Finance, Inc. — a US market-leading online consumer lending; Fairstone — the leading non-bank consumer lender in Canada; and GEvent Financial Services — a leading third-party platform in China providing financial services for rural and agricultural banks.

We are pleased with the long-term potential of the portfolio that we have built, and some current investments should have revaluation potential in the medium term. We will continue to proceed with our targeted investment strategy via new partner funds, direct investments or partnered co-investments.

Public Credit (22%)

For the public credit portfolio, we focused on identifying fixed income credit situations where we believe the underlying instruments were mispriced or undervalued due to macro, geopolitical, industry, or company-specific events. In terms of geographical exposure, we took a global investing approach with exposure to corporate and sovereign bonds. Our portfolio consists of issuers across property, financial, oil and gas, and metals and mining sectors.

Moving forward, we intend to maintain a conservative approach as credit markets continue to be influenced by macro and geopolitical events as well as global central bank policies.

Total public credit portfolio was valued at HK$3,513.2 million as at 31 December 2017, a big increase from 2016. Since 2017, the portfolio includes cash management products as part of the Group's liquidity management.

The overall public credit portfolio recorded a 3.8% return on the average portfolio value. Excluding the liquidity management portion, the public credit investment portfolio returned 5.5%. The emphasis of the portfolio was investments in Asian public credit, as well as investments in credit with higher quality risk weighting and defensive market positions.

Maintaining a diversified portfolio with appropriate hedges would be key for us in managing risks in current markets.

Private Credit (20%)

The private credit strategy represents the Group's structured and specialty finance business, which provides tailored funding solutions to corporates, investment funds, and high net worth individuals. As finance costs are expected to increase, we aim to focus on non-capital based income generation via further collaboration with our network of affiliates and strategic partners.

The private credit portfolio amounted to HK$3,222.7 million as at 31 December 2017, an 11% increase from the end of 2016. Interest income increased 26% year-on-year to HK$424.6 million from the loan growth and a more profitable loan mix. The interest generated was equivalent to an annualised return of approximately 13.4% on the loan balance. 73% of the portfolio represented loans to investment holding companies, while the remainder represented business-related loans. Almost all the loans were either secured by assets or had other guarantees by corporate or high network individuals. The provision for bad credit of HK$86.2 million recorded in 2017 is equivalent to 2.8% of the private credit loan portfolio. We are working towards possible future recovery by helping one of the borrowers on their business restructuring.

Looking ahead, the corporate demand for short-term liquidity should remain healthy even though corporate risk premium, pricing, and margins might face more pressure. The market for private credit is expected to remain competitive, but we believe profitable financing opportunities can still be identified given the Group's expertise in this segment and our well-established network.

Real Estate (13%)

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

- Hong Kong commercial real estate
- Minority interests in two residential development projects, in Hong Kong and Australia
- Special situation investments in the international hospitality sector

Our strategy involves acquiring a portfolio of assets, operating in major cities around the world, which have appropriate income yield and asset appreciation potential for us. In most cases, the assets acquired were special situation investments involving prime performing assets with an attractive return profile.

For 2017, new investments include a commercial office space at a prime location in London, as well as interest in a contemporary hospitality operator-owner with assets across 13 marquee cities mainly in Europe. These two non-US dollar investments were hedged to cover currency fluctuation risks.

The real estate portfolio was valued at HK$2,110.3 million as of the end of December 2017, generated a 7.5% return on the average value. The main contributor to performance has been rental income from our Hong Kong office portfolio, while foreign exchange hedges have detracted from returns in our hospitality portfolio. We expect to receive liquidity for some of our positions in residential properties during 2018 at or above book value. While we have not written up the value of our hospitality investments, the underlying assets performed well operationally with improving metrics across the UK and continental Europe. We expect this momentum to continue in the next one to two years with the upgraded asset and the management drive to improve margins by tackling operating efficiencies.

We are cognizant that real estate capitalisation rates globally are at historical lows from record monetary stimulus which has inflated asset values. Part of our real estate strategy going forward will involve more capital being deployed in credit investments in key international cities where we feel the senior, mezzanine or preferred equity tranche may represent a better risk-reward dynamic relative to acquiring an equity interest in the asset.

Outlook

Management is cautiously optimistic about 2018. We are pleased with the Group's strategic positioning and its current asset allocation.

The growth in loan balances toward the end of 2017 strengthens the revenue base for 2018 for both the Consumer Finance and Mortgage Loans segment. The outlook remains positive barring any disruptive market developments.

For the Principal Investments business, while we are pleased with long-term prospects and the strategic position of the current portfolio, its market portion is exposed to mark-to-market volatility.

The Group will continue to maintain a balanced approach to asset allocation for risk/reward and maintain strict oversight of costs.

Financial Review

Financial Resources, Liquidity, Capital Structure and Key Performance Indicator

As at 31 December (HK$ Million)	2017	2016	Change
Equity attributable to owners of the Company	19,426.7	18,077.0	7.5%
Total cash	2,911.4	6,452.2	-54.9%
Total borrowings	11,928.1	10,122.2	17.8%
Net debt	9,016.7	3,670.0	145.7%
Net debt to equity ratio	46.4%	20.3%	
Interest cover[1]	5.8	4.1	
Return ratios			
Return on assets[2]	6.6%	4.2%	
Return on equity	9.7%	6.1%	
Key Performance Indicators (for the year)			
Book value per share (HK$)	9.02	8.24	9.5%
Dividend per share (HK cents)	26.0	26.0	—

1 Earnings before interest and tax/interest expense
2 Profit including non-controlling interests/average assets

During the year, the Group's net gearing has increased with the growth in the asset base, but the interest cover has improved. However, with the increased efficiency of the balance sheet as well as the increased profit, the Return on Equity increased from 6.1% to 9.7%.

As at 31 December 2017, total borrowings of the Group was HK$11,928.1 million (31 December 2016: HK$10,122.2 million). Of this amount, 27.5% is repayable within one year (31 December 2016: 43%). The group maintains a balanced mix of funding from various sources. Bank borrowings are at floating interest rates, and these are denominated in Hong Kong dollars, US dollars and RMB.

As at 31 December 2017, the following Notes are outstanding:

Note	Maturity Date	HK$ Equivalent (in Million)
4.75% USD Notes^	May 2021	2,793.1
4.65% USD Notes^	Sept 2022	4,353.1
2.8% HKD Notes	Nov 2018	448.2
6.9% RMB Notes	May 2018	536.5
Total		8,130.9

^ Listed on the Hong Kong Stock Exchange

In September 2017, US$550 million 4.65% Guaranteed Notes due 2022 issued under its US$2 billion Guaranteed Medium Term Note Programme ("the MTN Programme") was listed on 11 September 2017 as to US$400 million and on 19 September 2017 as to US$150 million (stock code: 5267).

In November 2017, HK$447.5 million 2.8% Guaranteed Notes due 2018 under the MTN Programme were issued.

The 6.375% Notes and 3% Notes matured in September and December 2017 respectively and the outstanding balance was repaid (see Note 38 to the consolidated financial statements). 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. The majority of non-US/HK dollar investment assets are hedged against currency fluctuation. Exchange risks are closely monitored by the Group and held within appropriate limits.

For the year 2017, the Company repurchased and cancelled approximately 40 million shares involving a total consideration (including expenses) of HK$196.2 million.

As a finance and investment company, 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 an increase in the book value per share and is used as the Key Performance Indicator.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

In November 2017, Sun Hung Kai & Co became a strategic investor in PPDAI through a private placement amounted to US$50 million concurrent with PPDAI's Initial Public Offering. PPDAI is an online consumer finance marketplace in China.

During the year, the Principal Investments business has also executed other acquisitions and disposals of assets in its ordinary course of business.

Charges on Group Assets

Properties of the Group with a total book value of HK$974.0 million were pledged by subsidiaries to banks for facilities granted to them. HK$399.0 million was drawn down as at 31 December 2017.

Contingent Liabilities

Details regarding the contingent liabilities are set out in Note 42 to the consolidated financial statements.

Human Resources and Training

As at 31 December 2017, the Group's total staff was 3,589 (31 December 2016: 4,317). This net decrease in headcount reflects mainly the rationalisation of UAF's branch network in Mainland China. Staff costs (including Directors' emoluments), contributions to retirement benefit schemes and expenses recognised for the SHK Employee Ownership Scheme ("EOS") amounted to approximately HK$781.0 million (2016: HK$756.8 million).

The Group operates various compensation schemes to reflect job roles within the organisation. For sales staff, 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 1,170,000 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 2017, the outstanding awarded shares under the EOS (excluding shares awarded, but subsequently forfeited) amounted to 1,349,000 (including 1,339,000 under the Company and 10,000 under Everbright Sun Hung Kai), out of which 863,000 shares were awarded to Directors.

The Group values its people as its 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 44 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$14,439 million as at 31 December 2017. Total bad and doubtful expenses in 2017 were HK$386.7 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 committed to complying with laws and regulations that govern our businesses. As a listed company, we abide by 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 as well as the Special Rectification Documents of their special working group on cash loans, internet loans and P2P loans including "關於規範整頓現金貸業務的通知", "關於印發小額貸款公司網絡小額貸款業務風險專項整治實施方案的通知(網貸整治辦函[2017]56號)" and "關於做好P2P網絡借貸風險專項整治整改驗收工作的通知(網貸整治辦函[2017]57號".

Five-Year Financial Summary

(HK$ Million)	2013	2014	2015	2016	**2017**
For the year ended 31 December:					
Results					
Revenue*	3,544.2	4,177.9	4,174.1	3,511.3	**3,795.6**
Profit attributable to owners of the Company	1,051.6	1,328.4	3,896.5	1,109.6	**1,824.3**
Retained earnings carried forward	4,925.9	5,545.2	8,724.0	9,097.2	**10,145.7**
At 31 December:					
Assets and liabilities					
Current assets	17,550.7	21,746.8	17,612.0	18,929.7	**20,516.2**
Total assets	27,804.1	32,760.8	32,369.1	32,560.9	**37,422.2**
Current liabilities	4,942.1	7,047.2	2,779.9	4,944.4	**5,189.8**
Total liabilities	10,984.8	14,093.5	10,778.3	10,905.1	**14,023.7**

* The comparative figures of revenue in 2013 and 2014 have been restated to the operations discontinued in 2015.

The 2017 Annual Report consists of two printed booklets with a total of 116 pages

The cover features team Sun Hung Kai Scallywag, which is currently competing on behalf of Hong Kong in the renowned Volvo Ocean Race, one of the toughest sailing challenges in the world.

The origin of the team is Scallywag, a 100-foot super maxi race yacht sponsored by the Company. It had achieved record-breaking performances in iconic races such as the Sydney-Hobart Race and the Hong Kong to Hainan Race. Just as Sun Hung Kai & Co today has transformed itself into an all-weather investment partner, the yacht has undergone a renewal under the Company's sponsorship. The spirit of the vessel and its crew echo the Company's own core values: Excellence, Integrity, Prudence, Professionalism and Innovation.

Concept & Design: YELLOW CREATIVE (HK) LIMITED   Photo Credit ©Volvo Ocean Race, Cover: Ainhoa Sanchez, Pages 1-4, 8: Konrad Frost

REPORTS AND ACCOUNTS

Annual Report 2017

新鴻基有限公司
SUN HUNG KAI & CO. LIMITED

Stock Code: 0086

Contents

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Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance within a sensible framework, with an emphasis on the principles of integrity, transparency, accountability and equity. The Board of Directors believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholder'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 2017, 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

In 2017 and up to the date of this report, the Board 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

Subsequently on 22 March 2018, Mr. Evan Au Yang Chi Chun was also appointed as an INED of the Company. The brief biographical details of the Directors are set out in the section "Profiles of Directors and Senior Management" of the Directors' Report.

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, four 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 2017 are set out as follows:

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

* Mr. Lee Seng Huang ceased as a member of the Risk Management Committee on 15 August 2017

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 "Update of Listing Rules and Corporate Governance Code" 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 seminars^
Executive Directors:		
Lee Seng Huang	✓	✓
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	✓	✓

^ Including trainings/ briefings/seminars/conferences relevant to Directors' duties

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 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 the Mortgage Loans and 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 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 objectives, taking into account the Company's business and needs.

The Board has reviewed, through the Nomination Committee, the structure, size, composition and diversity of the Board, the nomination and appointment procedure of directors as well as the board effectiveness during the year.

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 in 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 2017 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. Subsequently on 22 March 2018, Mr. Evan Au Yang Chi Chun was also appointed as a member. 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 2017, no Nomination Committee meeting was held while the committee dealt with matters by way of circulation of written resolutions but, in March 2018, a Nomination Committee meeting was held to consider the proposed appointment of a new INED. The work performed by the Nomination Committee in 2017 and up to the date of this report is summarised as follows:

(i) reviewed the structure, size, composition and diversity of the Board;
(ii) assessed the independence of the INEDs;
(iii) reviewed the proposed re-election of Directors at the 2017 AGM and 2018 AGM, with a recommendation to the Board for proposal to the shareholders for approval at each meeting; and
(iv) considered Mr. Evan Au Yang Chi Chun for nomination as a new INED and with a recommendation to the Board for approval which appointment effective from 22 March 2018 was approved by the Board.

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. After the date of this report, Mr. Evan Au Yang Chi Chun was also appointed as a member on 22 March 2018. 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 shall make recommendations to the Board on the remuneration packages of the Executive Directors only and not senior management (as opposed to executive directors and senior management under the 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 2017 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 2017 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 2017;
(iii) review of the bonuses for the year ended 31 December 2016 for the three Executive Directors, with a recommendation to the Board for approval; and
(iv) review of the remuneration of all Directors (including the NED and INEDs) and the consultancy fees of the INEDs, with a recommendation to the Board for approval for the increase in the director's fee to all Directors and the increase in the annual consultancy fees of the INEDs commencing from January 2017.

The remuneration payable to Directors (including any consultancy fees to the INEDs) for their 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" section of this Annual Report.

After the end of the reporting period, a Remuneration Committee meeting was held in March 2018 to review the existing policy and structure of the Directors' remuneration, and the remuneration packages of the Directors. The Remuneration Committee recommended the following to the Board which recommendations were subsequently approved by the Board:

(i) the payment of discretionary bonuses for the year 2017 to the three Executive Directors:
  - HK$48,500,000 in cash to Mr. Lee Seng Huang ("Mr. Lee");
  - HK$3,750,000 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"); and
  - HK$3,750,000 in cash to Mr. Peter Anthony Curry ("Mr. Curry");

(ii) an increase of 7%, 9.3% and 4.5% to the monthly salary respectively of Mr. Lee, Mr. Chow and Mr. Curry commencing from January 2018; and

(iii) an increase of HK$11,000 to the consultancy fee of the INEDs commencing from the year 2018.

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 are varying in nature and 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. Subsequently on 22 March 2018, Mr. Evan Au Yang Chi Chun was also appointed as a member. 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 shall 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 and external auditors, 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 2017 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 2017 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 2017 and the final audit of the Group for the year ended 31 December 2017;
(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 year ended 31 December 2017;
(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 2017;
(iv) review of the financial reports of the Company for the year ended 31 December 2017, and for the six months ended 30 June 2017, with a recommendation to the Board for approval;
(v) review of the effectiveness of the risk management and internal control system and recommendations were made to the Board;
(vi) review of the internal audit review reports by the internal audit function and the 2018 internal audit plan; and
(vii) review of the compliance issues arising from the new financial reporting standards which may have significant impact to the Group.

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 two Executive Directors and one member of Senior Management being Mr. Simon Chow Wing Charn (chairman), Mr. Peter Anthony Curry and Ms. Elsy Li Chun.

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 2017 and one meeting was held in March 2018 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 liquidity risk, market risk, credit risk and reporting approaches;

(iii) risk control of daily trades of Sun Hung Kai Global Opportunities Fund (formerly known as KIMA Pan Asia Offshore Fund) and its portfolio management system and IT infrastructure support;

(iv) review of the risk management reports from the Group's Principal Investments business, UAF and Sun Hung Kai Credit Limited;

(v) review of the foreign exchange exposure of the Group's investment portfolio; and

(vi) 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 2017.

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 2017, 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 of this Annual Report.

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	6.2
Non-audit services (taxation and other professional services)	1.3
Total	7.5

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 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 Group's 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 44 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. It provides an independent and objective assurance to safeguard the Group's operations. The Group has its 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 control function reporting to the Group Chief Financial Officer ("Group CFO"). It effectuates a systematic and disciplined approach to analyse and independently appraise the adequacy and effectiveness of the Group's risk management and internal control systems. 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 requirements of the CG Code regarding risk management and internal control systems in general.

Disclosure of Inside Information Policy

The Board has adopted the Policy on the Disclosure of Inside Information effective on 1 January 2013 with respect to the procedures and internal controls for the handling and dissemination of inside information. The Group's Disclosure of Inside Information Policy sets out guidelines and procedures to the Directors and relevant officers of the Group to ensure inside information of the Group is to be disseminated to the public in an equal and timely manner. Directors and relevant officers in possession of potential inside information and/or inside information are required to take reasonable measures to ensure that proper safeguards are in place to preserve strict confidentiality of inside information and to ensure that its recipients recognise their obligations to maintain the information confidential. The Policy shall be updated and revised as and when necessary in light of changes in the circumstances and changes in the Listing Rules, Part XIVA of the Securities and Futures Ordinance and relevant statutory and regulatory requirements from time to time.

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 2017, 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 2017 AGM was held on 25 May 2017 and seven out of the then 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, 21 March 2018

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 recognise 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 have adopted a Sustainability Policy which covers our principles in the area of employment and labour practices, business integrity, the environment and the community. We are committed to contributing to the sustainable development of society and the environment, and shall endeavour to embrace these principles as part of our practice and governance.

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 2017. This report supplements information disclosed in the Annual Report 2017.

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 2017:

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" set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 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 analysts 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/minimise 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 minimise environmental impact.

Increasingly, the Group's business is expanding into online platforms. The majority of transactions are carried out at UAF, our Consumer Finance subsidiary, and the proportion of loan transactions carried out online continued to rise. At the same time, the branch network in Mainland China reduced from 107 to 85. Apart from its positive impact on the business's growth and profitability, this trend has also helped reduce the overall environmental impact of the Group's business.

This report does not include the disclosure of all the environmental KPIs as they are not considered material or relevant as a conclusion of our stakeholder engagement as well as management's view. Instead, we have discussed our general approach and effort to reduce the Group's environmental footprint in various aspects.

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 (14) and company boats (4) in Hong Kong and Mainland China. These are used for senior staff's local travel only as well as for entertainment. It is therefore that the scale and usage are 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 minimise air and greenhouse gas emissions, the head offices in each city are equipped with video conferencing facilities to reduce 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 in this aspect.

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

We have adopted a series of internal control policies and procedures to enhance the efficiency in consumption of resources including energy, water and other paper. With about 3,500 staff across the Group, we consume considerable amounts of electricity and paper, and with the efficient use of such, we hope to minimise our impact on the environment while 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 for 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 2017, the Group's total electricity consumption was approximately 5.2 million kWh (2016: 5.6 million kWh).

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

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

Paper usage is being reduced with more use of online or mobile loan applications channels. For instance for UAF (which accounts for the largest proportion of the Group's transactions), 44% of new loans by the number of accounts were originated through these electronic channels in 2017.

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

Document Management Systems ("DMS"), a web-based application system which facilitates 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, customised human resources information system has been implemented by UAF and Sun Hung Kai Credit for leave application/monitoring, staff performance review and employee profile management. The online e-platform enables staff to complete online enrolment for training/recreation activities and evaluation survey to replace paper usage in connection with such activities.

At SHK & Co corporate offices, a platform was also adopted for the internal administration work-flow. Since June 2013, electronic board papers were implemented, improving Board efficiency while saving paper. 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. New designs were adopted to enhance readability while reducing the overall number of pages.

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.

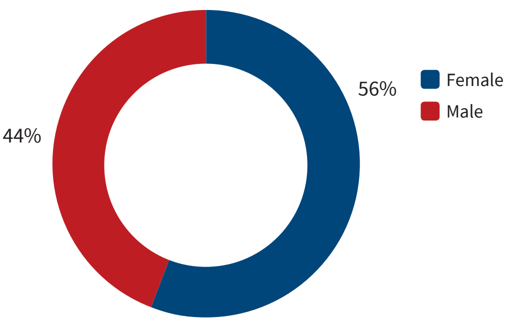
Further information on the Group's human resources is also detailed in the "Management Discussion and Analysis" section of this Annual Report.

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 regularly offered to staff such as the handling of stress and parenting skills. The Group also sponsors and organises various company teams across the Group for team sports and community service. Sports teams include dragon boating, soccer, basketball, bowling and charity marathon to name a few. Staff magazines are published to share Group, industry and staff news and to promote internal communication.

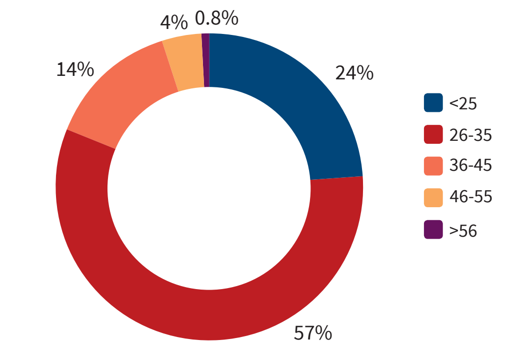
As at 31 December 2017, the Group employs a total of 3,589 staff, compared against 4,317 at the end of 2016 as UAF consolidated its consumer finance branches in Mainland China and increased its online presence.

Staff Breakdown (2017)

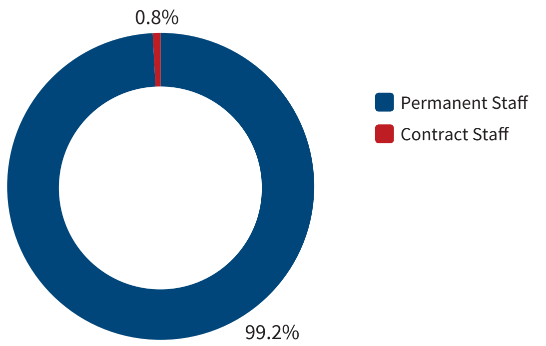
By Gender:



By Age Group:



By Employment Type



Human Resources and sustainability related awards:

- Good MPF Employer Award 2014-2017 (SHK&Co)
- Caring Company Award 2005-2018 (UAF); 2016-2018 (SHK&Co)
- Partner Employer Award 2016-2018 (UAF)
- ERB Manpower Developer Award Scheme 2012-2018 (UAF)
- Social Capital Builder Award 2016-2018 (UAF)
- Hong Kong Outstanding Corporate Citizenship Awards 2016-2018 – Enterprise Category (UAF)
- Hong Kong Outstanding Corporate Citizenship Awards 2016-2018 – Volunteer Category (UAF)
- Young Entrepreneurs Development Council – Long-Term Voluntary Service to the School-Company-Parent Program (10 years) 2016-2017 (UAF)
- Young Entrepreneurs Development Council – School-Company-Parent Program's
  - Best Performance of School-Company Partnership 2016-2017 (UAF)
- Corporate Volunteer Long Service Award Five Years Plus – 2017 (UAF)
- Environmental Bureau – The Charter on External Lighting Award Ceremony 2017 (UAF)
- Hong Kong Green Organization Certification – Wastewi$e Certificate 2017 (UAF)
- Happy Company 2016-2018 (UAF)
- Hong Kong Citizen Hong Kong Heart – Volunteer Ambassador Program 2017 (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 workplace. 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 Lenders Ordinance ("MLO").

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.

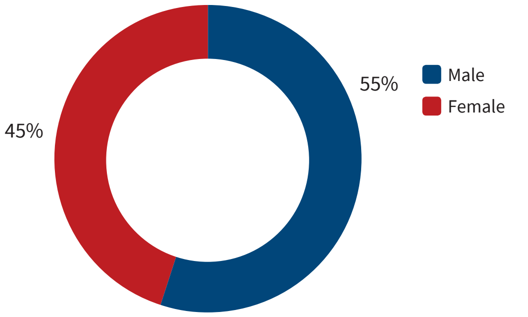
UAF has a comprehensive graduate training programme to train up talented university graduates for future advancement to the management team. The 25-month program provides training on their knowledge and skill sets for consumer financing industry.

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

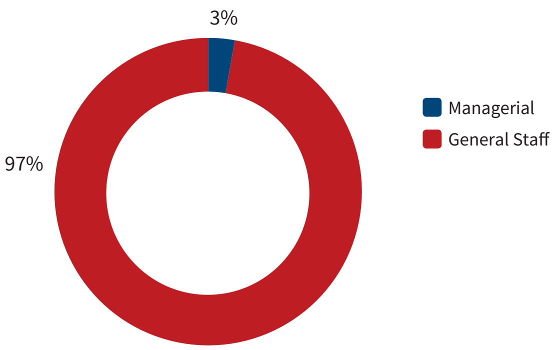
Staff training across the Group amounted to a total of around 82,000 hours.

Training Hours Breakdown (2017)

By Gender



By Grade



Percentage of Staff who Received Training

By Gender

By Grade

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 22 and 45 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, 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 are conducted with customers and the general public for feedback. During 2017, the number of complaints received on debt collection is minimal, which is less than 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. These include private credit extended to corporates 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 MLO, being licensed money lenders. In Mainland China, UAF's operations follow 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 Loan Companies as well as the Special Rectification Documents of their special working group on cash loans, internet loans and P2P loans including "關於規範整頓現金貸業務的通知", "關於印發小額貸款公司網絡小額貸款業務風險專項整治實施方案的通知(網貸整治辦函[2017]56號)" and "關於做好P2P網絡借貸風險專項整治整改驗收工作的通知(網貸整治辦函[2017]57號". 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. 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 210,000 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 minimise 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 organised 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 enrol in charity and social services.

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 12 consecutive years. Since 2015, the UAF Volunteer Team has participated in community services projects serving the underprivileged, such as low-income senior citizens, senior citizens living alone, children from low income families etc. As at 31 December 2017, UAF had a total of 53 volunteer members and served a total of 1,040 hours in various community activities during 2017.

The key activities in 2017 included the following:

- Po Leung Kuk: Elderly Visit and Gathering – Community Canteen
- HK Family Welfare Society: Cultural Preservation Trip for Elders
- Po Leung Kuk: Eastern Green Community Station Visit
- Po Leung Kuk: Roof Greening for Po Leung Kuk Elderly Centre
- St. James Settlement: Environmental Protection Education for Children from Low Income Family – City Fisherman Experience Day
- St. James Settlement: Go Run Together Charity Run 2017

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 of the Group and Senior Management

SHK&Co

The Chamber of Hong Kong Listed Companies Committee Member (Committee Member)
The Malaysian Chamber of Commerce (Hong Kong and Macau) Ltd. (Corporate Member)
The Hong Kong Investor Relations Association (Corporate Member)

UAF

The HKSAR Licensed Money Lenders Association (Founding member, Chairman, Executive Committee Member and Secretary)
New Asia College, The Chinese University of Hong Kong (Trustee member)
Shenyang Micro-credit Company Association (Vice Chairman)
Yunnan Province Microcredit Association (Vice Chairman)
Shandong Micro-credit Association (Vice Chairman)
Tianjin Association of Micro-credit (Executive Director)
Hong Kong and Macau Taiwanese Charity Fund (Director)
Shenzhen Microfinance Industry Association (Director)
Shenzhen Credit Association (Director)
Liaoning Micro-credit Company Association (Director)
Chongqing 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 (Director)
Nanning Mirco-credit Industry Association (Director)
Sichuan Association of Microcredit (Member)
Beijing Microfinance Industry Association (Member)
Liaoning Micro-credit Company Association (Member)
Hubei Association of Enterprises with Foreign Investment (Member)
Shanghai Association of Micro-Credit (Member)
Shanghai Association of Foreign Investment (Member)
The Chamber of Commerce of Beicai Town, Pudong, Shanghai (Member)
Guangxi Mirco-credit Company Association (Member)
Qingdao Micro-Credit Cooperation Development Association (Member)
Shandong Micro-credit Association (Member)
Shenzhen Internet Finance Association (Member)
Liaoning Area Financing Guarantee Association (Member)

The Group's total charitable donations during the year amounted to approximately HK$23 million, benefiting causes for education, health, and charity services for the underprivileged.

In addition the Sun Hung Kai & Co. Foundation (the "Foundation") sponsored by the Company also served 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.

Directors’ Report

The board of directors of the Company (the “Board”) are pleased to present the 2017 annual report (“Annual Report”) and the audited consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2017.

Principal Activities and Business Review

The principal activity of the Company is investment 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 2017 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 2017 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 2017. 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 2017 to the shareholders whose names appear on the register of members of the Company on 22 June 2018, making a total dividend for the year 2017 of HK26 cents per share. Dividend warrants of the second interim dividend are expected to be despatched on 28 June 2018.

Investment Properties

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

Property and Equipment

Movements in property and equipment during the year 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$22.9 million.

Share Capital and Shares Issued

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

Debentures

The Group had the following debentures in issue as at 31 December 2017:

- US$550,000,000 4.65% Guaranteed Notes due September 2022 issued under its US$2,000,000,000 Guaranteed Medium Term Note Programme (the “Programme”) were listed on 11 September 2017 as to US$400,000,000 and on 19 September 2017 as to US$150,000,000 (stock code: 5267). The issuer of the Programme is Sun Hung Kai & Co. (BVI) Limited (“SHK BVI”), a company incorporated in the British Virgin Islands and is a direct wholly-owned subsidiary of the Company.

- US$361,639,000 4.75% Guaranteed Notes due May 2021 issued by SHK BVI under the Programme was listed on 1 June 2016 (stock code: 5654).

- HK$447,500,000 2.8% Guaranteed Notes due November 2018 issued by SHK BVI under the Programme on 20 November 2017.

- RMB447,010,000 6.9% Notes due May 2018 issued under the US$3,000,000,000 Medium Term Note Programme by UA Finance (BVI) Limited, a company incorporated in the British Virgin Islands and is an indirect non wholly-owned subsidiary of the Company.

For further details of the abovementioned issued Notes, please refer to Note 38 to the consolidated financial statements. Save as disclosed above, the Group has not issued any debentures during the year.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2017 pursuant to the Hong Kong Companies Ordinance and details of the movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity and Note 47 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

Non-Executive Director

Jonathan Andrew Cimino
Joseph Kamal Iskander *(alternate to Mr. Jonathan Andrew Cimino and resigned on 22 March 2017)*

Independent Non-Executive Directors ("INEDs")

David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
Peter Wong Man Kong
(Note: Subsequently on 22 March 2018, Mr. Evan Au Yang Chi Chun was also appointed as an INED.)

In accordance with Article 94 of the Company's Articles of Association (the "Articles"), a new Director appointed as an addition to the Board shall hold office only until the next following Annual General Meeting of the Company ("AGM"). Besides, one-third of the Directors for the time being shall be subject to retirement by rotation, and eligible for re-election, at each AGM in accordance with Article 103 of the Articles.

Accordingly, pursuant to Article 94 of the Articles, Mr. Evan Au Yang Chi Chun, being the Director appointed by the Board on 22 March 2018, shall hold office only until the forthcoming AGM and, being eligible, offer himself for re-election. And pursuant to Article 103 of the Articles, Messrs. Simon Chow Wing Charn, Jonathan Andrew Cimino and Peter Wong Man Kong, 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.

Profiles of Directors and Senior Management

Executive Directors

Lee Seng Huang, aged 43, 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 (the "Hong Kong Stock Exchange"). Mr. Lee is also a director of United Asia Finance Limited, a subsidiary of the Company.

Simon Chow Wing Charn, aged 63, was appointed as an Executive Director of the Company on 3 June 2015. He joined the Company as the Group Deputy Chief Executive Officer in 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 directorship in various subsidiaries of the Company.

Peter Anthony Curry, aged 65, 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 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 Hong Kong Stock Exchange). He also holds directorship in various subsidiaries of the Company.

Non-Executive Director

Jonathan Andrew Cimino, aged 65, was appointed as a Non-Executive 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 Commerce 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 52, 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 AGL and APL, the holding companies of the Company.

Alan Stephen Jones, aged 74, 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 AGL and APL, the holding companies of the Company. 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 57, 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 and on 1 April 2017, she was appointed as a member of the Hospital Governing Committee of Prince of Wales Hospital. 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 69, 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, Sino Hotels (Holdings) Limited, New Times Energy Corporation Limited and MGM China Holdings Limited, all being companies listed on the Hong Kong Stock Exchange. He previously served as an independent non-executive director of Chinney Investments Limited, a company listed on the Hong Kong Stock Exchange. 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 13th National People's Congress of The People's Republic of China.

Evan Au Yang Chi Chun, aged 46, was appointed as an Indepednent Non-Executive Director of the Company on 22 March 2018. Mr. Au Yang is currently the managing director and head of Asia-Pacific for Gerson Lehrman Group ("GLG"). Prior to GLG, Mr. Au Yang was the deputy managing director of The Kowloon Motor Bus Company (1933) Limited ("KMB") and an executive director of Transport International Holdings Limited ("Transport International"), KMB's parent company which is listed on the Hong Kong Stock Exchange. He is the chairman of the board of Civic Exchange; a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption and an advisor of Our Hong Kong Foundation. He serves on the board of the Urban Renewal Authority as a non-executive director, the executive committees of Green Monday and the Young Presidents' Organization (Hong Kong Chapter) where he is a member. In addition, Mr. Au Yang serves on the Transport Policy Committee of the Chartered Institute of Logistics and Transport, the Environment Bureau's Working Group on review of Air Quality Objectives, the Development Fund Committee of the Hong Kong Council of Social Service, the Development Committee of the World Wide Fund as well as the board of advisors of Kellogg School of Management Alumni Club. Prior to joining Transport International and KMB, Mr. Au Yang was an associate partner at McKinsey & Company. Before management consultancy, Mr. Au Yang was at Citigroup's derivatives structuring and marketing unit. He obtained his undergraduate degree in Economics and Political Science from Brown University and his MBA degree from the Kellogg School of Management at Northwestern University.

Senior Management

Akihiro Nagahara

Managing Director and Chief Executive Officer, United Asia Finance Limited ("UAF")

Mr. Nagahara, aged 77, joined UAF in September 1993 and is its Managing Director and CEO. 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. Mr. Nagahara was awarded an Honorary Fellowship of the Chinese University of Hong Kong in May 2016. He is also a director of various subsidiaries of UAF and Sun Hung Kai Credit Limited, a subsidiary of the Company.

Elsy Li Chun

Head and Executive Director of Corporate Development

Ms. Li, aged 45, joined the Company in May 2017 and is the Head and Executive Director of Corporate Development of the Company. She is an investment banking professional with over 20 years of experience. Prior to joining the Group, she was a consultant with an international executive search firm and before that she held various senior investment banking positions including Managing Director, Institutional Client Group and Managing Director, Financial Institutions Group with Deutsche Bank in Hong Kong. She holds a Bachelor Degree in Business Administration from the University of Michigan. She is also a director of certain subsidiaries of the Company.

Sebastiaan Cornelis Van Den Berg
Chief Investment Officer and Head of the Principal Investments
Mr. Van Den Berg, aged 46, joined the Company in September 2016 as 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 and prior to that, 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.

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 2017, the interests of Directors in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(a) Interests in the shares of the Company (the "Shares"), the underlying Shares and debentures

Name of Directors	Capacity	Number of Shares, underlying Shares and unit of debentures	Approximate % of the total number of issued Shares
Lee Seng Huang	Interests of controlled corporation *(Note 1)*	1,233,578,575 *(Note 2)*	57.29%
Simon Chow Wing Charn	Beneficial owner	184,000 *(Note 3(a))*	0.009%
	Beneficiary of trust	863,000 *(Note 3(b))*	0.04%
	Beneficial owner	2 *(Note 3(c))*	n/a
Peter Anthony Curry	Beneficial owner	1,241,141 *(Note 4(a))*	0.058%
	Beneficial owner	1 *(Note 4(b))*	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 controlled approximately 74.95% of the total number of shares of AGL (inclusive of Mr. Lee Seng Hui's personal interests) 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 APL.
3. (a) This represents the Shares granted to Mr. Simon Chow Wing Charn ("Mr. Chow") under the SHK Employee Ownership Scheme (the "EOS") that were vested, became unrestricted and the title of which has been transferred to him.
   (b) These include the deemed interests in:
      (i) 368,000 unvested Shares out of the total of 552,000 Shares granted to Mr. Chow 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. 184,000 Shares) was vested and became 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.
      (ii) 495,000 unvested Shares granted to Mr. Chow on 13 April 2017 under the EOS and was subsequentlyaccepted. Such awarded Shares are subject to a vesting scale in tranches whereby one-third thereof (i.e. 165,000 Shares) shall be vested and become unrestricted from 13 April 2018; another one-third thereof shall be vested and become unrestricted from 13 April 2019; and the remaining one-third thereof shall be vested and become unrestricted from 13 April 2020.
   (c) This represents the interests held by Mr. Chow in the 4.65% Guaranteed Notes due September 2022 issued by SHK BVI in the amount of US$400,000.
4. (a) This includes 1,239,000 Shares granted to Mr. Peter Anthony Curry ("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.
   (b) This represents the interests held by Mr. Curry in the 4.75% Guaranteed Notes due May 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 *(Note 2)*	131,706,380	74.93%
	APL	Interests of controlled corporation *(Note 3)*	5,278,911,521 *(Note 4)*	77.49%
	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 Hong Kong Stock Exchange for exemption from disclosure of Mr. Lee's deemed interests in the shares of such associated corporations of the Company in this report, and the waiver was granted by the Hong Kong Stock Exchange on 14 February 2018.
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 interests 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) 170,000,000 shares of APL which were held indirectly by a wholly-owned subsidiary 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 interests in 3,082,889,606 shares of SHK HK Ind.

All interests stated above represent long positions. As at 31 December 2017, 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 2017, 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 1,170,000 Shares (2016: 834,000 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 1,192,000 Shares (2016: 872,000 Shares) were vested during the year.

Since its adoption, a total of 16,399,000 Shares have been awarded up to the date of this report, representing about 0.97 per cent of the total number of Shares in issue as at the Adoption Date. As at 31 December 2017, the outstanding awarded Shares under the EOS (excluding Shares awarded, but subsequently forfeited) amounted to 1,349,000 Shares, out of which 863,000 Shares were awarded to 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 2017, 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)*	57.29%
AGL	Interests of controlled corporation *(Note 3)*	1,233,578,575 *(Note 4)*	57.29%
Lee and Lee Trust	Interests of controlled corporation *(Note 5)*	1,233,578,575 *(Note 4)*	57.29%
Dubai Ventures L.L.C ("Dubai Ventures")	Beneficial owner	166,000,000 *(Note 6)*	7.71%
Dubai Ventures Group (L.L.C) ("DVG")	Interests of controlled corporation *(Note 7)*	166,000,000 *(Note 8)*	7.71%
Dubai Group (L.L.C) ("Dubai Group")	Interests of controlled corporation *(Note 9)*	166,000,000 *(Note 8)*	7.71%
Dubai Holding Investments Group LLC ("DHIG")	Interests of controlled corporation *(Note 10)*	166,000,000 *(Note 8)*	7.71%
Dubai Holding (L.L.C) ("Dubai Holding")	Interests of controlled corporation *(Note 11)*	166,000,000 *(Note 8)*	7.71%
Dubai Group Limited ("DGL")	Interests of controlled corporation *(Note 12)*	166,000,000 *(Note 8)*	7.71%

Name of Shareholders	Capacity	Number of Shares and underlying Shares	Approximate % of the total number of issued Shares
HSBC Trustee (C.I.) Limited ("HSBC Trustee")	Trustee *(Note 13)*	166,000,000 *(Note 8)*	7.71%
HH Mohammed Bin Rashid Al Maktoum	Interests of controlled corporation *(Note 14)*	166,000,000 *(Note 8)*	7.71%
Asia Financial Services Company Limited ("AFSC")	Beneficial owner	341,600,000 *(Note 15)*	15.87%
Asia Financial Services Holdings Limited ("AFSH")	Interests of controlled corporation *(Note 16)*	341,600,000 *(Note 17)*	15.87%
Asia Financial Services Group Limited ("AFSG")	Interests of controlled corporation *(Note 18)*	341,600,000 *(Note 17)*	15.87%
Asia Financial Services Group Holdings Limited ("AFSGH")	Interests of controlled corporation *(Note 19)*	341,600,000 *(Note 17)*	15.87%
CVC Capital Partners Asia Pacific III L.P. ("CVC LP")	Interests of controlled corporation *(Note 20)*	341,600,000 *(Note 17)*	15.87%
CVC Capital Partners Asia III Limited ("CVC Capital III")	Interests of controlled corporation *(Note 21)*	341,600,000 *(Note 17)*	15.87%
CVC Capital Partners Advisory Company Limited ("CVC Capital Partners Advisory")	Interests of controlled corporation *(Note 22)*	341,600,000 *(Note 17)*	15.87%
CVC Capital Partners Finance Limited ("CVC Capital Partners Finance")	Interests of controlled corporation *(Note 23)*	341,600,000 *(Note 17)*	15.87%
CVC Group Holdings L.P. ("CVC Group Holdings")	Interests of controlled corporation *(Note 24)*	341,600,000 *(Note 17)*	15.87%
CVC Portfolio Holdings Limited ("CVC Portfolio")	Interests of controlled corporation *(Note 25)*	341,600,000 *(Note 17)*	15.87%
CVC Management Holdings Limited ("CVC Management")	Interests of controlled corporation *(Note 26)*	341,600,000 *(Note 17)*	15.87%
CVC MMXII Limited ("CVC MMXII")	Interests of controlled corporation *(Note 27)*	341,600,000 *(Note 17)*	15.87%
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)*	15.87%
CVC Capital Partners SICAV-FIS S.A. ("CVC Capital Partners SA")	Interests of controlled corporation *(Note 29)*	341,600,000 *(Note 17)*	15.87%
Everbright Sun Hung Kai Structured Solutions Limited ("Everbright SHK")	Entity having a security interest in shares *(Note 30)*	341,600,000 *(Note 31)*	15.87%
Sun Hung Kai Financial Group Limited ("SHK Financial Group")	Interests of controlled corporation *(Note 32)*	341,600,000 *(Note 33)*	15.87%
Everbright Securities Financial Holdings Limited ("Everbright Securities Financial")	Interests of controlled corporation *(Note 34)*	341,600,000 *(Note 33)*	15.87%
Everbright Securities Company Limited	Interests of controlled corporation *(Note 35)*	341,600,000 *(Note 33)*	15.87%

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 controlled approximately 74.95% of the total number of shares of AGL (inclusive of Mr. Lee Seng Hui's personal interests) and was 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 341,600,000 Shares held by AFSC which were pledged in favour of Everbright SHK on 15 November 2017 for a term loan facility in an amount of HK$800,000,000.
31. This represents an interest in 341,600,000 Shares.
32. SHK Financial Group, through its wholly-owned subsidiary, owned 100% interest in Everbright SHK and was therefore deemed to have an interest in the Shares in which Everbright SHK was interested.
33. This refers to the same interest in 341,600,000 Shares in which Everbright SHK was interested.
34. Everbright Securities Financial owned 70% interest in SHK Financial Group and was therefore deemed to have an interest in the Shares in which SHK Financial Group was interested.
35. Everbright Securities Company Limited owned 100% interest in Everbright Securities Financial and was therefore deemed to have an interest in the Shares in which Everbright Securities Financial was interested.

All interests stated above represent long positions. As at 31 December 2017, no short positions were recorded in the SFO Register of the Company.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other persons who have interests or short positions in the Shares or underlying Shares 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

The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and are ongoing for which relevant announcements had been made by the Company in accordance with Chapter 14A of the Listing Rules.

(1) Sharing of Management Services Agreement

As disclosed in the announcement of the Company dated 7 February 2017 and in the annual report for the year ended 31 December 2016, a renewed sharing of management services agreement (the "Renewed Sharing of Management Services Agreement") was entered into between the Company and AGL on 7 February 2017, pursuant to which the Company agreed to reimburse AGL the actual costs incurred in respect of the provision of management, consultancy, business development, business introduction, strategic, internal audit, management information system consultancy and all other general business advice services by the senior management and the selected staff of AGL to the Group for a term of three years commencing from 1 January 2017 to 31 December 2019 and the relevant annual caps for each of the three financial years ending 31 December 2019 were set at HK$24.0 million, HK$26.5 million and HK$29.0 million respectively.

The total amount paid to AGL under the Renewed Sharing of Management Services Agreement for the year ended 31 December 2017 was HK$15.57 million, which was within the annual cap of HK$24.0 million as set for such financial year.

(2) Leasing arrangement in respect of Allied Kajima Building

2.1 Master Lease Agreement

As disclosed in the announcement of the Company dated 2 December 2015, the Company as the lessee entered into a renewed master lease agreement (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 2017 was approximately HK$17.25 million which was within the annual cap of HK$21.84 million as set for such financial year.

As disclosed in the announcement of the Company dated 29 November 2017, the Company entered into a master lease agreement (the "2018 Master Lease Agreement") with Art View on 29 November 2017 to renew the Renewed Master Lease Agreement for a term of three years from 1 January 2018 to 31 December 2020 and the respective annual caps for each of the three years ending 31 December 2020 were set at HK$27.03 million, HK$29.62 million and HK$29.62 million. Pursuant to the Listing Rules, details of the continuing connected transactions under the 2018 Master Lease Agreement shall be disclosed in the next published annual report of the Company.

2.2 Sub-tenancy Agreement

As disclosed in the announcement of the Company dated 8 April 2015, UAF (an indirect non wholly-owned subsidiary of the Company) entered into a sub-tenancy agreement (the "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 term of two years from 1 April 2015 to 31 March 2017. The maximum amounts set under the Sub-tenancy Agreement for each of the two years ended 31 December 2016 and for the three months' period ended 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.

As disclosed in the announcement of the Company dated 31 March 2017, UAF entered into a renewed sub-tenancy agreement (the "Renewed Sub-tenancy Agreement") with AGL on 31 March 2017 to renew the Sub-tenancy Agreement for a term of two years from 1 April 2017 to 31 March 2019 at a monthly rental and management fees of HK$24,100 per month and the aggregate maximum amount set for the financial year ended 31 December 2017 under both the Sub-tenancy Agreement and the Renewed Sub-tenancy Agreement was revised to HK$281,000.

The total aggregate amount paid to AGL under the Sub-tenancy Agreement and the Renewed Sub-tenancy Agreement for the year ended 31 December 2017 was HK$280,800 which was within the aggregate maximum amount of HK$281,000 as set.

Given that APL is a substantial shareholder of the Company; and AGL and Art View are all associates of APL under the definition of the Listing Rules, each of AGL and Art View is regarded as a connected person of the Company under the Listing Rules. As such, the entering into of the Renewed Sharing of Management Services Agreement, the Renewed Master Lease Agreement, the Sub-tenancy 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 2017 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 as at the date of this report, 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.

Leasing transactions with the subsidiaries of Tian An China Investments Company Limited ("TACI")

As disclosed in the announcement of the Company dated 30 May 2016, the leasing transactions (the "Leasing Transactions") between the Company and TACI in relation to the leasing of certain premises in the PRC for the financial year ended 31 December 2017 were fully exempted from the requirements under Chapter 14A of the Listing Rules as the applicable percentage ratio(s) of the Leasing Transactions between the Group and TACI for the financial year ended 31 December 2017 fell below 0.1%. Therefore, details of Leasing Transactions between the Company and TACI for the financial year ended 31 December 2017 is not included in this report.

Connected Transaction

Service Agreement

As disclosed in the joint announcement of the Company, AGL and APL dated 25 May 2017, Sun Hung Kai Structured Finance Limited ("SHK Structured Finance"), an indirect wholly-owned subsidiary of the Company and AP Diamond Limited ("AP Diamond"), an indirect wholly-owned subsidiary of APL, entered into a service agreement (the "Service Agreement") on 25 May 2017, pursuant to which (i) SHK Structured Finance agreed to engage AP Diamond to provide the services relating to the facilitating and coordinating the negotiation of the terms and details of a supplemental loan agreement (the "Supplemental Loan Agreement"); and (ii) upon AP Diamond successfully procuring the signing of the Supplemental Loan Agreement entered into, amongst others, by SHK Structured Finance as a lender, SHK Structured Finance would pay AP Diamond a service fee of HK$14,000,000. The Supplemental Loan Agreement was entered into on 25 May 2017.

As APL is a substantial shareholder of the Company, AP Diamond is an indirect wholly-owned subsidiary of APL and SHK Structured Finance is an indirect wholly-owned subsidiary of the Company, each of APL and AP Diamond is a connected person of the Company. Accordingly, the Service Agreement entered into between SHK Structured Finance and AP Diamond constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. Pursuant to Rule 14A.49 of the Listing Rules, details of the transaction is included in this Annual Report.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Group are set out in Note 33 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 in this Annual Report.

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 Asiasec Properties Limited ("Asiasec", formerly known as Dan Form Holdings Limited) 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
- Asiasec, 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 2017, the Company repurchased a total of 39,418,000 Shares on the Hong Kong Stock Exchange at an aggregate consideration (before expenses) of HK$195,648,230. All the repurchased Shares were subsequently cancelled.

Particulars of the repurchases are as follows:

	Number of Shares	Purchase price		Aggregate consideration
Month	repurchased	Highest (HK$)	Lowest (HK$)	(before expenses)(HK$)
January	2,666,000	5.04	4.78	13,034,470
February	76,000	5.05	5.00	381,460
March	694,000	5.04	4.99	3,477,950
April	15,189,000	5.04	4.88	74,781,410
May	—	—	—	—
June	1,450,000	5.05	5.00	7,302,520
July	—	—	—	—
August	449,000	5.18	5.14	2,320,940
September	3,825,000	5.09	4.99	19,255,490
October	3,549,000	5.05	5.01	17,875,620
November	7,112,000	5.03	4.90	35,474,070
December	4,408,000	5.00	4.88	21,744,300
	39,418,000			**195,648,230**

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 2017.

Auditor

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

On behalf of the Board

Lee Seng Huang
Group Executive Chairman

Hong Kong, 21 March 2018

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 60 to 115, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, 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 2017, 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 judgment, 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 matter	How our audit addressed the key audit matter
Valuation of loans and advances to consumer finance customers, mortgage loans and term loans	
We identified the impairment assessment of loans and advances to consumer finance customers, mortgage loans 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, 30 and 31 to the consolidated financial statements, the Group has loans and advances to consumer finance customers of HK\$9,163.6 million, after recognising an impairment allowance of HK\$663.3 million, mortgage loans of HK\$2,120.4 million, after recognising an impairment allowance of HK\$5.0 million and term loans of HK\$3,155.0 million, after recognising an impairment allowance of HK\$86.6 million, as at 31 December 2017. Loans and advances to consumer finance customers and mortgage loans, 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 and mortgage loans were 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 to the consolidated financial statements for the basis of determining the impairment allowances.	Our procedures in relation to the collective impairment of loans and advances to consumer finance customers and mortgage loans 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 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 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 2017, HK$6,268.7 million of the Group's total financial assets (including available-for-sale investments of HK$41.4 million and financial assets at fair value through profit or loss of HK$6,227.3 million) and HK$8.8 million of the Group's total financial liabilities carried at fair value were classified as level 3 under fair value hierarchy. These include an 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 2017 of HK$1,053.0 million, HK$811.5 million and HK$4,302.2 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 the 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 or fund administrators, as appropriate.
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 to the consolidated financial statements. 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 after tax) used in the 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 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 an associate. At 31 December 2017, the net carrying amount of SHKFGL is HK$1,084.0 million, after impairment of HK$572.6 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 7 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; and • 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.

As part of an audit in accordance with HKSAs, we exercise professional judgment 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.

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

21 March 2018

Consolidated Statement of Profit or Loss

For the year ended 31 December 2017

(HK$ Million)	Notes	2017	2016
Revenue	5	**3,795.6**	3,511.3
Other gains	7	**250.1**	178.9
Total income		**4,045.7**	3,690.2
Brokerage and commission expenses		**(46.7)**	(51.0)
Advertising and promotion expenses		**(145.6)**	(120.3)
Direct cost and operating expenses		**(61.5)**	(37.0)
Administrative expenses	11	**(1,208.1)**	(1,158.3)
Net gain on financial assets and liabilities	12	**1,229.4**	749.9
Net exchange (loss) gain		**(126.9)**	9.7
Bad and doubtful debts	13	**(386.7)**	(895.7)
Finance costs	14	**(544.3)**	(488.3)
Other losses	11	**(177.7)**	(142.8)
		2,577.6	1,556.4
Share of results of associates		**59.6**	0.5
Share of results of joint ventures		**(28.7)**	(55.3)
Profit before taxation	11	**2,608.5**	1,501.6
Taxation	15	**(294.6)**	(131.9)
Profit for the year		**2,313.9**	1,369.7
Profit attributable to:			
— Owners of the Company		**1,824.3**	1,109.6
— Non-controlling interests	23	**489.6**	260.1
		2,313.9	1,369.7
Earnings per share	17		
— Basic (HK cents)		**84.0**	50.3
— Diluted (HK cents)		**83.9**	50.2

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

(HK$ Million)	2017	2016
Profit for the year	**2,313.9**	1,369.7
Other comprehensive income (expenses) that may be reclassified subsequently to profit or loss		
Available-for-sale investments		
— Net fair value changes during the year	**(175.5)**	(0.7)
— Reclassification adjustment to profit or loss on impairment	**176.2**	—
	0.7	(0.7)
Exchange differences arising on translating foreign operations	**466.2**	(490.9)
Reclassification adjustment to profit or loss on disposal / liquidation of subsidiaries	**—**	(0.1)
Share of other comprehensive income (expenses) of associates	**3.5**	(4.9)
Share of other comprehensive income (expenses) of joint ventures	**2.2**	(1.5)
	472.6	(498.1)
Other comprehensive income (expenses) for the year	**472.6**	(498.1)
Total comprehensive income for the year	**2,786.5**	871.6
Total comprehensive income attributable to:		
— Owners of the Company	**2,112.7**	811.1
— Non-controlling interests	**673.8**	60.5
	2,786.5	871.6

Consolidated Statement of Financial Position

At 31 December 2017

(HK$ Million)	Notes	31/12/2017	31/12/2016
Non-current Assets			
Investment properties	18	**1,178.6**	1,054.5
Leasehold interests in land		**4.4**	4.2
Property and equipment	19	**456.2**	421.9
Intangible assets	20	**882.6**	883.4
Goodwill	21	**2,384.0**	2,384.0
Interests in associates	24	**1,365.8**	1,086.5
Interests in joint ventures	25	**280.2**	227.1
Available-for-sale investments	26	**324.0**	109.5
Financial assets at fair value through profit or loss	26	**5,033.7**	3,632.9
Deferred tax assets	27	**649.6**	652.5
Amounts due from associates and joint ventures	28	**275.2**	248.8
Loans and advances to consumer finance customers	29	**2,322.8**	2,190.8
Mortgage loans	30	**1,243.1**	330.4
Trade and other receivables	31	**505.8**	359.9
Deposits for acquisition of property and equipment		**—**	44.8
		16,906.0	13,631.2
Current Assets			
Financial assets at fair value through profit or loss	26	**6,188.4**	2,979.1
Taxation recoverable		**5.4**	1.9
Amounts due from associates and joint ventures	28	**143.6**	64.5
Loans and advances to consumer finance customers	29	**6,840.8**	5,469.5
Mortgage loans	30	**877.3**	282.7
Trade and other receivables	31	**2,823.5**	2,620.3
Amounts due from brokers		**725.8**	1,059.5
Bank deposits	32	**787.7**	1,257.7
Cash and cash equivalents	32	**2,123.7**	5,194.5
		20,516.2	18,929.7

(HK$ Million)	Notes	31/12/2017	31/12/2016
Current Liabilities			
Financial liabilities at fair value through profit or loss	26	**161.1**	115.3
Bank and other borrowings	33	**2,196.8**	2,092.6
Trade and other payables	34	**329.1**	239.1
Financial liabilities for repurchase agreements	35	**1,071.0**	—
Amounts due to fellow subsidiaries and a holding company	36	**135.3**	41.0
Amounts due to associates	36	**1.9**	1.9
Provisions	37	**69.5**	54.7
Taxation payable		**146.0**	135.3
Notes issued	38	**1,079.1**	2,264.5
		5,189.8	4,944.4
Net Current Assets		**15,326.4**	13,985.3
Total Assets less Current Liabilities		**32,232.4**	27,616.5
Capital and Reserves			
Share capital	39	**8,752.3**	8,752.3
Reserves		**10,674.4**	9,324.7
Equity attributable to owners of the Company		**19,426.7**	18,077.0
Non-controlling interests	23	**3,971.8**	3,578.8
Total Equity		**23,398.5**	21,655.8
Non-current Liabilities			
Deferred tax liabilities	27	**181.5**	195.4
Bank and other borrowings	33	**1,600.4**	2,717.7
Provisions	37	**0.2**	0.2
Notes issued	38	**7,051.8**	3,047.4
		8,833.9	5,960.7
		32,232.4	27,616.5

The consolidated financial statements on pages 60 to 115 were approved and authorised for issue by the Board of Directors on 21 March 2018 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 2017

	Attributable to owners of the Company									
(HK$ Million)	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
At 1 January 2017	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
Profit for the year	–	–	–	–	–	–	1,824.3	1,824.3	489.6	2,313.9
Other comprehensive income (expenses) for the year (Note 40)	–	–	–	283.4	5.0	–	–	288.4	184.2	472.6
Total comprehensive income (expenses) for the year	–	–	–	283.4	5.0	–	1,824.3	2,112.7	673.8	2,786.5
Recognition of equity-settled share-based payments	–	–	6.4	–	–	–	–	6.4	–	6.4
Purchase of shares for the SHK Employee Ownership Scheme	–	(4.8)	–	–	–	–	–	(4.8)	–	(4.8)
Vesting of shares of the SHK Employee Ownership Scheme	–	6.3	(6.3)	–	–	–	–	–	–	–
Interim dividends paid	–	–	–	–	–	–	(567.3)	(567.3)	–	(567.3)
Capital reduction of non-controlling interests	–	–	–	–	–	–	–	–	(73.5)	(73.5)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	(208.4)	(208.4)
Acquisition of non-controlling interest in a subsidiary	–	–	–	–	–	–	(1.1)	(1.1)	1.1	–
Shares repurchased and cancelled	–	–	–	–	–	–	(196.2)	(196.2)	–	(196.2)
Transfer retained earnings to capital reserves	–	–	–	–	–	11.2	(11.2)	–	–	–
At 31 December 2017	8,752.3	(7.6)	4.9	(89.8)	546.1	75.1	10,145.7	19,426.7	3,971.8	23,398.5

	Attributable to owners of the Company									
(HK$ Million)	Share capital	Shares held for Employee Ownership Scheme	Employee share-based compensation reserve	Exchange reserve	Revaluation reserve	Capital reserves	Retained earnings	Total	Non-controlling interests	Total equity
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 40)	–	–	–	(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 of 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 Cash Flows

For the year ended 31 December 2017

(HK$ Million)	2017	2016
Operating activities		
Profit for the year	**2,313.9**	1,369.7
Adjustments for:		
— Share of results of associates	**(59.6)**	(0.5)
— Share of results of joint ventures	**28.7**	55.3
— Taxation	**294.6**	131.9
— Dividend income	**(10.8)**	(17.3)
— Interest income	**(3,641.1)**	(3,372.5)
— Profit on disposal of subsidiaries	**—**	(18.9)
— Profit on disposal of an associate	**—**	(3.9)
— Increase in fair value of investment properties	**(120.4)**	(135.5)
— Expenses recognised for the SHK Employee Ownership Scheme	**6.4**	2.8
— Amortisation of leasehold interests in land	**0.1**	0.2
— Amortisation of intangible assets	**1.8**	5.6
— Depreciation of property and equipment	**55.2**	55.8
— Net loss on disposal / write-off of equipment	**1.5**	1.1
— Impairment loss on an associate	**—**	141.5
— Impairment loss on available-for-sale investments	**176.2**	—
— Reversal of impairment in an associate	**(107.6)**	—
— Loss on redemption of notes issued	**0.8**	—
— Bad and doubtful debts	**386.7**	895.7
— Interest expenses	**530.8**	481.0
— Net fair value gain on financial assets and liabilities	**(1,093.6)**	(825.6)
— Exchange differences	**56.4**	(52.6)
Operating cash flows before movements in working capital	**(1,180.0)**	(1,286.2)
Change in financial assets at fair value through profit or loss	**(3,003.8)**	168.5
Change in amounts due from associates	**(79.2)**	56.3
Change in loans and advances to consumer finance customers and mortgage loans	**(3,071.2)**	(460.1)
Change in trade and other receivables	**(470.0)**	495.1
Change in amounts due from brokers	**333.7**	(913.0)
Change in financial liabilities at fair value through profit or loss	**45.0**	(62.6)
Change in trade and other payables	**89.1**	(36.3)
Change in financial liabilities for repurchase agreements	**1,071.0**	—
Change in amounts due to a holding company	**7.8**	1.7
Change in provisions	**11.5**	21.1
Cash used in operations	**(6,246.1)**	(2,015.5)
Dividends received from held for trading investments	**9.4**	11.1
Interest received	**3,604.3**	3,344.4
Interest paid	**(470.7)**	(433.2)
Taxation paid	**(266.7)**	(322.8)
Net cash (used in) from operating activities	**(3,369.8)**	584.0

(HK$ Million)	2017	2016
Investing activities		
Purchase of property and equipment	**(20.8)**	(28.8)
Proceeds on disposal of equipment	**—**	0.2
Purchase of intangible assets	**—**	(5.5)
Proceeds on disposal of subsidiaries	**—**	104.1
Proceeds on disposal of associates	**—**	57.9
Acquisition of a subsidiary	**—**	(39.4)
Capital injection to associates	**(128.0)**	(180.8)
Capital injection to a joint venture	**(69.7)**	(23.4)
Dividends received from associates	**20.7**	28.4
Dividends received from joint ventures	**—**	11.8
Advance to associates	**—**	(199.8)
Dividends received from available-for-sale investments	**—**	3.6
Purchase of available-for-sale investments	**(390.0)**	(5.4)
Purchase of long-term financial assets designated as at fair value through profit or loss	**(603.4)**	(253.3)
Proceeds on disposal of long-term financial assets designated as at fair value through profit or loss	**90.2**	90.2
Payment of deposits for acquisition of property and equipment	**—**	(44.8)
Net fixed deposits with banks withdrawal	**541.0**	154.2
Net cash used in investing activities	**(560.0)**	(330.8)
Financing activities		
Short-term loans due to fellow subsidiaries raised	**86.5**	39.3
Net short-term bank and other borrowings repaid	**(2,169.6)**	(2,486.0)
New long-term bank and other borrowings raised	**1,150.0**	953.4
Repayment of long-term bank loans	**—**	(14.0)
Proceeds from issue of notes	**4,729.0**	1,854.8
Redemption of notes	**(60.5)**	—
Repurchase of notes issued	**—**	(121.1)
Repayment of notes	**(2,300.8)**	—
Disposal of notes held by subsidiaries of the Company	**334.9**	18.5
Purchase of shares for the SHK Employee Ownership Scheme	**(4.8)**	(1.4)
Shares repurchased and cancelled	**(196.2)**	(168.5)
Dividends paid	**(567.3)**	(575.4)
Dividends to non-controlling interests	**(208.4)**	(66.6)
Repayment of capital contributions by non-controlling interest	**(66.9)**	—
Net cash from (used in) financing activities	**725.9**	(567.0)
Net change in cash and cash equivalents	**(3,203.9)**	(313.8)
Cash and cash equivalents at 1 January	**5,194.5**	5,647.6
Effect of foreign exchange rate changes	**133.1**	(139.3)
Cash and cash equivalents at the end of the year (Note 32)	**2,123.7**	5,194.5

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 consolidated financial statements are presented in Hong Kong dollars ("HK$"), 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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. 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 cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following 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.

A reconciliation between the opening and closing balances of these items is provided in note 45. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 45, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Considerations[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

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

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

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2021.

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

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

New and revised HKFRSs in issue but not yet effective *(Continued)*

HKFRS 9 "Financial Instruments"

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

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

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt instruments 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 instruments 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 Financial Instruments: Recognition and Measurement, 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.

- for non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revises the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised 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 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9.

(a) Classification and measurement

Based on assessment of the Group, the financial assets currently measured at amortised cost and fair value through profit or loss ("FVTPL") will continue with their respective classification and measurements upon the adoption of HKFRS 9. With respect to the Group's financial assets currently classified as "available-for-sale investments", the Group will designate an amount of HK$282.6 million as FVTOCI. The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently has an insignificant amount of financial liabilities designated at FVTPL and therefore this new requirement may not have material impact on the Group's consolidated financial statements upon the application of HKFRS 9.

2. Application of New and Amendments to Hong Kong Financial Reporting Standards ("HKFRSs") *(Continued)*

New and revised HKFRSs in issue but not yet effective *(Continued)*

HKFRS 9 "Financial Instruments" (Continued)

(b) *Impairment*

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, it will result in an increase in the amount of impairment and earlier recognition of credit losses. Such further impairment recognised under expected credit loss model, mainly attributable to provision on loans and advances to consumer finance customers, mortgage loans and term loans, would reduce the opening retained earnings attributable to owners of the Company and non-controlling interests and increase the deferred tax assets at 1 January 2018.

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 do not expect that the application of HKFRS 15 will have a significant impact, when applied, on the Group's consolidated financial statements.

HKFRS 16 "Leases"

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

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

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

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 2017, the Group has non-cancellable operating lease commitments of HK$240.5 million as disclosed in note 41(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 in 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.

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;
- 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.

3. Significant Accounting Policies *(Continued)*

(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.

(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 an investment that is not 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.

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.

3. Significant Accounting Policies *(Continued)*

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

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.

(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.

(j) Intangible assets

(i) Club membership

It represents the right to use the facilities of various clubs, with the management considering 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.

3. Significant Accounting Policies *(Continued)*

(j) Intangible assets *(Continued)*

(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.

(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 ("FVTPL") 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, or on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking. 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 FVTPL 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, or such designation eliminates or significantly reduces a measurement or recognition inconsistently that would otherwise arise or it forms part of a contract containing one or more embedded derivatives and HKAS 39 permits the entire combined contract to be designated as at financial assets at FVTPL.

"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 FVTPL, 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, mortgage loans, amounts due from brokers 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 FVTPL are initially recognised at fair value with transaction costs recognised as expenses in profit or loss. Financial assets which are not financial assets at FVTPL are initially recognised at fair value plus transaction costs.

(iii) Subsequent measurement

"Financial assets at fair value through profit or loss"

Financial assets at FVTPL are stated at fair value, with any gains or loss arising on remeasurement recognised directly in profit or loss. The net gain or loss excludes any dividend or interest earned on the financial assets and is included in the "Revenue" line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in section (vi).

3. Significant Accounting Policies *(Continued)*

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

(iii) Subsequent measurement (Continued)

"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. The changes in the carrying amount of investments classified as available-for-sale are recognised in other comprehensive income and accumulated under 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.

When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

"Loans and receivables"

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

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

(v) Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

(vi) 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.

(vii) 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 other than those at FVTPL, 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. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of revaluation reserve.

3. Significant Accounting Policies *(Continued)*

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

(vii) Impairment (Continued)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

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

"Effective interest method"

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

3. Significant Accounting Policies *(Continued)*

(m) Financial liabilities *(Continued)*

"Financial liabilities at fair value through profit or loss"

Financial liabilities for trading purposes are generally classified as "financial liabilities at FVTPL" which are recognised initially at fair value. A financial liability is classified as held for trading if it has been acquired principally for the purpose of repurchasing it in the near term, or on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or it is a derivative that is not designated and effective as a hedging instrument. A financial liability other than held for trading purpose may be designated as at fair value through profit or loss upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise or the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis, or 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. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the "Finance costs" line item in the consolidated financial statement of profit or loss.

"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 financial 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.

"Financial liabilities for repurchase agreements"

Financial liabilities for repurchase agreements continue to be recognised, which do not result in derecognition of the financial assets, and are recorded as "financial assets at FVTPL". Financial assets sold subject to agreements with a commitment to repurchase at a specific future date are not derecognised in the consolidated statement of financial position. The proceeds from selling such assets are presented as "financial liabilities for repurchase agreements" in the consolidated statement of financial position. Financial liabilities for repurchase agreements are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

"Other financial liabilities"

Other financial liabilities including bank and other borrowings, notes issued, 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.

(n) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. Significant Accounting Policies *(Continued)*

(n) Equity instruments *(Continued)*

"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) Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

(p) 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.

(q) 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.

3. Significant Accounting Policies *(Continued)*

(r) 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 recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

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. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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.

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

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.

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.

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.

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.

(s) 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.

3. Significant Accounting Policies *(Continued)*

(s) Foreign currencies *(Continued)*

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.

(t) 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.

(u) 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 recognised as a reduction of rental expenses on a straight-line basis over the lease term.

(v) 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.

(w) 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) 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.
(iv) 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 term loans

In determining individual impairment allowances, the Group periodically reviews its term loans to assess whether objective evidence of impairment exists. In determining whether impairment allowances should be recorded in profit or loss, the 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 collaterals or guarantees in favour of the Group.

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

The policy for collective impairment allowances for loans and advances to consumer finance customers and mortgage loans 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.

(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

(HK$ Million)	2017	2016
Service and commission income	120.9	99.2
Dividends from listed investments	10.8	13.7
Dividends from unlisted investments	—	3.6
Gross rental income from investment properties	22.8	22.3
Interest income	3,641.1	3,372.5
	3,795.6	3,511.3

During the year, the interest income that was derived from financial assets not at fair value through profit or loss amounted to HK$3,641.1 million (2016: HK$3,372.5 million).

6. Segment Information

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

The main reportable and operating segments presented in these consolidated 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.

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

(HK$ Million)	2017 Financial Services	Consumer Finance	Mortgage Loans	Principal Investments	Group Management and Support	Total
Segment revenue	4.0	3,122.2	124.4	527.7	224.4	4,002.7
Less: inter-segment revenue	–	–	–	–	(207.1)	(207.1)
Segment revenue from external customers	4.0	3,122.2	124.4	527.7	17.3	3,795.6
Segment profit or loss	109.0	1,444.7	35.0	1,061.0	(72.1)	2,577.6
Share of results of associates	38.3	–	–	21.3	–	59.6
Share of results of joint ventures	(28.7)	–	–	–	–	(28.7)
Profit before taxation	118.6	1,444.7	35.0	1,082.3	(72.1)	2,608.5
Included in segment profit or loss:						
Interest income	–	3,074.8	124.0	424.6	17.7	3,641.1
Other gains	107.6	16.9	–	119.8	5.8	250.1
Net (loss) gain on financial assets and liabilities	(1.2)	–	–	1,231.8	(1.2)	1,229.4
Net exchange loss	–	(40.5)	–	(62.8)	(23.6)	(126.9)
Bad and doubtful debts	–	(297.3)	(3.2)	(86.2)	–	(386.7)
Amortisation and depreciation	–	(43.3)	(1.3)	–	(12.5)	(57.1)
Impairment loss on available-for-sale investment measured at fair value	–	–-	–	(176.2)	–	(176.2)
Finance costs	–	(202.1)	(42.3)	(157.6)	(343.0)	(745.0)
Less: inter-segment finance costs	–	0.8	42.3	157.6	–	200.7
Finance costs to external suppliers	–	(201.3)	–	–	(343.0)	(544.3)
Cost of capital income (charges)*	–	–	–	(289.5)	289.5	–

6. Segment Information *(Continued)*

(HK$ Million)	2016 Financial Services	Consumer Finance	Mortgage Loans	Principal Investments	Group Management and Support	Total
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	—

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

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

(HK$ Million)	2017	2016
Revenue from external customers by location of operations		
— Hong Kong	**2,792.8**	2,541.6
— Mainland China	**999.2**	958.4
— Others	**3.6**	11.3
	3,795.6	3,511.3

(HK$ Million)	31/12/2017	31/12/2016
Non-current assets other than interests in associates and joint ventures, financial assets and deferred tax assets by location of assets		
— Hong Kong	**4,483.1**	4,372.4
— Mainland China	**422.7**	420.4
	4,905.8	4,792.8

7. Other Gains

(HK$ Million)	2017	2016
Net realised gain on disposal of investments		
— Disposal of subsidiaries	—	18.9
— Disposal of an associate	—	3.9
Increase in fair value of investment properties	120.4	135.5
Miscellaneous income	22.1	20.6
Reversal of impairment in an associate *	107.6	—
	250.1	178.9

* 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. There was an improvement of the stock market in 2017 and resulted in a partial reversal of impairment loss for the year ended 31 December 2017. The fair value was measured by discounted cash flow approach at the reporting date using a discount rate of 16.6% (2016: 19.7%). 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$1.0 million (2016: HK$345.0 million gain) classified under net gain on financial assets and liabilities.

8. Emoluments of Directors and Senior Employees

(a) Directors

	2017					
(HK$ Million)	Director's fees	Consultancy fees	Salaries, housing and other allowances and benefits in kind	Discretionary bonuses	Contributions to retirement benefit scheme	Total
Executive Directors						
Lee Seng Huang (Group Executive Chairman)	0.02	—	8.73	48.50[4]	0.36	57.61
Simon Chow Wing Charn[1]	0.02	—	2.74	3.75[3]	0.13	6.64
Peter Anthony Curry[2]	0.02	—	2.82	3.75[5]	0.10	6.69
Non-Executive Directors						
Jonathan Andrew Cimino	0.02	—	—	—	—	0.02
Independent Non-Executive Directors						
David Craig Bartlett	0.02	0.22	—	—	—	0.24
Alan Stephen Jones	0.02	0.28	—	—	—	0.30
Jacqueline Alee Leung	0.02	0.22	—	—	—	0.24
Peter Wong Man Kong	0.02	0.22	—	—	—	0.24
	0.16	0.94	14.29	56.0	0.59	71.98

1 In March 2018, 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 2017. In addition, 184,000 shares were vested during 2017.

2 557,000 shares under the SHK Employee Ownership Scheme were vested during 2017.

3 The amount represents an actual cash bonus of HK$3.75 million for the year 2017 (2016: HK$2.5 million).

4 The amount represents an actual cash bonus of HK$48.50 million for the year 2017 (2016: HK$30.5 million).

5 The amount represents an actual cash bonus of HK$3.75 million for the year 2017 (2016: HK$1.65 million).

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

The non-executive director's emoluments shown above were for his services as a director of the Company.

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

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

8. Emoluments of Directors and Senior Employees *(Continued)*

(a) Directors *(Continued)*

	2016					
(HK$ Million)	Director's fees	Consultancy fees	Salaries, housing and other allowances and benefits in kind	Discretionary bonuses	Contributions to retirement benefit scheme	Total
Executive Directors						
Lee Seng Huang (Group Executive Chairman)	0.01	—	8.08	30.50	0.35	38.94
Simon Chow Wing Charn[1]	0.01	—	2.66	2.50	0.13	5.30
Peter Anthony Curry[2]	0.01	—	2.77	1.65	0.20	4.63
Joseph Tong Tang[3]	—	—	0.25	—	0.01	0.26
Non-Executive Directors						
Ahmed Mohammed Aqil Qassim Alqassim	—	—	—	—	—	—
Jonathan Andrew Cimino	0.01	—	—	—	—	0.01
Joseph Kamal Iskander	—	—	—	—	—	—
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 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.

(b) Highest paid individuals

The five highest paid individuals of the Group include three Directors (2016: three Directors) of the Company. The emoluments of the remaining two (2016: two) highest paid individuals are analysed below:

(HK$ Million)	2017	2016
Salaries, housing and other allowances, and benefits in kind	**11.1**	10.3
Bonuses	**20.2**	17.7
Contributions to retirement benefit scheme	**1.1**	1.0
	32.4	29.0

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

Emoluments band (HK$)	Number of employees 2017	2016
$5,000,001 — $5,500,000	—	1
$5,500,001 — $6,000,000	**1**	—
$23,500,001 — $24,000,000	—	1
$26,500,001 — $27,000,000	**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 2017	2016
$1,000,001 — $1,500,000	**1**	1
$3,500,001 — $4,000,000	**1**	—
$23,500,001 — $24,000,000	—	1
$26,500,001 — $27,000,000	**1**	—

No shares was vested and granted for our senior management during year 2017. No dividend payments were paid to senior management during the year (2016: nil).

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 People's Republic of China (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$79.8 million (2016: HK$90.1 million). The amount of forfeited contributions utilised in the course of the year ended 31 December 2017 was HK$0.19 million (2016: HK$0.01 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, 1.2 million shares (2016: 0.8 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$6.1 million (2016: HK$3.8 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$6.4 million (2016: HK$2.8 million).

11. Profit Before Taxation

(HK$ Million)	2017	2016
Profit before taxation for the year has been arrived at after charging:		
Administrative expenses (Note a)	**(1,208.1)**	(1,158.3)
Amortisation of leasehold interests in land	**(0.1)**	(0.2)
Amortisation of intangible assets acquired in business combination included in direct cost and operating expenses	**—**	(4.1)
Outgoings in respect of rental generating investment properties	**(0.7)**	(2.8)
Outgoings in respect of non-rental generating investment properties	**—**	(0.6)
Other losses (Note b)	**(177.7)**	(142.8)
Share of taxation of associates and joint ventures included in share of results of associates and joint ventures	**(6.3)**	(6.3)
(a) Analysis of administrative expenses:		
Staff costs (including Directors' emoluments)	**(694.8)**	(663.9)
Contributions to retirement benefit schemes	**(79.8)**	(90.1)
Expenses recognised for the SHK Employee Ownership Scheme	**(6.4)**	(2.8)
Total staff costs	**(781.0)**	(756.8)
Auditors' remuneration	**(5.2)**	(5.7)
Depreciation of property and equipment	**(55.2)**	(55.8)
Amortisation of intangible assets – computer software	**(1.8)**	(1.5)
Operating lease rentals	**(160.6)**	(153.8)
Other administrative expenses	**(204.3)**	(184.7)
	(1,208.1)	(1,158.3)
(b) Analysis of other losses:		
Net loss on disposal/write-off of equipment	**(1.5)**	(1.1)
Impairment loss		
— Available-for-sale investment measured at fair value	**(176.2)**	—
— Interest in an associate	**—**	(141.5)
Loss on disposal of investments	**—**	(0.2)
	(177.7)	(142.8)

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:

(HK$ Million)	2017	2016
Net realised and unrealised gain/(loss) on financial assets and liabilities		
— Held for trading	**297.4**	(142.5)
— Designated as at fair value through profit or loss	**932.0**	892.4
	1,229.4	749.9

13. Bad and Doubtful Debts

(HK$ Million)	2017	2016
Loans and advances to consumer finance customers		
— Impairment loss, net of reversal	(277.3)	(873.6)
Mortgage loans		
— Impairment loss, net of reversal	(3.2)	(3.0)
Trade and other receivables		
— Impairment loss, net of reversal	(106.2)	(19.1)
Bad and doubtful debts recognised in profit or loss	(386.7)	(895.7)

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

(HK$ Million)	2017	2016
Loans and advances to consumer finance customers		
— Amounts written off in allowance of impairment	(700.8)	(1,053.0)
— Recoveries credited to allowance of impairment	162.8	160.2
Mortgage loans		
— Amounts written off in allowance of impairment	(1.4)	(1.0)
Trade and other receivables		
— Amounts written off in allowance of impairment	(71.5)	(72.4)

14. Finance Costs

(HK$ Million)	2017	2016
Interest on the following liabilities		
— Bank loans and overdrafts	(182.2)	(207.9)
— Notes issued	(348.6)	(273.1)
	(530.8)	(481.0)
Other borrowing costs	(13.5)	(7.3)
	(544.3)	(488.3)

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

15. Taxation

(HK$ Million)	2017	2016
Current tax		
— Hong Kong	(196.7)	(186.0)
— PRC	(52.6)	(83.4)
	(249.3)	(269.4)
(Under) over provision in prior years	(19.0)	0.7
	(268.3)	(268.7)
Deferred tax	(26.3)	136.8
	(294.6)	(131.9)

Hong Kong profits tax is calculated at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits for the year. PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% (2016: 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.

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:

(HK$ Million)	2017	2016
Profit before taxation	2,608.5	1,501.6
Less: Share of results of associates	(59.6)	(0.5)
Share of results of joint ventures	28.7	55.3
	2,577.6	1,556.4
Tax at the Hong Kong profits tax rate of 16.5% (2016: 16.5%)	(425.3)	(256.8)
(Under) over provision in prior years	(19.0)	0.7
Tax effect of non-taxable income	234.3	149.0
Tax effect of non-deductible expenses	(32.9)	(37.5)
Tax effect of unrecognised deductible temporary difference and tax losses	(26.9)	(3.0)
Reversal of deferred tax on tax loss previously recognised	6.5	—
Reversal of deferred tax on deductible temporary difference previously recognised	0.2	—
Countries subject to different tax rates	(31.5)	15.7
	(294.6)	(131.9)

Deferred tax recognised in other comprehensive income during the year was immaterial (2016: immaterial).

16. Dividends

(HK$ Million)	2017	2016
The aggregate amount of dividends declared and proposed:		
— 2017 interim dividend paid of HK12 cents (2016: HK12 cents) per share	**260.7**	264.4
— 2017 second interim dividend of HK14 cents per share declared after the reporting date (2016: 2016 second interim dividend of HK14 cents per share)	**301.4**	306.6
	562.1	571.0
Dividends recognised as distribution during the year:		
— 2016 second interim dividend paid of HK14 cents (2016: 2015 final dividend of HK14 cents) per share	**306.6**	311.0
— 2017 interim dividend paid of HK12 cents (2016: HK12 cents) per share	**260.7**	264.4
	567.3	575.4

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:

(HK$ Million)	2017	2016
Earnings for the purposes of basic and diluted earnings per share		
Profit for the year from attributable to owners of the Company	**1,824.3**	1,109.6

(Million)	2017	2016
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**2,172.5**	2,207.8
Effect of dilutive potential ordinary shares:		
— Impact of contingently issuable shares under the SHK Employee Ownership Scheme	**1.0**	0.8
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**2,173.5**	2,208.6

18. Investment Properties

(HK$ Million)	Hong Kong	PRC	Total
At 1 January 2016	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
Exchange adjustments	—	3.7	3.7
Change in fair value recognised in profit or loss	119.0	1.4	120.4
At 31 December 2017	1,124.0	54.6	1,178.6
Unrealised gains or losses for the year included in profit or loss			
— For 2017	119.0	1.4	120.4
— For 2016	136.0	(0.5)	135.5

18. Investment Properties *(Continued)*

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.

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 Holdings 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**	**2017**	2016
Hong Kong	Investment method	Term yield	**2%**	2%
		Reversionary yield	**2.25%**	2.25%
		Monthly market unit rent per gross floor area (sq. ft.)	**HK$45 to HK$65**	HK$41 to HK$65
PRC	Investment method	Term yield	**4.25 to 6.00%**	4.25 to 6.75%
		Reversionary yield	**4.25 to 6.75%**	4.75 to 6.75%
		Monthly market unit rent per gross floor area (sq.m.)	**RMB27 to RMB108**	RMB27 to RMB102

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.

Particulars of the investment properties at 31 December 2017 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$974.0 million (31/12/2016: HK$873.0 million) were pledged as security for the Group's banking facilities.

19. Property and Equipment

(HK$ Million)	Property	Furniture and equipment	Total
Cost			
At 1 January 2016	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
Exchange adjustments	23.5	16.0	39.5
Additions	—	65.6	65.6
Disposals/write-off	—	(17.9)	(17.9)
At 31 December 2017	335.5	421.4	756.9
Accumulated depreciation and impairment			
At 1 January 2016	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
Exchange adjustments	2.5	11.6	14.1
Depreciation provided for the year	9.1	46.1	55.2
Eliminated on disposals/write-off	—	(16.4)	(16.4)
At 31 December 2017	39.6	261.1	300.7
Carrying amount at 31 December 2017	295.9	160.3	456.2
Carrying amount at 31 December 2016	284.0	137.9	421.9

The useful lives of the properties are same as the remaining term of the leases that are ranging from 26 to 35 years.

20. Intangible Assets

(HK$ Million)	Club membership	Computer software	Trade mark	Customer relationship	Web domain	Total
Cost						
At 1 January 2016	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
Exchange adjustments	—	1.3	—	—	—	1.3
At 31 December 2017	2.2	18.6	875.0	1,154.0	78.0	2,127.8
Accumulated amortisation and impairment						
At 1 January 2016	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
Exchange adjustments	—	0.3	—	—	—	0.3
Amortisation charged for the year	—	1.8	—	—	—	1.8
At 31 December 2017	1.0	5.2	7.0	1,154.0	78.0	1,245.2
Carrying amount at 31 December 2017	1.2	13.4	868.0	—	—	882.6
Carrying amount at 31 December 2016	1.2	14.2	868.0	—	—	883.4

Other than the club membership 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

(HK$ Million)	2017	2016
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 2017 were allocated as follows:

	Goodwill		Trade Mark	
(HK$ Million)	31/12/2017	31/12/2016	31/12/2017	31/12/2016
United Asia Finance Limited ("UAF") in "Consumer Finance" segment	**2,384.0**	2,384.0	**868.0**	868.0

22. Impairment Testing on Goodwill and Intangible Assets with Indefinite Useful Lives *(Continued)*

The recoverable amount of UAF, a cash-generating unit, represents the value in use at 31 December 2017 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 12.8% on the profit after tax from 2018 to 2022 (2016: 15.0% from 2017 to 2021), a sustainable growth rate of 2.7% beyond 2022 (2016: 2.6% beyond 2021), and a discount rate of 15.6% (2016: 13.8%). 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. Interests 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 2017 are as follows.

	Profit or loss allocated to non-controlling interests		Accumulated non-controlling interests	
(HK$ Million)	**2017**	2016	**31/12/2017**	31/12/2016
United Asia Finance Limited and its subsidiaries	**488.7**	261.6	**3,854.1**	3,399.4
上海浦東新區亞聯財小額貸款有限公司	**1.0**	(1.0)	**69.9**	64.1
北京亞聯財小額貸款有限公司	**(1.4)**	(2.1)	**47.2**	112.3
Other subsidiaries having non-controlling interests	**1.3**	1.6	**0.6**	3.0
	489.6	260.1	**3,971.8**	3,578.8

The following tables provide summarised financial information of subsidiaries that have non-controlling interests. 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	
(HK$ Million)	**31/12/2017**	31/12/2016	**31/12/2017**	31/12/2016
Current assets	**9,456.3***	9,907.3*	**223.7**	196.9
Non-current assets	**3,443.2#**	3,320.7#	**29.6**	30.2
Current liabilities	**(2,648.2)**	(2,338.6)	**(20.3)**	(13.4)
Non-current liabilities	**(1,585.6)**	(3,255.8)	**—**	—

(HK$ Million)	**2017**	2016	**2017**	2016
Dividend paid to non-controlling interests	**208.4**	66.1	**—**	—
Revenue	**3,096.2**	3,004.5	**37.4**	43.1
Profit (loss) for the year	**1,163.7**	622.9	**3.1**	(3.2)
Total comprehensive income (expenses) for the year	**1,604.0**	162.8	**19.3**	(18.0)
Net change in cash and cash equivalents during the year	**(1,527.8)**	(386.7)	**(24.1)**	(1.0)

* Including loans and advances to consumer finance customers of HK$6,840.8 million (31/12/2016: HK$5,470 million)

\# Including loans and advances to consumer finance customers of HK$2,322.8 million (31/12/2016: HK$2,191 million)

23. Interests in Subsidiaries *(Continued)*

(HK$ Million)	北京亞聯財小額貸款有限公司 31/12/17	北京亞聯財小額貸款有限公司 31/12/16
Current assets	**210.0**	551.7
Non-current assets	**31.5**	18.4
Current liabilities	**(5.6)**	(8.7)
Non-current liabilities	**—**	—

(HK$ Million)	2017	2016
Dividend paid to non-controlling interests	**—**	—
Revenue	**51.5**	45.1
Profit (loss) for the year	**(7.1)**	(10.4)
Total comprehensive income (expenses) for the year	**42.0**	(49.3)
Net change in cash and cash equivalents during the year	**(388.3)**	246.1

Particulars of the Company's principal subsidiaries at 31 December 2017 were as follows:

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2017	Proportion of ownership interest 2016	Principal activities
Admiralty Eight Limited	Hong Kong	HK$1	**100%**	100%	Property investment
Admiralty Eleven Limited	Hong Kong	HK$1	**100%**	100%	Property investment
Boneast Assets Limited *	British Virgin Islands	US$1	**100%**	100%	Investment holding
Bronwood Holdings Limited	British Virgin Islands	US$1	**100%**	—	Investment holding
SHK Bullion Company Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
First Asian Holdings Limited	Hong Kong	HK$2	**58%**	58%	Investment holding
Itso Limited	Hong Kong	HK$2	**100%**	100%	Investment holding, financial services and securities trading
Sun Hung Kai Global Opportunities Fund (formerly known as 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		182,255.1444 (2016: 223,060.3644) US$0.001 shares	**100%**	100%	
— Class B3 participating shares		7,581.95 US$0.001 shares	**100%**	100%	
Oakfame Investment Limited	Hong Kong	HK$2	**100%**	100%	Investment holding
Paignton Holdings Limited	British Virgin Islands	US$1	**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%**	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%**	95%	Investment holding
SHK Asset Management Holding Limited	British Virgin Islands	US$3,400,001	**100%**	100%	Investment holding
SHK Commodities Limited	Hong Kong	HK$10,000	**100%**	100%	Investment portfolio
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
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. (CP) Limited *	British Virgin Islands	US$1	**100%**	—	Investment holding
Sun Hung Kai & Co. (BVI) Limited *	British Virgin Islands	US$1	**100%**	100%	Financing

23. Interests in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2017	2016	Principal activities
Sun Hung Kai Capital Limited*	British Virgin Islands	US$1	**100%**	100%	Investment holding
Sun Hung Kai Credit Limited	Hong Kong	HK$450,000,000 (2016: HK$250,000,000)	**92%**	86%	Mortgage financing
Sun Hung Kai Fintech Capital Limited (formerly known as SHK Insurance Consultants Limited)	Hong Kong	HK$3,000,000	**100%**	100%	Investment holding
SHK International Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
Razorway Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding
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
Champstar Investments Limited	British Virgin Islands	US$1	**100%**	100%	Investment holding, securities trading and financial services
SHK Pearl River Delta Investment Company Limited	Hong Kong	Issued share capital: HK$100,000,000 Paid up share capital: HK$75,000,000.5	**100%**	100%	Provision of loan finance
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$19,800 (2016: US$11,000)	**92%**	86%	Investment holding
Tung Wo Investment Company, Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding
United Asia Finance Limited	Hong Kong	HK$1,502,218,417.8	**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$50,000,000 (2016: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$130,000,000 (2016: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	RMB200,000,000 (2016: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$230,000,000 (2016: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#(c)	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
武漢亞聯財小額貸款有限公司(b)	People's Republic of China	RMB300,000,000	**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

23. Interests in Subsidiaries *(Continued)*

Principal subsidiaries	Place of incorporation and operation	Issued and paid up share capital/ registered capital	Proportion of ownership interest 2017	2016	Principal activities
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(b)	People's Republic of China	US$20,000,000 (2016: US$40,000,000)	**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
福州市晉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
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	**58%**	58%	Money lending
壹融站信息技術(深圳)有限公司 (formerly known as 深圳亞聯財信息技術有限公司)(c)	People's Republic of China	RMB20,000,000	**58%**	58%	Financial consultancy

* These subsidiaries are directly held by the Company.

\# The companies are non-wholly owned subsidiaries of a non-wholly owned subsidiary.

^ The 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.

Save as disclosed in note 38 to the consolidated financial statements, none of the other subsidiaries had issued any debt securities at the end of the year.

24. Interests in Associates

(HK$ Million)	31/12/17	31/12/16
Carrying amount of unlisted associates	**1,939.1**	1,767.4
Less: impairment	**(573.3)**	(680.9)
	1,365.8	1,086.5

Particulars of the Group's material associate at 31 December 2017 were as follows:

Name	Place of incorporation/ operation	Proportion of ownership interest 2017	2016	Principal activities
Sun Hung Kai Financial Group Limited ("SHKFGL")	British Virgin Islands/ Hong Kong	**30%**	30%	Wealth management and brokerage business

24. Interests in Associates *(Continued)*

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.

(HK$ Million)	**31/12/2017**	31/12/2016
Current assets	**11,995.9**	7,192.1
Non-current assets	**1,827.7**	1,534.2
Current liabilities	**(5,805.9)**	(3,904.0)
Non-current liabilities	**(4,521.3)**	(1,400.6)

(HK$ Million)	**2017**	2016
Revenue	**1,328.2**	979.6
Profit	**127.5**	87.5
Other comprehensive income	**11.8**	(16.3)
Total comprehensive income	**139.3**	71.2

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

(HK$ Million)	**31/12/2017**	31/12/2016
Adjusted net assets of SHKFGL	**3,496.4**	3,421.7
Group's effective interest	**30%**	30%
Group's share of adjusted net assets	**1,048.9**	1,026.5
Goodwill	**607.7**	607.7
Impairment (Note 7 and 11)	**(572.6)**	(680.2)
Carrying amount of the Group's interest in SHKFGL	**1,084.0**	954.0

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.

(HK$ Million)	**2017**	2016
Share of profit or loss	**21.3**	(25.7)
Share of other comprehensive income	**–**	–
Share of total comprehensive income (expenses)	**21.3**	(25.7)
Share of unrecognised losses for the year	**(0.7)**	(0.1)
Share of cumulative losses	**(26.0)**	(25.3)

25. Interests in Joint Ventures

(HK$ Million)	**31/12/2017**	31/12/2016
Carrying amount of unlisted joint ventures	**280.2**	227.1
Less: impairment	**–**	–
	280.2	227.1

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.

(HK$ Million)	**2017**	2016
Share of profit or loss	**(28.7)**	(55.3)
Share of other comprehensive income (expenses)	**2.2**	(1.5)
Share of total comprehensive income (expenses)	**(26.5)**	(56.8)
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 2017				
	Fair value			Cost less	
(HK$ Million)	Level 1	Level 2	Level 3	impairment	Total
Available-for-sale investments					
Equity securities listed in Hong Kong	47.2	—	—	—	47.2
Equity securities listed outside Hong Kong	213.8	—	—	—	213.8
Unlisted overseas equity securities	—	—	41.4	21.6	63.0
	261.0	—	41.4	21.6	324.0
Financial assets at fair value through profit or loss					
Held for trading investments					
— Equity securities listed in Hong Kong	453.7	—	—	—	453.7
— Equity securities listed outside Hong Kong	732.7	—	—	—	732.7
— Exchange-traded funds listed in Hong Kong	3.6	—	—	—	3.6
— Over the counter equity derivatives	—	—	0.7	—	0.7
— Forward currency contract	—	15.2	—	—	15.2
— Unlisted currency options	—	3.1	—	—	3.1
— Unlisted put right for shares in an associate	—	—	1,053.0	—	1,053.0
— Unlisted call option for club memberships	—	—	10.9	—	10.9
— Unlisted call option for shares listed outside Hong Kong	—	—	10.9	—	10.9
— Contracts for difference	—	8.6	—	—	8.6
— Unlisted bonds issued by listed companies	—	18.2	—	—	18.2
— Unlisted bonds issued by unlisted companies	—	1,000.9	—	—	1,000.9
— Listed bonds and notes issued by unlisted companies	—	302.0	—	—	302.0
— Listed bonds issued by listed companies	—	2,172.3	—	—	2,172.3
	1,190.0	3,520.3	1,075.5	—	5,785.8
Investments designated as at fair value through profit or loss					
— Unlisted convertible preferred and ordinary shares issued by an unlisted company	—	117.3	—	—	117.3
— Unlisted convertible preferred shares issued by an unlisted company	—	—	17.1	—	17.1
— Unlisted convertible bonds issued by unlisted companies	—	—	21.0	—	21.0
— Unlisted overseas equity securities with a put right for shares	—	—	811.5	—	811.5
— Unlisted overseas investment funds	—	167.2	4,302.2	—	4,469.4
	—	284.5	5,151.8	—	5,436.3
	1,190.0	3,804.8	6,227.3	—	11,222.1
Analysed for reporting purposes as:					
— Non-current assets					5,033.7
— Current assets					6,188.4
					11,222.1
Financial liabilities at fair value through profit or loss					
Held for trading					
— Futures and options listed outside Hong Kong	2.5	—	—	—	2.5
— Foreign currency contracts	—	52.8	—	—	52.8
— Unlisted overseas options	—	1.4	—	—	1.4
— Over the counter equity derivatives	—	—	8.8	—	8.8
— Stock borrowings	—	82.9	—	—	82.9
— Contracts for difference	—	12.7	—	—	12.7
Analysed for reporting purposes as current liabilities	2.5	149.8	8.8	—	161.1

26. Financial Assets and Liabilities *(Continued)*

	At 31 December 2016				
	Fair value			Cost less	
(HK$ Million)	Level 1	Level 2	Level 3	impairment	Total
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)*

Available-for-sale investments are intended to be held for a continuing strategic or long-term purpose. Due to insufficient market information and a wide range of possible fair values as input to measure the fair value reliably, some of the unlisted equity investments are carried at cost less impairment.

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.

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

	At 31 December 2017			
	Valuation technique	Unobservable inputs	Input values	Fair value HK$ Million
Held for trading investments				
Unlisted put right for shares in an associate	Option model	Volatility Risk free rate Equity growth rate Estimated equity value	31.0% 1.0% 0.5% HK$1,084.0 million	1,053.0
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 Volatility Discount rate Equity growth rate	1.06x 5.1% 2.1% 0.1%	811.5
Unlisted overseas investment funds	Net asset value*	n/a	n/a	4,302.2

26. Financial Assets and Liabilities *(Continued)*

	At 31 December 2016			
	Valuation technique	Unobservable inputs	Input values	Fair value HK$ Million
Held for trading investments				
Unlisted put right for shares in an associate	Option model	Volatility Risk free rate Equity growth rate Estimated equity value	41.8% 0.9% 1.1% HK$954.0 million	1,052.0
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 Volatility Discount rate Equity growth rate	1.23x 5.5% 1.9% 1.5%	826.1
Unlisted overseas investment funds	Net asset value*	n/a	n/a	2,871.6

* 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 has been no change in the valuation technique during the year.

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

	2017							
			Recognised gains or losses					
(HK$ Million)	Balance at 1/1/2017	Transfer	Profit or loss	Other comprehensive income	Purchase	Disposal	Balance at 31/12/2017	Unrealised gain or loss for the year
Available-for-sale investments								
Unlisted overseas equity securities	42.2	–	–	(0.8)	–	–	41.4	–
Held for trading investments								
Over the counter equity derivatives	0.4	–	0.3	–	–	–	0.7	0.3
Over the counter currency derivatives	0.1	–	(0.1)	–	–	–	–	(0.1)
Unlisted put right for shares in an associate	1,052.0	–	1.0	–	–	–	1,053.0	1.0
Unlisted call option for club memberships	8.3	–	2.6	–	–	–	10.9	2.6
Unlisted call option for shares listed outside Hong Kong	12.4	–	(0.3)	–	–	(1.2)	10.9	(0.3)
Investments designated as at fair value								
Unlisted convertible preferred shares issued by an unlisted company	–	–	0.1	–	17.0	–	17.1	0.1
Unlisted convertible bonds issued by unlisted companies	3.9	–	0.1	–	17.0	–	21.0	0.1
Unlisted overseas equity securities with a put right for shares	826.1	–	(14.6)	–	–	–	811.5	(14.6)
Unlisted overseas investment funds	2,871.6	–	922.7	–	666.5	(158.6)	4,302.2	900.5
Financial liabilities held for trading								
Over the counter equity derivatives	(2.9)	–	(5.9)	–	–	–	(8.8)	(5.9)
Over the counter currency derivatives	(1.9)	–	1.9	–	–	–	–	1.9

26. Financial Assets and Liabilities *(Continued)*

(HK$ Million)	Balance at 1/1/2016	Transfer	2016 Recognised gains or losses: Profit or loss	Recognised gains or losses: Other comprehensive income	Purchase	Disposal	Balance at 31/12/2016	Unrealised gain or loss for the year
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	—	—	—	1,052.0	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.

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

(HK$ Million)	31/12/2017	31/12/2016
Available-for-sale investments	**324.0**	109.5
Financial assets at fair value through profit or loss		
— Held for trading investments	**5,785.8**	2,910.4
— Investments designated as at fair value through profit or loss	**5,436.3**	3,701.6
	11,222.1	6,612.0
Loans and receivables		
— Amounts due from associates and joint ventures (Note 28)	**418.8**	313.3
— Loans and advances to consumer finance customers (Note 29)	**9,163.6**	7,660.3
— Mortgage loans (Note 30)	**2,120.4**	613.1
— Trade and other receivables (Note 31)	**3,295.0**	2,935.9
— Amounts due from brokers	**725.8**	1,059.5
— Bank deposits (Note 32)	**787.7**	1,257.7
— Cash and cash equivalents (Note 32)	**2,123.7**	5,194.5
	18,635.0	19,034.3
	30,181.1	25,755.8

26. Financial Assets and Liabilities *(Continued)*

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

(HK$ Million)	31/12/2017	31/12/2016
Financial liabilities at fair value through profit or loss		
— Held for trading	**161.1**	115.3
Financial liabilities measured at amortised cost		
— Bank and other borrowings (Note 33)	**3,797.2**	4,810.3
— Trade and other payables (Note 34)	**150.1**	73.4
— Financial liabilities for repurchase agreements (Note 35)	**1,071.0**	—
— Amounts due to fellow subsidiaries and a holding company (Note 36)	**135.3**	41.0
— Amounts due to associates (Note 36)	**1.9**	1.9
— Notes issued (Note 38)	**8,130.9**	5,311.9
	13,286.4	10,238.5
	13,447.5	10,353.8

Transferred financial assets

The Group enters into transactions in the normal course of business by which it transfers recognised financial assets to third parties. In some cases where these transfers may give rise to full derecognition of the financial assets concerned. In other cases where the Group has retained substantially all the risks and rewards of these assets, the Group continues to recognise the transferred assets.

The Group transfers financial assets that are not derecognised in their entirety primarily through the sale of debt securities with repurchase agreements.

Sales and repurchase agreements are transactions in which the Group sells a debt security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at the agreed date and price. The repurchase prices are fixed and the Group is still exposed to substantially all the credit risks, market risks and rewards of those debt securities sold. These debt securities are not derecognised from the financial statements but regarded as "collateral" for the liabilities because the Group retains substantially all the risks and rewards of these debt securities. The proceeds received on the transfer are recognised as liabilities under "Financial liabilities for repurchase agreements".

The following table sets out the carrying amounts of all financial assets transferred that are not derecognised in their entirety and associated liabilities.

As at 31 December 2017

Analysed by liabilities type **(HK$ Million)**	**Carrying amount of transferred assets** **Financial assets at fair value through profit or loss**	**Carrying amount of associated liabilities**	**Net Position**
Financial liabilities for repurchase agreements (Note 35)	**1,280.2**	**1,071.0**	**209.2**

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:

26. Financial Assets and Liabilities *(Continued)*

As at 31 December 2017

(HK$ Million)	Gross amounts of recognised financial assets and liabilities	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position: Financial instruments	Related amounts not set off in the consolidated statement of financial position: Cash collateral received/ pledged	Net amount
Type of financial assets						
Financial assets at fair value through profit or loss	2,538.9	—	2,538.9	(161.1)	—	2,377.8
Debt securities pledged as collaterals for financial liabilities for repurchase agreements (Note 35)	1,280.2	—	1,280.2	(1,071.0)	—	209.2
Type of financial liabilities						
Financial liabilities at fair value through profit or loss	161.1	—	161.1	(161.1)	—	—
Financial liabilities for repurchase agreements	1,071.0	—	1,071.0	(1,071.0)	—	—

As at 31 December 2016

(HK$ Million)	Gross amounts of recognised financial assets and liabilities	Gross amounts set off in the consolidated statement of financial position	Net amounts presented in consolidated statement of financial position	Related amounts not set off in the consolidated statement of financial position: Financial instruments	Related amounts not set off in the consolidated statement of financial position: Cash collateral received/ pledged	Net amount
Type of financial assets						
Financial assets at fair value through profit or loss	1,450.8	—	1,450.8	(3.8)	—	1,447.0
Amounts due 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)	—	—

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:

(HK$ Million)	Accelerated tax depreciation	Provisions and impairment	Revaluation of assets	Unrealised gain	Undistributed earnings and others	Tax losses	Total
At 1 January 2016	(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
Exchange adjustments	—	42.0	(0.7)	(4.8)	—	0.8	37.3
Recognised in profit or loss	(3.5)	(40.3)	2.1	4.0	0.2	11.2	(26.3)
At 31 December 2017	(12.7)	673.5	(183.0)	(56.1)	0.2	46.2	468.1

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:

(HK$ Million)	31/12/2017	31/12/2016
Deferred tax assets	**649.6**	652.5
Deferred tax liabilities	**(181.5)**	(195.4)
	468.1	457.1

At the end of the reporting period, the Group had unrecognised tax losses of HK$216.8 million (31/12/2016: HK$325.6 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$11.2 million that will expire during 2019 to 2022 (31/12/2016: HK$1.5 million will expire during 2018 to 2021).

Under the Law of PRC on Enterprise Income Tax, withholding tax is imposed on dividends declared in respect of profits earned by the 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$1,026.5 million at the end of the reporting period (31/12/2016: HK$788.1 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

(HK$ Million)	31/12/2017	31/12/2016
Amounts due from associates	**435.9**	328.2
Less: impairment allowance	**(17.1)**	(17.1)
	418.8	311.1
Amounts due from joint ventures	**—**	2.2
Less: impairment allowance	**—**	—
	—	2.2
	418.8	313.3
Analysed for reporting purposed as:		
— Non-current assets	**275.2**	248.8
— Current assets	**143.6**	64.5
	418.8	313.3

(HK$ Million)	Advance to associates
At 31 December 2017	
Gross amount of impaired advances	**17.3**
Individually assessed impairment allowances	
— Balance brought forward	**(17.1)**
— Amounts written off	**—**
— Amounts recognised in profit or loss	**—**
— Balance carried forward	**(17.1)**
Net carrying amount of impaired advances	**0.2**
At 31 December 2016	
Gross amount of impaired advances	17.3
Individually assessed impairment allowances	
— Balance brought forward	(17.1)
— Amounts written off	—
— Amounts recognised in profit or loss	—
— Balance carried forward	(17.1)
Net carrying amount of impaired advances	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 36.

29. Loans and Advances to Consumer Finance Customers

(HK$ Million)	31/12/2017	31/12/2016
Loans and advances to consumer finance customers		
— Hong Kong	**6,544.2**	6,373.5
— Mainland China	**3,282.7**	2,193.1
Less: impairment allowance	**(663.3)**	(906.3)
	9,163.6	7,660.3
Analysed for reporting purposes as:		
— Non-current assets	**2,322.8**	2,190.8
— Current assets	**6,840.8**	5,469.5
	9,163.6	7,660.3

29. Loans and Advances to Consumer Finance Customers *(Continued)*

Movements of impairment allowance during the year were as follows:

(HK$ Million)	2017	2016
At 1 January	**(906.3)**	(949.0)
Exchange adjustments	**(17.7)**	23.5
Amounts written off	**700.8**	1,053.0
Amounts recognised in profit or loss	**(277.3)**	(873.6)
Amounts recovered	**(162.8)**	(160.2)
At 31 December	**(663.3)**	(906.3)

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.

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:

(HK$ Million)	31/12/2017	31/12/2016
Less than 31 days past due	**538.7**	499.6
31 – 60 days	**100.2**	91.8
61 – 90 days	**52.9**	55.2
91 – 180 days	**117.5**	139.8
Over 180 days	**31.4**	169.6
	840.7	956.0

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$8,881.3 million unsecured (31/12/2016: HK$7,163.5 million) and HK$282.3 million secured (31/12/2016: HK$496.8 million). The table below summarises its credit quality (gross balances net of impairment allowances):

(HK$ Million)	31/12/2017	31/12/2016
Credit quality		
Neither past due nor individually impaired	**8,266.4**	6,686.6
Past due or individually impaired	**897.2**	973.7
	9,163.6	7,660.3

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, charges 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 customers with the carrying amount of HK$266.6 million (2016: HK$419.7 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. Mortgage Loans

(HK$ Million)	31/12/2017	31/12/2016
Mortgage loans		
— Hong Kong	2,125.4	616.3
Less: impairment allowance	(5.0)	(3.2)
	2,120.4	613.1
Analysed for reporting purposes as:		
— Non-current assets	1,243.1	330.4
— Current assets	877.3	282.7
	2,120.4	613.1

Movements of impairment allowance during the year were as follows:

(HK$ Million)	2017	2016
At 1 January	(3.2)	(1.2)
Amounts written off	1.4	1.0
Amounts recognised in profit or loss	(3.2)	(3.0)
At 31 December	(5.0)	(3.2)

The mortgage loans bear interest at market interest rates.

The mortgage loans have been reviewed by the mortgage loans division to assess impairment allowances in two aspects 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.

The following is an ageing analysis for the Mortgage loans that were past due at the end of the reporting period but not impaired:

(HK$ Million)	31/12/2017	31/12/2016
Less than 31 days past due	218.0	20.0
31 – 60 days	6.5	37.9
61 – 90 days	4.1	3.0
91 – 180 days	—	0.1
Over 180 days	8.8	—
	237.4	61.0

The mortgage loans categorised as unsecured and secured, are as follows:

At the reporting date, mortgage loan consisted of HK$230.1 million unsecured (31/12/2016: HK$224.8 million) and HK$1,890.3 million secured (31/12/2016: HK$388.3 million). The table below summarises its credit quality (gross balances net of impairment allowances):

(HK$ Million)	31/12/2017	31/12/2016
Credit quality		
Neither past due nor individually impaired	1,827.5	552.1
Past due or individually impaired	292.9	61.0
	2,120.4	613.1

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

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

— for personal lending, mortgages over residential properties; and
— for commercial lending, charges over real estate properties.

In general, the mortgage loans which are granted on a secured basis 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 mortgage loans to mortgage loans customers with the carrying amount of HK$1,890.3 million (2016: HK$388.3 million), the fair values of the collaterals of such mortgage loans can be objectively ascertained to cover the outstanding amount of the loan balances.

30. Mortgage Loans *(Continued)*

The unsecured mortgage loans 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 amounts of the mortgage loan approximate their fair values.

The Group's mortgage loans carried an average interest rate of 10.15% (2016: 12.03%).

31. Trade and Other Receivables

(HK$ Million)	31/12/2017	31/12/2016
Secured term loans	2,125.7	2,618.0
Unsecured term loans	1,115.9	230.3
Less: impairment allowance	(86.6)	(0.4)
	3,155.0	2,847.9
Guarantee and consultancy fee receivables	0.5	1.5
Payments on behalf of customers*	6.3	59.4
Less: impairment allowance	(6.6)	(56.1)
	0.2	4.8
Other receivables		
— Deposits	43.8	40.1
— Others	96.0	43.1
	139.8	83.2
Trade and other receivables at amortised cost	3,295.0	2.935.9
Prepayments	34.3	44.3
	3,329.3	2,980.2
Analysed for reporting purposes as:		
— Non-current assets	505.8	359.9
— Current assets	2,823.5	2,620.3
	3,329.3	2.980.2

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

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

(HK$ Million)	31/12/2017	31/12/2016
Less than 31 days	1.7	17.0
	1.7	17.0
Term loans and trade and other receivables without ageing*	3,386.5	2,975.4
Less: impairment allowances	(93.2)	(56.5)
Trade and other receivables at amortised cost	3,295.0	2,935.9

* 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.

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

(HK$ Million)	Term loans	Other receivables	Total
At 31 December 2017			
Gross amount of impaired receivables	124.4	6.8	131.2
Individually assessed impairment allowances			
— Balance brought forward	(0.4)	(56.1)	(56.5)
— Exchange adjustments	—	(2.0)	(2.0)
— Amounts written off	—	71.5	71.5
— Amounts recognised in profit or loss	(86.2)	(20.0)	(106.2)
— Balance carried forward	(86.6)	(6.6)	(93.2)
Net carrying amount of impaired receivables	37.8	0.2	38.0
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

31. Trade and Other Receivables *(Continued)*

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.

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:

(HK$ Million)	**31/12/2017**	31/12/2016
Less than 31 days	**0.2**	0.2
31 – 60 days	**—**	1.0
61 – 90 days	**—**	1.1
Over 91 days	**—**	1.8
	0.2	4.1

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 44.

32. Bank Deposits, Cash and Cash Equivalents

(HK$ Million)	**31/12/2017**	31/12/2016
Bank balances and cash	**1,745.4**	2,251.1
Fixed deposits with banks with a term within 3 months	**378.3**	2,943.4
Cash and cash equivalents	**2,123.7**	5,194.5
Fixed deposits with banks with a term between 4 to 12 months	**787.7**	1,257.7
	2,911.4	6,452.2

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 44.

33. Bank and Other Borrowings

(HK$ Million)	**31/12/2017**	31/12/2016
Bank loans		
— Unsecured term loans	**3,363.2**	4,712.5
— Secured instalment loans	**399.0**	38.8
Total bank borrowings	**3,762.2**	4,751.3
Other borrowings	**35.0**	59.0
	3,797.2	4,810.3
Analysed for reporting purposes as:		
— Current liabilities	**2,196.8**	2,092.6
— Non-current liabilities	**1,600.4**	2,717.7
	3,797.2	4,810.3

At 31 December 2017, bank and other borrowings were repayable as follows:

(HK$ Million)	**31/12/2017**	31/12/2016
Bank borrowings		
— Within one year	**1,747.8**	1,999.8
— In the second year	**1,255.8**	1,748.5
— In the third to fifth year	**309.6**	934.2
Bank borrowings with a repayment on demand clause		
— Within one year	**435.0**	54.8
— In the second year	**14.0**	4.8
— In the third to fifth year	**—**	9.2
	3,762.2	4,751.3
Other borrowings		
— Within one year	**—**	24.0
— Over five years	**35.0**	35.0
	3,797.2	4,810.3

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$206.5 million which was denominated in US dollar (31/12/2016: HK$448.9 million in US and Australian dollar). Further details related to financial risk management of such balances are disclosed in Note 44.

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

34. Trade and Other Payables

(HK$ Million)	31/12/2017	31/12/2016
Other accounts payable	**150.1**	73.4
Accrued staff costs and other accrued expenses	**179.0**	165.7
	329.1	239.1

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

(HK$ Million)	31/12/2017	31/12/2016
Less than 31 days/repayable on demand	**46.7**	40.0
31 — 60 days	**8.1**	8.4
61 — 90 days	**9.2**	8.3
91 — 180 days	**—**	1.7
Over 180 days	**—**	0.5
	64.0	58.9
Accrued staff costs, other accrued expenses and other payables without ageing	**265.1**	180.2
	329.1	239.1

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

35. Financial Liabilities for Repurchase Agreements

(HK$ Million)	2017	2016
Analysed by collateral type:		
Debt instruments classified as:		
Financial assets at fair value through profit or loss	**1,071.0**	—

As at 31 December 2017, debt instruments which are classified as financial assets at fair value through profit or loss with carrying amount of HK$1,280.2 million (2016: Nil) were sold under repurchase agreements with other financial institutions. All repurchase agreements are due within 12 months from the end of the reporting period. Details of the arrangement are set out in Note 26.

36. Related Party Transactions

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

(HK$ Million)	2017	2016
Associates and joint ventures of a holding company		
Rental and building management fees to an associate of a holding company*	**(3.9)**	(4.1)
Rental and building management fees to a joint venture of a holding company*	**(18.5)**	(17.9)
Interest expense to an associate of a holding company	**(8.3)**	(2.8)
Proceeds received on disposal of subsidiaries to an associate of a holding company*	**—**	100.7
Associates		
Loan to an associate	**—**	(201.6)
Rental income from an associate	**—**	0.8
Loan referral fee and participation fee received from associates and joint ventures	**36.7**	6.6
Management and service fees received from associates and joint ventures	**5.0**	7.6
Brokerage expenses to an associate	**(2.6)**	(0.8)
Service fees expenses to an associate	**(5.0)**	(4.7)
Consultancy fee received from associates	**2.5**	—
Insurance premiums paid to an associate	**(2.8)**	(0.8)
Holding company and its subsidiaries		
Short-term loan due to fellow subsidiaries	**(86.5)**	(39.3)
Finance costs to fellow subsidiaries	**(22.8)**	(20.6)
Service fee to a fellow subsidiaries*	**(14.9)**	—
Management fees paid/ payable to a holding company*	**(15.6)**	(8.5)

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

36. 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:

(HK$ Million)	2017	2016
Short-term benefits	102.5	73.7
Post-employment benefits	1.7	1.6
	104.2	75.3

During the year, 711,000 shares were granted under the SHK Employee Ownership Scheme ("EOS") to key management personnel. In addition, 741,000 shares with a total amount of HK$3.75 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$0.2 million (2016: HK$0.1 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 the 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 2017 (2016: 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.

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

(HK$ Million)	31/12/2017	31/12/2016
Associates of a holding company		
Notes issued held by an associate of a holding company	(116.5)	(116.3)
	(116.5)	(116.3)
Associates		
Amounts due from associates	418.8	311.1
Amounts due to associates	(1.9)	(1.9)
	416.9	309.2
Joint ventures		
Amounts due from joint ventures	–	2.2
Holding company and fellow subsidiaries		
Management fees paid/ payable to a holding company	(9.5)	(1.7)
Short-term loan due to fellow subsidiaries	(125.8)	(39.3)
Notes issued held by fellow subsidiaries	(378.5)	(303.6)

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

37. Provisions

(HK$ Million)	Employee benefits	Others	Total
At 1 January 2017	40.4	14.5	54.9
Exchange adjustments	–	0.6	0.6
Additional provisions for the year	54.7	0.2	54.9
Amount written back	–	(1.3)	(1.3)
Amount paid during the year	(39.4)	–	(39.4)
At 31 December 2017	55.7	14.0	69.7

37. Provisions *(Continued)*

(HK$ Million)	31/12/2017	31/12/2016
Analysed for reporting purposes as:		
— Current liabilities	**69.5**	54.7
— Non-current liabilities	**0.2**	0.2
	69.7	54.9

38. Notes Issued

(HK$ Million)	31/12/2017	31/12/2016
US dollar denominated notes (the "US$ Notes")		
— 6.375% US dollar denominated notes maturing in September 2017 (the "6.375% Notes")	**—**	1,777.9
— 3% US dollar denominated notes maturing in December 2017 (the "3% Notes")	**—**	464.5
— 4.75% US dollar denominated notes maturing in May 2021 ("the "4.75% Notes")	**2,793.1**	2,511.7
— 4.65% US dollar denominated notes maturing in September 2022 (the "4.65% Notes")	**4,353.1**	—
HK dollar denominated notes		
— 2.8% HK dollar denominated notes maturing in November 2018 (the "2.8% Notes")	**448.2**	—
Renminbi denominated notes (the "RMB Notes")		
— 6.9% Renminbi denominated notes maturing in May 2018 (the "6.9% Notes")	**536.5**	557.8
	8,130.9	5,311.9
Analysed for reporting purposes as:		
— Current liabilities	**1,079.1**	2,264.5
— Non-current liabilities	**7,051.8**	3,047.4
	8,130.9	5,311.9

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.

On 11 September 2017, under the guaranteed medium term note programme, Sun Hung Kai & Co. (BVI) Limited further issued US$550 million 4.65% Notes (US$400 million at par and US$150 million at premium) for a net consideration of HK$4,289.0 million. The notes are listed on The Stock Exchange of Hong Kong Limited. The 4.65% Notes will mature on 8 September 2022. The fair value of the 4.65% Notes based on the price quoted from pricing service at the reporting date was HK$4,364.1 million which was categorised as Level 2.

On 20 November 2017, under the guaranteed medium term note programme, Sun Hung Kai & Co. (BVI) Limited further issued HK$447.5 million 2.8% Notes at discount for a net consideration of HK$446.7 million. The 2.8% Notes will mature on 20 November 2018. The fair value of the 2.8% Notes based on the price quoted from pricing service at the reporting date was HK$449.0 million which was categorised as Level 2.

The 6.375% Notes and 3% Notes matured in September and December 2017 respectively and the outstanding balance was repaid.

The 4.75% Notes are listed on The Stock Exchange of Hong Kong Limited. The nominal value of the 4.75% Notes was US$361.6 million or equivalent to HK$2,827.3 million (31/12/2016: 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$2,937.0 million (31/12/2016: HK$2,572.1 million) which was categorised as Level 2.

During the period ended 31 December 2017, two subsidiaries of the Company disposed of the intra-group holdings of the 4.75% Notes and 6.375% Notes with nominal value of US$33.3 million or equivalent to HK$259.8 million and US$4.3 million or equivalent to HK$32.8 million respectively to third parties with a total consideration of US$38.6 million or equivalent to HK$300.4 million.

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 RMB442.0 million or equivalent to HK$530.8 million at the reporting date (31/12/2016: RMB495.0 million or equivalent to HK$552.7 million). The fair value of the 6.9% Notes based on the price quoted from pricing service at the reporting date was HK$558.3 million (31/12/2016: HK$578.6 million) which was categorised as Level 2.

During the year, the Group redeemed part of the 6.9% Notes with nominal value of RMB53.0 million or equivalent to HK$59.8 million from third parties with a total consideration of RMB53.6 million or HK$60.5 million.

39. Share Capital

	Number of shares		Share capital	
	2017	2016	**2017**	2016
	Million Shares	Million Shares	**HK$ Million**	HK$ Million
Issued and fully paid				
Balance brought forward	**2,193.0**	2,229.0	**8,752.3**	8,752.3
Shares cancelled after repurchase	**(40.0)**	(36.0)	**—**	—
Balance carried forward	**2,153.0**	2,193.0	**8,752.3**	8,752.3

During the year, the trustee of the EOS acquired 0.9 million shares (2016: 0.3 million shares) 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$4.8 million (2016: HK$1.4 million), which has been deducted from the owners' equity. Further information is disclosed in the relevant section of "Management Discussion and Analysis" section of this Annual Report.

During the year, the Company repurchased its own shares through purchases on The Stock Exchange of Hong Kong Limited for HK$196.2 million (including expenses) (2016: HK$168.5 million). Further information is disclosed in the relevant section of the Directors' Report.

40. Analysis of Other Comprehensive Income (Expenses)

	Attributable to owners of the Company				
(HK$ Million)	Exchange reserve	Revaluation reserve	Retained earnings	Non-controlling interests	Total
For the year ended 31 December 2017					
Available-for-sale investments	**—**	**—**	**—**	**0.7**	**0.7**
Exchange differences arising on translating foreign operations	**282.7**	**—**	**—**	**183.5**	**466.2**
Share of other comprehensive expenses of associates	**0.7**	**2.8**	**—**	**—**	**3.5**
Share of other comprehensive expenses of joint ventures	**—**	**2.2**	**—**	**—**	**2.2**
	283.4	**5.0**	**—**	**184.2**	**472.6**
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)

41. 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:

(HK$ Million)	31/12/2017	31/12/2016
Within one year	120.4	123.5
In the second to fifth year inclusive	120.1	75.2
	240.5	198.7

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$62.5 million (2016: HK$14.3 million) and an associate of a holding company of HK$1.6 million (2016: HK$5.0 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:

(HK$ Million)	31/12/2017	31/12/2016
Within one year	14.9	22.1
In the second to fifth year inclusive	3.5	18.2
	18.4	40.3

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

(b) Loan commitments

(HK$ Million)	31/12/2017	31/12/2016
Within one year	1,074.8	1,259.4

(c) Other commitments

(HK$ Million)	31/12/2017	31/12/2016
Capital commitments for funds	332.9	457.6
Other capital commitments	0.8	1.8
	333.7	459.4

42. Contingent Liabilities

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

(HK$ Million)	31/12/2017	31/12/2016
Indemnities on banking facility made available to joint venture	112.7	104.7
Financial guarantees under loan guarantee business*	19.2	81.9
	131.9	186.6

* The Group has 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 2017, the outstanding guarantee amount was HK$19.2 million (31/12/2016: HK$81.9 million).

43. 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 2017 and 31 December 2016.

43. Capital Management *(Continued)*

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 issued 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:

(HK$ Million)	2017	2016
Bank and other borrowings	3,797.2	4,810.3
Notes issued	8,130.9	5,311.9
	11,928.1	10,122.2
Less: bank deposits, cash and cash equivalents	(2,911.4)	(6,452.2)
Net debts	9,016.7	3,670.0
Equity attributable to owners of the Company	19,426.7	18,077.0
Gearing ratio	46.4%	20.3%

44. 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.

(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.

44. Financial Risk Management *(Continued)*

(a) Market Risk *(Continued)*

(i) Equity Risk (Continued)

	At 31 December 2017				At 31 December 2016			
	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	
(HK$ Million)	20%	-20%	20%	-20%	20%	-20%	20%	-20%
Local Index	352.9	(306.5)	9.4	(9.4)	285.0	(294.0)	9.1	(9.1)
Overseas Index	1,259.2	(1,246.4)	55.3	(55.3)	806.6	(872.6)	12.8	(12.8)

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.

(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 2017, assuming that market interest rates moved by ±50 basis points (31/12/2016: ±50 basis points), the profit before tax for the year for the Group would have been HK$9.1 million lower or HK$9.4 million higher respectively (2016: HK$5.7 million lower or HK$6.6 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:

(HK$ Million)	On demand or less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
At 31 December 2017					
Loans and advances to consumer finance customers	277.7	–	–	–	277.7
Mortgage loans	362.5	–	–	–	362.5
Bank deposits, cash and cash equivalents	1,396.7	–	–	–	1,396.7
Bank borrowings	(3,770.2)	–	–	–	(3,770.2)
At 31 December 2016					
Loans and advances to consumer finance customers	464.2	–	–	–	464.2
Mortgage loans	220.3	–	–	–	220.3
Bank deposits, cash and cash equivalents	1,696.5	–	–	–	1,696.5
Bank borrowings	(4,751.3)	–	–	–	(4,751.3)

44. 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:

(HK$ Million)	On demand or less than 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
At 31 December 2017						
Loans and advances to consumer finance customers	2,591.3	4,135.4	2,076.4	82.8	—	8,885.9
Mortgage loans	311.6	512.8	932.1	1.4	—	1,757.9
Bonds included in financial assets at fair value through profit or loss	2,193.3	—	18.2	1,302.9	—	3,514.4
Term loans	490.1	2,459.4	205.5	—	—	3,155.0
Bank deposits, cash and cash equivalents	843.9	487.5	—	—	—	1,331.4
(Bank borrowing)/unamortised arrangement fee	(13.0)	—	—	—	21.0	8.0
Notes issued	—	(1,079.2)	(7,051.7)	—	—	(8,130.9)
Amounts due to fellow subsidiaries	(125.8)	—	—	—	—	(125.8)
At 31 December 2016						
Loans and advances to consumer finance customers	2,070.4	3,226.5	1,825.8	73.4	—	7,196.1
Mortgage loans	43.2	207.8	126.8	15.0	—	392.8
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 issued	(50.4)	(2,214.1)	(3,047.4)	—	—	(5,311.9)
Amount due to fellow subsidiaries	(38.3)	—	—	—	—	(38.3)

(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 ("RMB"). 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 2017, assuming that the foreign exchange rates moved ±5% (31/12/2016: ±5%) with all other variables held constant, the profit before tax for the year for the Group would be HK$45.3 million lower /higher (2016: HK$2.7 million higher/lower).

(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.

44. Financial Risk Management *(Continued)*

(b) Credit Risk *(Continued)*

	31/12/2017		31/12/2016	
	HK$ Million	**%**	HK$ Million	%
Maximum credit exposure				
Loans and advances to consumer finance customers	**9,163.6**	**39%**	7,660.3	35%
Mortgage loans	**2,120.4**	**9%**	613.1	3%
Bank deposits, cash and cash equivalents	**2,911.4**	**12%**	6,452.2	30%
Trade and other receivables	**3,295.0**	**14%**	2,935.9	14%
Amounts due from brokers	**725.8**	**3%**	1,059.5	5%
Bonds included in financial assets at fair value through profit or loss	**3,493.4**	**15%**	1,055.5	5%
Loan commitments	**1,074.8**	**5%**	1,259.4	6%
Amounts due from associates and joint ventures	**418.8**	**2%**	313.3	1%
Guarantees	**131.9**	**1%**	186.6	1%
	23,335.1	**100%**	21,535.8	100%

The maximum credit exposure at Group level is spread between "loans and advances to consumer finance customers", "bonds included in financial assets at fair value through profit or loss" 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 32 to the consolidated financial statements respectively.

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 bonds included in financial asset at fair value through profit or loss is monitored by the management according to its geographic locations and industries.

The unsecured mortgage loans include second mortgage loans in respect of which the Group are not entitled to the first charge of relevant mortgage properties. The management considers 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:

(HK$ Million)	**31/12/2017**	31/12/2016
Carrying amount	**302.8**	380.0
Loan commitments	**23.0**	15.5

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.

44. 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:

(HK$ Million)	On demand or less than 90 days	91 days to 1 year	1 year to 5 years	Over 5 years	Total
At 31 December 2017					
Bank and other borrowings+	**1,786.3**	**512.3**	**1,610.8**	**—**	**3,909.4**
Trade and other payables	**150.1**	**—**	**—**	**—**	**150.1**
Financial liabilities for repurchase agreements	**1,071.0**	**—**	**—**	**—**	**1,071.0**
Amounts due to fellow subsidiaries and a holding company	**142.6**	**—**	**—**	**—**	**142.6**
Amounts due to associates	**1.9**	**—**	**—**	**—**	**1.9**
Indemnities on banking facility made available to joint venture^	**112.7**	**—**	**—**	**—**	**112.7**
Notes issued	**100.0**	**1,243.1**	**8,190.1**	**—**	**9,533.2**
Guarantees*	**10.2**	**8.6**	**0.6**	**—**	**19.4**
Financial liabilities at fair value through profit or loss	**161.1**	**—**	**—**	**—**	**161.1**
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 issued	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	—	—	—	115.3

+ 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.

45. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

(HK$ Million)	Short-term loans due to fellow subsidiaries Note 36	Bank and other borrowings Note 33	Notes issued Note 38	Total
At 1 January 2017	**39.3**	**4,810.3**	**5,311.9**	**10,161.5**
Financing cash flows:				
— New short-term loans due to fellow subsidiaries raised	**86.5**	**—**	**—**	**86.5**
— Net short-term bank and other borrowings repaid	**—**	**(2,169.6)**	**—**	**(2,169.6)**
— New long-term bank and other borrowings raised	**—**	**1,150.0**	**—**	**1,150.0**
— Proceeds from issue of notes	**—**	**—**	**4,729.0**	**4,729.0**
— Redemption of notes	**—**	**—**	**(60.5)**	**(60.5)**
— Repayment of notes	**—**	**—**	**(2,300.8)**	**(2,300.8)**
— Disposal of notes held by subsidiaries of the Company	**—**	**—**	**334.9**	**334.9**
Accrued interest	**—**	**181.9**	**348.9**	**530.8**
Interest paid	**—**	**(156.1)**	**(314.6)**	**(470.7)**
Loss on redemption of notes	**—**	**—**	**0.8**	**0.8**
Effect on foreign exchange rate changes	**—**	**2.1**	**81.3**	**83.4**
Others	**—**	**(21.4)**	**—**	**(21.4)**
At 31 December 2017	**125.8**	**3,797.2**	**8,130.9**	**12,053.9**

46. Statement of Financial Position of the Company

(HK$ Million)	31/12/2017	31/12/2016
Non-current Assets		
Property and equipment	**2.7**	4.3
Intangible assets	**1.4**	1.5
Interest in subsidiaries	**3,992.7**	4,094.1
Interest in associates	**700.8**	700.8
Amounts due from subsidiaries	**7,044.9**	7,922.1
Amounts due from associates	**59.9**	59.8
	11,802.4	12,782.6
Current Assets		
Amounts due from subsidiaries	**3,994.6**	263.9
Other receivables	**4.0**	3.4
Tax recoverable	**1.5**	0.8
Cash and cash equivalents	**140.2**	1,935.3
	4,140.3	2,203.4
Current Liabilities		
Amounts due to subsidiaries	**3,756.1**	2,117.8
Trade and other payables	**14.9**	13.5
Provisions	**53.5**	40.3
Taxation payable	**9.6**	—
	3,834.1	2,171.6
Net Current Assets	**306.2**	31.8
Total Assets less Current Liabilities	**12,108.6**	12,814.4
Capital and Reserves		
Share capital	**8,731.0**	8,731.0
Reserves	**3,377.4**	4,083.2
Equity attributable to owners of the Company	**12,108.4**	12,814.2
Non-current Liabilities		
Provisions	**0.2**	0.2
	12,108.6	12,814.4

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 21 March 2018 and are signed on its behalf by:

Lee Seng Huang	**Peter Anthony Curry**
Director	*Director*

47. Reserves of the Company

(HK$ Million)	2017	2016
Retained earnings		
Balance at 1 January	**4,083.2**	4,791.1
Profit and total comprehensive income for the year	**57.7**	36.0
Dividends paid	**(567.3)**	(575.4)
Shares repurchased	**(196.2)**	(168.5)
Balance at 31 December	**3,377.4**	4,083.2

The distributable reserves of the Company at 31 December 2017 amounted to HK$2,767.2 million (31/12/2016: HK$3,473.1 million), being its net realised profits calculated under Section 291 of the Hong Kong Companies Ordinance.

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
Evan Au Yang Chi Chun (appointed on 22 March 2018)

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
Evan Au Yang Chi Chun (appointed on 22 March 2018)

REMUNERATION COMMITTEE

Peter Wong Man Kong *(Chairman)*
David Craig Bartlett
Alan Stephen Jones
Jacqueline Alee Leung
Evan Au Yang Chi Chun (appointed on 22 March 2018)

AUDIT COMMITTEE

Alan Stephen Jones *(Chairman)*
David Craig Bartlett
Jacqueline Alee Leung
Peter Wong Man Kong
Evan Au Yang Chi Chun (appointed on 22 March 2018)

RISK MANAGEMENT COMMITTEE

Simon Chow Wing Charn *(Chairman)*
Peter Anthony Curry
Elsy Li Chun (appointed on 15 August 2017)

COMPANY SECRETARY

Hester Wong Lam Chun

INVESTOR RELATIONS

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AUDITOR

Deloitte Touche Tohmatsu

SOLICITORS

Clifford Chance
Davis Polk & Wardwell
King & Wood Mallesons
P. C. Woo & Co.
Ropes & Gray

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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